



 **MAPFRE** | **INSULAR**
ANNUAL REPORT

PRESIDENT'S MESSAGE

First of all, let me thank you for the support you gave to the strategic reforms, and other related changes, that your Company undertook in the past three years.

As part of our transformation as a Company, we had to make some sacrifices—letting go of some deficient accounts and non-performing assets. We've also had to invest in new technology and equipment, new processes, and bring on board some new people to help MAPFRE INSULAR move onward to a more stable, sustainable, and growth-oriented future.

At first, even with the best knowledge available, and the best foresight exercised, some of the changes seemed to have uncertain outcomes. So it is with both gratitude and pride that we now say: our efforts were vindicated.

Proof of this are in financial performance indicators that your Company posted as of 2017. Essentially, MAPFRE INSULAR made very significant leaps in profitability, solvency, as well as financial strength and stability.

We are glad to announce that your Company is undoubtedly back in the game. The reforms, innovations, and transformations implemented from 2015 to 2017 have been more than worth it.

But of course, our work is not over yet. We face more challenges, all of which are about making the gains of 2017 a springboard for more growth, profitability, expansion, and sustainability from 2018 onwards.

Just remember that your Company is here to serve the welfare of everyone, from the Board of Directors to management and employees, and of course, our valued customers.



Tirso C. Abad
President and CEO
MAPFRE INSULAR

BOARD OF DIRECTORS



LEIRE JIMENEZ AYESA
Chairman of the Board

Ms. Jimenez Ayesa, 38 years old, obtained a degree in Business Administration & Humanities at the Deusto University in Spain in 2002. She also received her Master's Degree in International Relations at the Flinders University, Australia in 2004.

She is presently the CEO for Asia Pacific of MAPFRE S.A. Prior to this, she was the General Manager of MAPFRE Assistance, China Business Unit. (July 2012 - present).

Ms. Jimenez Ayesa is also a director in MAPFRE Asistencia Limited (Hong Kong entity); Road China Assistance (Beijing) Co. Ltd. (Chinese Entity); and India Road-side Assistance Private Limited (India entity).

She is also the President of the Board, Legal Representative (Taiwan entity), member of the Board Commissioners of MAPFRE ABDA Assistance Pt. (Indonesia entity), and Executive Director of MAPFRE Qingdao Enterprise Management Consulting Limited (Chinese entity).



LUIS C. LA Ó
Vice Chairman of the Board
Insular Life Representative

Mr. La O, 72 years old, is a 1968 BS Management graduate of Ateneo de Manila University. He obtained his MBA at the De La Salle University in 1973.

Mr. La O was first elected to the Board in 1983, back when it was still Provident Insurance Corporation, and later as its Chairman in 1986. Prior to being the Chairman of MAPFRE Insular, Mr. La O worked as Senior Vice President of Ayala Group's Universal Reinsurance Corporation in 1968. In 1983, he joined the Soriano-led Provident Insurance as its President. He later on served as Regional Vice President for Asia by the MAPFRE Group from 1986 to 2006.

BOARD OF DIRECTORS



MONALISA B. DELA CRUZ
Non-Executive Director of the Board
Insular Life Representative

Ms. Dela Cruz, 61 years old, got her Bachelor of Science in Statistics (Cum Laude) at the University of the Philippines in 1978. A year later, she also received her Master of Science in Mathematics, major in Actuarial Science at the University of Michigan.

She is currently the President and COO, as well as trustee, of the Insular Life Assurance Co. Ltd. She also sits as Director of Insular Health Care, Inc.; Insular Investment Corporation; Home Credit Mutual Building & Loan Association; Insular Life Development and Management Corporation; Insular Life Property Holdings, Ins.; ILAC General Agency, Inc.; Pilipinas Shell Petroleum Corporation; and the Unionbank of the Philippines. She is a Board Trustee and Insular Life Employee Retirement Fund.



TIRSO C. ABAD
President and CEO
MAPFRE Philippines

Mr. Abad, 54 years old obtained his degree in Marketing in 1984 and another degree in Humanities in 1988 both at the De La Salle University. He later on pursued Humanities, Sales, and Strategies courses in various institutions in Madrid, Spain.

BOARD OF DIRECTORS



FRANCISCO DEL ROSARIO
Independent Director

Mr. Del Rosario, 71 years old, is a 1970 graduate of Liberal Arts, Major in Economics as well as Commerce, Major in Accounting at the De La Salle University. He also obtained his MBA at the Asian Institute of Management in 1972.

Apart from MAPFRE Insular, he is also an Independent Director in Metrobank and DMCI Homes, Inc. He also sits on the Board of OMNIPAY, Inc. and Philab Industries, Inc. as Director. Mr. Del Rosario is likewise, a Trustee of the ABS-CBN Foundation, Inc.

Mr. Del Rosario is the President and CEO (2014-2015), as well as the Chairman (1955-1998) of the Development Bank of the Philippines, Undersecretary of the Department of National Defense, President of the Cultural Center of the Philippines, and Executive Vice President of the Government Service Insurance System. He also worked as President of Roxas and Company and he also assumed various roles in San Miguel Properties and Coca Cola Bottlers.

Since joining the MAPFRE Group in 1977, Mr. Abad held various positions in companies owned by MAPFRE in Spain and in Asia. Prior to joining MAPFRE Insular, Mr. Abad was affiliated with MAPFRE Reaseguros, S.A. (MAPFRE Reinsurance) in Manila, where he served as Regional Manager – Representative Office for Asia from 2013 to 2014. During his stint, he assisted in the expansion of the business in Korea and South East Asia.

He also developed facultative support throughout Asia, including Japan, China, Hongkong and Taiwan.



AMBROSIO MANGILIT
Independent Director

Mr. Mangilit, 70 years old, a Certified Public Accountant, obtained his Bachelor of Arts major in Economics as well as his Bachelor of Science in Commerce major in Accounting both in De La Salle University in 1970. He also obtained his Masters in Business Administration at the University of the Philippines in 1975. He also took Basic Management Program at the Asian Institute of Management in 1974.

He is the President of Asia Pacific Network Holding, Inc. A Consultant of Manila Archdiocesan & Parochial Schools Association Retirement Board.

Mr. Mangilit has a vast amount of experience in the corporate world. He was formerly the Executive Vice President, Chief Operating Officer and General Manager-Marketing of Ayala Life Assurance Inc. He also held top management positions in Bank of the Philippine Islands, Island Development Bank Ltd., Brunei and Ayala Investment and Development Corporation.

Apart from MAPFRE, he served as Director in the following companies : Ayala Corporation; FGU Insurance Corporation; Ayala Plans, Inc.; Ayala Health Care, Inc.; Ayala Financial and Insurance Services, Inc.; Ford Medical Center; BPI Express Remittance, Inc.; Los Angeles CA; BPI Securities Corporation; and Maria Cristina Chemicals, Inc.

BOARD OF DIRECTORS



SILVERIO BENNY J. TAN
Picazo Buyco Tan Fider & Santos
Non-Executive Director

Atty. Tan, 62 years old, is a 1982 graduate of Bachelor of Laws (cum laude) of the University of the Philippines College of Law. He placed third in the 1982 Bar Examinations. He also has a Bachelor of Arts major in Political Science (cum laude) degree from the University of the Philippines College Iloilo in 1978.

Atty. Tan is a partner in Picazo Buyco Tan Fider & Santos law offices, and was the managing partner of the firm from 2013 to 2015. He was corporate secretary of MAPFRE INSULAR from 1999 up to 2016.

Atty. Tan is corporate secretary of listed companies: Bloomberry Resorts Corporation, Apex Mining Co. Inc. and (as assistant corporate secretary) International Container Terminal Services Inc. Atty Tan is also a director and/or corporate secretary of many of the subsidiaries of these 3 listed companies, as well as in many other corporations, in most of which he also acts as senior corporate counsel.



MAYO JOSE B. ONGSINGCO
Non-Executive Director

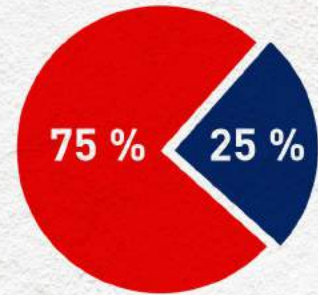
Mr. Mayo Jose B. Ongsingco was the President of The Insular Life Assurance Company, Ltd. during 2004-2015. He was also Director and Vice Chairman of the Executive Committee of Union Bank of the Philippines and served as Director in Pilipinas Shell Petroleum Corporation, Asian Hospital Inc., Keppel Philippines Marine, Subic Shipyards & Engineering, Keppel Holdings and several Insular Life subsidiaries such as Insular Savings Bank, Insular Health Care and Insular Investment Corporation. Mr. Ongsingco was first elected director of Mapfre-Insular Insurance Corporation in 2006 serving until 2015 and re-elected in 2016. Mr. Ongsingco is currently an Adviser to the Board of First Metro Investment Corporation and Trustee in De La Salle College of St. Benilde and Foundation for Carmelite Scholastics. He brings to the board a wealth of domestic as well as international business experience having previously worked in Hong Kong, Malaysia and the United States.

Mr. Ongsingco graduated Magna Cum Laude with Jose Rizal Honors Society distinction from De La Salle University with dual degrees AB Economics and BSC Accounting. He subsequently completed his Master of Business Administration degree at the University of the Philippines with Pi Gamma Mu and University Scholar honors. Mr. Ongsingco also topped the Master of National Security Administration Regular Class #33 at the National Defense College of the Philippines.

CORPORATE PROFILE

MAPFRE INSULAR is a non-life insurance company offering general insurance for optimum financial protection and risk management. The company provides insurance services on fire and allied lines, motor vehicle, personal accident, casualty, liability, engineering, marine cargo, surety and microinsurance. With over 80 years of experience in the Philippines, MAPFRE INSULAR has earned a solid reputation as a highly dependable and reliable insurance company committed to delivering outstanding products and services to its clients.

Apart from extensive experience, MAPFRE INSULAR is distinguished by its name and affiliation with two well-known and respected industry giants: MAPFRE of Spain and Insular Life.



Insular
Life



MAPFRE Sociedad Anonima is the biggest insurance group in Spain and the largest multinational insurer in Latin America with global presence in 46 countries

Insular Life is the Philippines' first and largest domestic life insurance company with over 100 years of experience in financial protection, savings and investments.

COMPANY MILESTONES



VISION

MAPFRE wants to be the most trusted global insurance company.

MISSION

We are a multinational team striving constantly to provide ever better service and to develop the best possible relations with our clients, distributors, suppliers, shareholders and society

VALUES

SOLVENCY

- Financial strength with sustainable results.
 - International diversification and consolidation in the various markets

INTEGRITY

- Ethics governs the behaviour of all people
 - Socially responsible approach in all our activities.

SERVICE VOCATION

- Permanent search for excellence in carrying out our activities
- Continous initiative aimed at caring for our relationship with the customer

INNOVATION FOR LEADERSHIP

- Drive for constant improvement and progress
- Useful technology available to business and their objectives.

COMMITTED TEAM

- Complete involvement of the team with the MAPFRE project.
- Constant development and training of the team's capabilities and skills.





MANAGEMENT REPORT

When MAPFRE INSULAR began efforts for transformation and change in 2016, the company had to make a sober, critical, and at times cold-blooded assessment of its clients, accounts, processes, and revenue streams. The need to innovate and transform was recognized but going about this takes time, as well as a combination of caution and risk-taking.

The transformations made involved reviewing and then revising certain processes and targets. Innovations in procedures, as well as technology and equipment, were implemented to promote and integrate efficiencies in a strategic manner. This resulted in a reduction of administrative and operational costs, greater profitability, higher solvency, and a more solid foundation for sustainability and growth in the years to come.

While MAPFRE INSULAR was in the thick of these changes, it also managed to keep the fundamentals constant and sound.

The Big Picture

The Philippines' GDP grew by 6.6 percent by the fourth quarter of 2017. This spurred economic growth to 6.7 percent for the whole of 2017. Growth was driven mainly by manufacture, trade, rentals, and business activities.

Manufacturing, Trade, Real Estate, Renting, and Business Activities were the main drivers of growth for Q4. Industry outpaced other sectors as it grew by 7.3 percent. The Services Sector grew by 6.8 percent in the same quarter, followed by Agriculture by 2.4 percent. The Agriculture Sector had made a rebound from a 1.3 percent downturn in Q4 of 2016.

Both Net Primary Income as well as Gross National Income also grew compared to the same period in 2016. In 2017, NPI surged by 4.1 percent, higher than Q4 2016's rate of just 3.3 percent. As for GNI, it grew by 6.2 percent in 2017, higher than last year's 6 percent for Q4.

Based on a Q4 projection of a 105.3 million Filipino population, per capita GDP grew by 5.1 percent and GNI grew by 4.7 percent.

As for the Philippines' automotive industry, 2017 saw double-digit growth by year's end. Reports from the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI); the Truck Manufacturers Association (TMA); and the Association of Vehicle Importers and Distributors (AVID) show that the industry posted a 17.66 percent increase in sales, totaling 473, 943 units.

This happened amid near panic reactions to the TRAIN (Tax Reform for Acceleration and Inclusion) Law that imposes additional excise taxes by 2018. Besides the surge in vehicle purchases (done mainly to get ahead of the additional excise taxes), a favorable economic outlook, as well as the introduction of new vehicle models, contributed to the robust market performance.

2017 represented the eighth consecutive growth year for the Philippine automotive industry. Like in past years, commercial vehicles had the greatest market share at 64.59 percent, selling 306,116 units. Passenger cars sold 167,827 units, representing the remaining 35.41 percent.

As of 2017, the Philippines is still the strongest ASEAN automotive market with 16.77 percent in gains. It outpaced Thailand, Malaysia, and Indonesia. This is no cause for the Philippines auto industry to rest on its laurels however: Thailand's auto industry posted 13.3% growth while Myanmar had more than 90% gains.

2017 was also a growth year for the Philippines' Insurance Industry as a whole (Life, Non-Life, MBA), posting a growth of 21.88 percent according to the National Insurance Commission, as of September 2017. It posted a net income of 27,855 in 2017, which is higher than the 22,853.9 posted in 2016.

The Life Insurance Sector posted a growth of 31.93 percent. Total net income for the sector was at 21,963.9 which was higher than 2016's 16,637.9.

The Non-Life Insurance Sector posted a loss of 20.87 percent. Total net income was 2,759.9 in 2017, lower than the 3,487.9 posted in 2016.

*(figures in millions of pesos)

Company Performance

Financial performance overall shows that 2017 was the comeback year for MAPFRE INSULAR, paving the way for bigger and better things in 2018.

MAPFRE INSULAR posted a Gross Underwriting Income of P1,462,168,083 in 2017. This is slightly lower than the P1,596,526,181 posted in 2016.

Net Underwriting Income plus other Income Sources amounted to P532,925,043 in 2017. In 2016, the Net Underwriting Income was at 547,014,831

Overall, the company's performance in 2017 showed a slow and sure reaping of benefits arising from the innovations and reforms undertaken from 2015 to 2016.



These are evident in the following financial results for 2017:

There was positive income from Gross Premiums Written. This positive income was mainly because of two things: continuing investment income and improved combined ratios (loss ratio, acquisition ratio, administrative ratio).

All these produced technical results that were higher by 10.9 percent compared to 2016. These, plus a 1 percent rise in investment income, and computing for the net result after taxes, amount to a positive overall result of 11.7 percent—which is a big jump from that of 2016.

The improved technical results arose from improvement in combined ratios, which went up by 14 percent in 2017. Despite the lower topline, the bottom line ended positive in large part because of these improved ratios plus continuing investments.

The reforms and innovations undertaken in 2015 to 2017 included fresh profitability analysis, and a more aggressive focus on profitability. Such focus resulted in a cleanup of accounts and investments in technology.

A monthly review of accounts was implemented in 2017 to spot check for accounts that were incurring losses—in other words, deficient accounts.

Actions for innovation and transformation, as well as efficiencies implemented during 2015 to 2016 paved the way for a lower administrative ratio in 2017. This helped improve Net Loss to P11,769,326, which was lower than 2016's losses which were at P153,577,661.

General and administrative losses went down from P715 million in 2016 to just P456 million in 2017. This was achieved through the implementation of a voluntary retirement program, plus the strategic innovation (in both processes and technology) that is undertaken regularly by the Company.

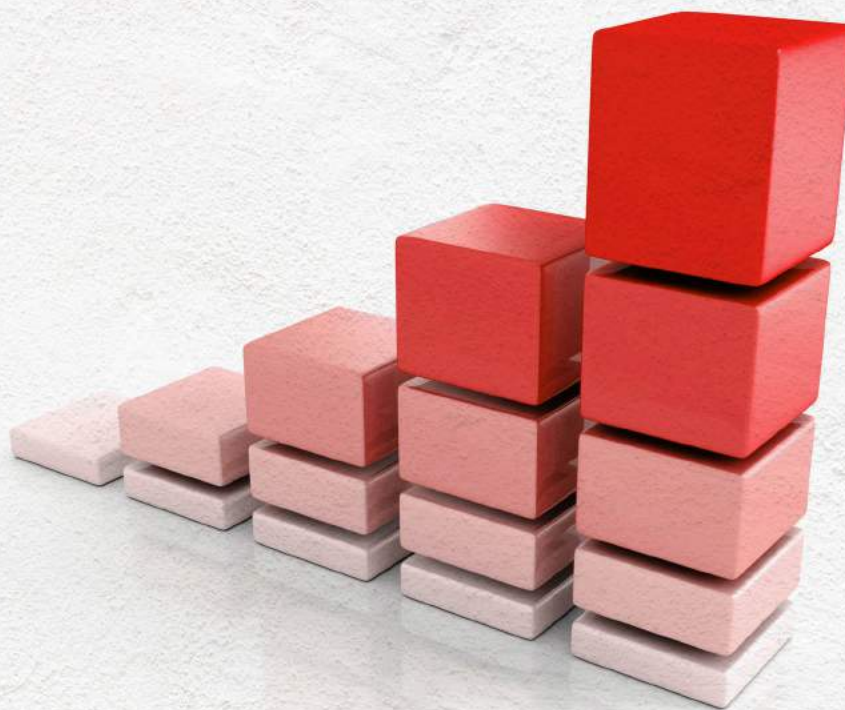
Strategic innovation through technology is one of the advantages that MAPFRE INSULAR possesses as part of a multinational Group. The directive for technological innovations comes straight from the Head Office. In particular, the technology is geared towards automation of usually repetitive processes, leading to further reductions in administrative costs. Such automation, in turn, results in better turnaround times and increased efficiency of processes.

Besides increasing profits by reducing losses, MAPFRE INSULAR also posted a 1.1 percent increase in Gross Premiums Underwritten. This improvement mainly came from the MAPFRE Global Risk, which was written in 2016 at P330 million. This went up to P518 million in 2017.

Essentially, these GPUs came from businesses coming from overseas. A MAPFRE company writes them but since the risk for these are in the Philippines, they are fronted by MAPFRE INSULAR. The premiums are ceded out almost 100 percent.

MAPFRE INSULAR has also significantly cut down its losses and operations costs. Losses were at P33,094,485 in 2017 which is about 50 percent lower than losses posted in 2016 that were at 67,825,535.

Operations costs in 2017 were posted at P 488,061,232 in 2017, which is much lower than the losses posted in 2016 at P 768,418,027.



High level of Solvency

Another very clear indicator that MAPFRE INSULAR is in the best shape it has been in the past few years is its level of solvency. The Company's solvency ratio is at 176 percent as of 2017. This makes it more than compliant with the Insurance Commission's requirements.

The risk-based capitalization of MAPFRE INSULAR is now at P 550 million, which meets the Commission's standard. It is ready to comply with further capitalization requirements, that are scheduled to go up to P 900 million by 2019 and P 1.3 billion by 2022.

MAPFRE INSULAR's performance for 2017 shows that it is on the right path towards long-term sustainability and growth. It now has one of the highest solvency ratios among non-life insurance companies, posting a 9 percent improvement in 2017. The main reasons for this are:

A) Higher collection rates compared to 2016; B) The company was able to settle majority of its receivables and payables. These included the P 70 million in receivables on its balance sheet in 2017; C) The Company's net income coming from car insurance (80%), fire insurance (7%), and the rest come from foreign currency exchange, investments, and sales of properties and equipment.

Key Risks

The primary objective of the Company's risk management framework is to ensure the sustainable achievement of its financial performance goals and objectives. MAPFRE INSULAR, through the quarterly meeting of its Board of Directors and the regular monthly Executive Committee meetings, reviews and assess the different financial risks it is exposed to. The key risks being encounter by the company are as follows:

Credit Risk

Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to meet its contractual obligations. Mapfre Insular structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterpart. Such risks are subject to annual review

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its contractual obligations and commitments. The company monitors its cash position on a regular basis by preparing cash report wherein the disbursements and collections are monitored.

Market Risk

Market Risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rate, market interest rates and market prices, whether such change in prices is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Increasing market fluctuations may result in significant impact on the Company's equity, cash flows and profit. The Company manages market risk exposures by setting up limits structures and by promulgating specific investment guidelines and strategies.

Foreign Currency Risk

Foreign Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company determined the reasonably possible change in foreign currency using the one year volatility of the USD and PHP as this will best represent the movement in foreign exchange rate until the next reporting date.

Interest Rate Risk

The Company's income and operating cash flows are substantially independent of the changes in market interest rates since its interest bearing financial securities have fixed interest rates. In 2017 and 2016, the company determined the reasonably possible change in interest rate based on the historical change in weighted average yield rates of outstanding investment of the company.

Equity Price Risk

Equity price risk is the risk that future cash flows will fluctuate because of changes in market prices of individual stocks and the changes in the level of Philippine Stock Exchange Index

CORPORATE GOVERNANCE

Statement on Full Compliance with Code of Good Corporate Governance

The Board of Directors and Management of MAPFRE INSULAR hereby commit themselves to the principles and best practices as stated in the company's code of good corporate governance and acknowledge that the same may guide the attainment of MAPFRE INSULAR's corporate goals.

The Code of Good Corporate Governance contains the fundamental aspects and MPFRE INSULAR's commitment in this area. This policy is part of MAPFRE's corporate governance framework and therefore the regulations laid down in this policy will be supplemented with the regulations contained in the Institutional, Business and Organizational Principles of the MAPFRE Group, that constitute the mandatory minimum framework for all the companies making up MAPFRE and their respective governing bodies, and with the other internal corporate governance regulations.

Institutional, Business and Organizational Principles

Institutional Principles

The Activities of All MAPFRE companies must comply with the following principles

- Strict separation between the business activities of MAPFRE, whose goal is to create value for all its shareholders and other stakeholders, and those of FUNDACIÓN MAPFRE, whose goals are of general interest and of a social nature and must be carried out in a non-profit fashion
- Independence with respect to any person, company, group or power of any type
- Ethical, Transparent and socially committed actions, recognizing private companies' function and responsibility in the adequate development and progress of Society. In addition, respect for the legitimate rights of all individuals or corporations with which they have a relationship, as well as with those of Society, must be ensured.

- Management based strictly professional and technical criteria that avoid conflicts of interest
- Professional development of its employees and senior executives based on the objective assessment of the skills and abilities of each one, as well as on the evaluation of the performance, value contribution, management efficacy, meeting objectives and commitment to MAPFRE.

Business Principles

MAPFRE INSULAR defines itself as THE MOST TRUSTED GLOBAL INSURANCE COMPANY, A concept that refers not only to its geographical presence but to the wide range of insurance, reinsurance and service products that it promotes all over the world.

MAPFRE INSULAR aspires to lead the markets in which it operates, through a proprietary differentiated management model based on profitable growth, with a clear and purposeful client orientation, including both the private and the business sectors, with a multichannel focus and unrivaled vocation for service.

Organizational Principles

In MAPFRE INSULAR, business management revolves around three special structures:

- **Corporate Governance**

MAPFRE INSULAR's corporate governance is a set of principles and regulations that ensures appropriate management and control, with broad participation by board members and senior executives in all decisions related to the orderly development of the company. In addition, good governance practices and regulations will always be aligned with the requirements and, except in properly justified exceptions, with those recommended by the authorities of each country.

- **Company Structure**

MAPFRE INSULAR has a simple, efficient and decentralized corporate structure that allows it to properly meet with its corporate objectives. This principle makes appropriate management of the business in each of the countries compatible with efficient management of the resources, capital requirements and distribution of dividends to shareholders, all the foregoing within the legal framework and with full ethical and socially committed conduct in the countries where it operates.

- **Executive Organization**

MAPFRE INSULAR is equipped with a management model underpinned by high and rigorous control and supervision at all levels: local, regional and global. This, in turn, allows for broad delegation in the execution and development of the responsibilities assigned to teams and their team leaders. Most notably, it will mean that the most important decisions, at all levels, will be analyzed in depth, before and after their execution, by all of the senior executive teams.

ASEAN Corporate Governance Scorecard

In 2015, by virtue of Circular Letter No 14-2003, the Insurance Commission prescribed all the insurance companies to develop their respective websites and post their responses to the ASEAN Corporate Governance Scorecard (ACGS) questionnaire with supporting documents.

Since its first assessment in 2015, MAPFRE Insular made it a priority to follow the recommendation of the Institute of Corporate Directors and made sure to improve its rating every year. This commitment of MAPFRE Insular was translated to above industry averages achieved for the last three years as reflected by the following scores:

| YEAR | NON-LIFE INDUSTRY AVE. | MAPFRE INSULAR SCORE | RANK |
|------|------------------------|----------------------|--------|
| 2015 | 27.28 points | 41.30 points | TOP 10 |
| 2016 | 32.34 points | 56.92 points | TOP 10 |
| 2017 | 30.17 points | 66.44 points | TOP 5 |

Currently, MAPFRE Insular belongs to the Top 5 of Non-Life Insurance Companies in relation to the ASEAN Corporate Governance Scorecard.

Risk Management and Internal Controls

The MAPFRE Group's Risk Management Policy applies to all the managers and the employees, which shall be familiar with this policy. The Group Risk Management Area (AGR) shall guarantee the timely circulation and information dissemination of the provisions and application of this policy.

The Objectives of the Risk Management Policy were as follow:

- To Set general guidelines, basic principles and a general framework for risk management that guarantee a coherent application in the company
- To Promote a solid culture and an effective system of risk management
- To Ensure that risk analysis is part of the decision-making process.
- To Preserve the solvency and financial soundness of the company, helping to position it as the most trusted global insurance company.

The **Internal Control System** provides an eminently practical approach, as it considers that an internal control system represents an opportunity to improve the efficiency and effectiveness of processes; The confidence of stakeholders, customers, distributors, suppliers, shareholders, the society, the Administration, its own employees and officers; The availability of resources by reducing the number of undefined or uncontrolled risks implied in the release of current resources.

Due to its nature, Internal Control involves all people of their professional level within the organization, who collectively contribute to providing reasonable assurance on the achievement of the its Operational, Reporting and Compliance Objectives.

Management, with the support of the Board, implements, updates and monitors the tasks and processes to achieving the objectives of the Internal Control System. This is based on the **Three Lines of Defenses** which are:

(1) **First Line of Defense** made up by the employees, the management and operations, business and support departments which are responsible of maintaining an effective control on a day-to-day basis. They are, therefore, those that take the risks, responsible for designing and applying the control mechanisms needed to mitigate the risks associated to the developed processes, and responsible for assuring the risks do not exceed the set limits.

(2) **Second Line of Defense** made up by the key function of risks management, actuarial, compliance and others assurance functions, which guarantee the internal control functioning.

(3) Third Line of Defense made up by Internal Audit, which provides independent assessment of the adequacy, appropriateness and effectiveness of the Internal Control System and communicates eventual weaknesses timely to whom is responsible for taking the corrective measures, including Top Management and Governing Bodies, as appropriate.

MAPFRE has adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) model, which is an international reference framework on internal control and risk management within organizations, for the implementation of its Internal Control System.

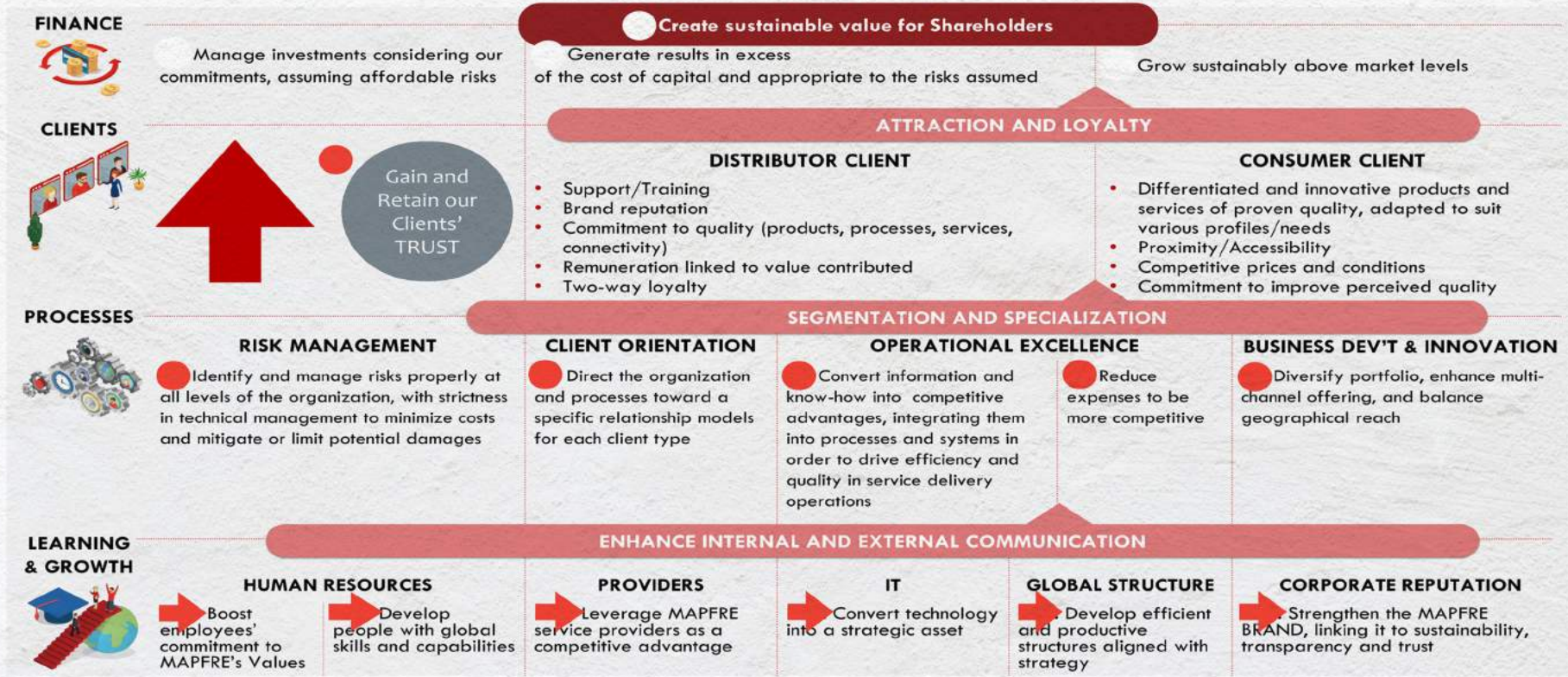
MAPFRE INSULAR's risks policies, risk management processes, internal controls and management information systems are updated on a regular basis to ensure compatibility of our risk profile and compliance with regulatory requirements.

CORPORATE OBJECTIVES

WE ARE A MULTINATIONAL TEAM STRIVING CONSTANTLY TO PROVIDE EVER BETTER SERVICE AND TO DEVELOP THE BEST POSSIBLE RELATIONSHIPS WITH OUR CLIENTS, DISTRIBUTORS, SUPPLIERS, SHAREHOLDERS AND SOCIETY



MAPFRE WANTS TO BE THE MOST TRUSTED GLOBAL INSURANCE COMPANY



SOLVENCY, INTEGRITY, SERVICE VOCATION, INNOVATION FOR LEADERSHIP AND COMMITTED TEAM

THE BOARD

Roles and Responsibilities of the board

The Board of Directors is the highest administration and supervising body of the activities of the company aligned with the MAPFRE Group's internal governance regulations but always in accordance with the local laws, By-laws and Regulations of the Company's Board of Directors and other internal corporate governance regulations, in particular in terms of composition and operation, appointment and termination of directors, obligations and duties of directors, and remuneration of directors.

The membership of the Board shall be a combination of executive and non-executive directors (which include independent directors) in order that no individual or small group of individuals can dominate the decision-making process. It will have a representation of external directors totaling at least half of its members.

Considering that the insurance business is imbued with public interest, the role of the Chairman and Chief Executive Officer shall in principle be separate, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for Independent decision making. It will have a representation of external directors totaling at least half of its members. The Chairman of the Board should be an External Director.

The Board is primarily responsible for the corporate governance of MAPFRE INSULAR. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management. Part of the responsibilities of the Board are as follows:

- Review and adopt a strategic plan for the company along with management objectives and the annual budgets.
- Identify principal business risks and ensure the implementation of appropriate risk management systems to specifically manage the underwriting, reinsurance, investment, financial and operational risks of the company.
- Approve corporate policies in core areas of operations, specifically underwriting, investments, reinsurance and claims management

- Review the adequacy and the integrity of the company's internal control systems and management information systems including systems for compliance with the Insurance Code and other applicable laws, regulations, rules, directives and guidelines.
- Have an appropriate reporting system so that the Board can monitor, assess and control the performance of Management and present to all its members and shareholders balance and understandable assessment of the company's performance and financial condition.
- Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.

Director's Selection Policy

The selection of candidates to director shall be based on an analysis of the needs of both the Company and its group, which should be carried out by the Board of Directors with guidance and report from the Appointments and Remuneration Committee.

The proposals for nomination and re-election of directors shall be made by the Appointments and Remuneration Committee regarding the independent directors, and by the Board of Directors regarding the nominee and executive directors.

Likewise, the Company can also request the collaboration of external advisers in the selection of candidates for directorship.

During the selection process, any kind of implicit biases that may involve discrimination will be avoided, in particular, biases that interfere with the selection of women or men.

Particular efforts will be made so that by 2020 the number of female directors represents, at least, thirty percent of the total members of the Board of Directors.

Committee on nomination and remuneration

The Nomination Committee shall be composed of at least three (3) members of the board of directors, The Chairman should be an Independent Director. The committee shall review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors. It should prepare a description of the roles and capabilities required of a particular appointment.

The Remuneration Committee shall be composed of at least three (3) members of the board of directors, The Chairman should be an Independent Director. The committee shall delegate the responsibilities for setting up remunerations for all executive directors and chairman, including pension rights or any compensation payments. It shall also recommend and monitor the level and structure of salaries including remunerations for senior management.

For 2017 the Annual Remuneration Matrix for the Board of Directors were as follows:

| POSITION | DIRECTOR FEE | ALLOWANCE | DIRECTOR FEE |
|---|---------------------|---------------------|---------------------|
| Chairman | \$ 16,200.00 | \$ 10,000.00 | \$ 26,200.00 |
| Vice Chairman | \$ 18,000.00 | - | \$ 18,000.00 |
| Board Member (Executive) | \$ 18,000.00 | - | \$ 18,000.00 |
| Board Member (Non-Executive/Independent) | \$ 18,000.00 | - | \$ 18,000.00 |

Board Process

The Board Meetings are held on a quarterly basis unless a Special meeting is necessary to consider urgent matters.

The directors receive the notice of the meeting and the meeting folder 28 calendar days in advance. The meeting folder includes information on the Company's operation, minutes of the last Board Committee meeting, Profile of directors seeking election or re-election are also included and all other documents needed for the discussion and approval of the Board.

Minutes of meetings of the Board and all committees are kept by the Corporate Secretary. Approved minutes of the Board meetings are open for inspection by directors and stockholders upon request.

Board Meetings in 2017

The Board of Directors met nine (9) times in 2017. All these meetings were well-attended, as shown:

| POSITION | JAN 26 17 | MAR 27 17 | JUN 22 17 | JUL 14 17 | SEP 13 17 | SEP 28 17 | OCT 24 17 | DEC 4 17 | DEC 14 17 |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|
| Leire Jimenez Ayeza | | | | | | | | | |
| Luis C. La O | | | | | | | | | |
| Tirso C. Abad | | | | | | | | | |
| Ambrosio B. Mangilit, Jr. | | | | | | | | | |
| Mona Lisa B. dela Cruz | | | | | | | | | |
| Francisco F. del Rosario, Jr. | | | | | | | | | |
| Mayo jose B. Ongsingco | | | | | | | | | |
| Silverio Benny J. Tan | | | | | | | | | |
| Jonas-Karl V. Perez | | | | | | | | | |
| Pamela Joy R. Co | | | | | | | | | |
| Lawrence C. Santella | | | | | | | | | |

Venue of Meetings

All the Board and Committee meetings were held in the Board Room of Corporate Head Office at 11th floor Mapfre Insular Corporate Center, Acacia Avenue, Madrigal Business Park, Ayala Alabang, Muntinlupa City.



2017 COMMITTEES

Executive Committee



TIRSO C. ABAD
Chairman



LEIRE JIMENEZ AYESA
Member



LUIS C. LAÓ
Member



AMBROSIO B. MANGILIT, JR.
Member

Audit Committee



AMBROSIO B. MANGILIT, JR.
Chairman



MAYO JOSE ONGSINGCO
Member



MONA LISA B. DELA CRUZ
Member



FRANCISCO F. DEL ROSARIO, JR.
Member



LUIS C. LAÓ
Member

* 2016 Audit Committee Meetings:
MARCH 27, 2017 ; JUNE 22, 2017; SEPTEMBER 28, 2017; DECEMBER 14, 2017

INVESTMENT COMMITTEE



MAYO JOSE
ONGSINGCO
Chairman



MONA LISA B. DELA CRUZ
Member



TIRSO C. ABAD
Member



SILVERUO BENNY TAN
Member



AMBROSIO B. MANGILIT, JR.
Member

NOMINATION COMMITTEE



FRANCISCO F. DEL ROSARIO, JR.
Chairman



AMBROSIO B. MANGILIT, JR.
Member



MONA LISA B. DELA CRUZ
Member

RENUMERATION COMMITTEE



AMBROSIO B. MANGILIT, JR.
Chairman



FRANCISCO F. DEL ROSARIO, JR.
Member



MONA LISA B. DELA CRUZ
Member

COMPANY POLICIES

Code of Ethics

The Code of Ethics and Conduct contains a systematized collection of the guiding principles and the rules regulating the behavior of MAPFRE and of the individuals working in it within the scope of their professional activity, and of any relations they maintain with each other or with third parties as a result of that activity, all for the purpose of ensuring their actions comply with the current legislation and meet the very strictest standards of professionalism, integrity and sense of responsibility.

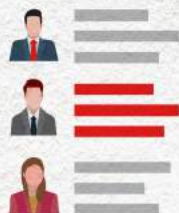
The Code and its supplementary regulations apply to both the employees and the management of the companies in the MAPFRE Group, to the members of these companies' administrative bodies and to anyone who maintains a relation of close or permanent collaboration with MAPFRE Insular and therefore subscribes or is submitted to compliance with the regulations that affect them, or that are mandatory owing to the nature or purpose of their activities.

1. PROMOTION, SELECTION AND MOBILITY

This policy represents our commitment to **promote the professional development** of MAPFRE's people under equal opportunities. Therefore, the principles that must be applied to the following are established.



PROMOTION



SELECTION



MOBILITY

2. GENERAL PRINCIPLES

Develop people with global skills and abilities and reinforce our commitment to MAPFRE's values.



CULTURE OF EFFORT



OBJECTIVE-ORIENTED WORK



SENSE OF BELONGING

COMPANY POLICIES

3. OUR 7 COMMITMENTS



**EQUAL OPPORTUNITIES
AND NON-DISCRIMINATION**



**EQUITY AND
MERITOCRACY**



**INTERNAL
PROMOTION**



**PEOPLE MANAGERS
THAT FACILITATE
PROMOTION
AND MOBILITY**



**TRANSPARENT
PROFESSIONAL
DEVELOPMENT AND
PERFORMANCE
APPRAISAL**



**FUNCTIONAL AND
GEOGRAPHIC
MOBILITY**



**WILLINGNESS
TO BE
TRANSPARENT**

HEALTH & WELL-BEING POLICIES



1. HEALTH, WELL-BEING, AND PREVENTION OF OCCUPATIONAL RISKS

This policy reflects **our commitment** to the health, safety and well-being of company professionals and their families.



2. GENERAL PRINCIPLES OF THE POLICY

A **healthy workplace that is conducive to well-being** and enables all MAPFRE employees to do their work in the best possible conditions.



3. OUR 8 COMMITMENTS

1. We want to integrate the health and well-being of our employees and the prevention of occupational risks into the company's daily practices at every level.
2. We provide resources to guarantee compliance with legislation and action plans in the field of health, well-being and the prevention of occupational risks.
3. We strive to reduce the accident rate, specifically related to traffic accidents involving company staff, by promoting sustainable and environment-friendly mobility.
4. We establish measures to guarantee the safety of everyone who provides services in our workplaces.
5. We carry out an active communication strategy to inform employees about all the health, well-being and risk prevention aspects related to their work.
6. We promote training for MAPFRE employees to raise their awareness and equip them to carry out protection and prevention measures.
7. We launch campaigns to promote health and healthy lifestyles among our employees and in society in general.
8. We are promoting healthy company model for our employees and their families.



HEALTH & WELL-BEING POLICIES

Workplace

- Intervention on ergonomics in general and specifically for pregnant women.
- Flexitime
- Training on occupational risk prevention.
- Stretching exercises for the workplace.

Health Promotion

- Flu shots.
- Breast cancer campaign
- Regular Newsletter
- Annual check-up
- Health Insurance
- Healthy eyes day

Physical Activity and Diet

- Promotion of sports and outdoor activities.
- Promotion of stretching exercises in the workplace once or twice a day, 10 minutes each time.
- Sports events
- Information on healthy eating.
- No elevator Day
- Yoga

Mental Well-being

- Intervention on stress management.
- Information on harassment in the workplace.
- Seminar on communication skills in the workplace.

Personal Environment

- Leisure time policy, flexitime and flexible working arrangements.
- Blood Donation

Respect for People

MAPFRE INSULAR considers that respect to others must be a basic element of its employees' conduct. Therefore, it rejects any show of workplace harassment, and any other behavior that is violent or offensive to the rights and dignity of people, whenever these situations contaminate the workplace, have negative effects on health, well-being, confidence, dignity and the performance of the people who suffer it.

Respect for people is a responsibility of the entire organization at global level and it extends both relationships between employees, regardless of their position in the company, and to relationships between employees and clients, providers, collaborators and other stakeholders. They must all contribute to ensuring a work environment in which people's dignity is respected.

Therefore, MAPFRE INSULAR states that it is expressly against and will not allow situations of harassment at work, regardless of who the victim or the harassed person is in the situation reported, and that any member of the company is entitled to report harassment if it occurs.

Whistle Blowing Policy

Following the recommendations of the Unified Code of Good Governance of Listed Companies, the Code of Good Governance of MAPFRE and more specifically, the Regulations of the Board of Directors of MAPFRE S.A and its delegated bodies sets forth as among the powers of the Audit Committee the establishment and supervision of a mechanism whereby staff can confidentially report any irregularities they detect in the course of their duties, in particular those of a financial or accounting nature, with potentially serious implications for the firm.

In order to report any irregularities, an Email Box has been made available on www.mapfre.com/CDF, as an alternative channel, employees will also be able to lodge complaints by means of a letter addressed to:

MAPFRE
A/A. Secretario General
Ctra. Pozuelo, n0. 52
28222 – Majadahonda (Madrid)

Respect for the Environment

The development of business and activities that are sustainable over time and respectful of the surroundings, the environment and the interests of the community is one of MAPFRE INSULAR's basic principles of action.

MAPFRE INSULAR has an environmental policy that defines, as its fundamental principles, the integration of policies in the business to protect the environment, the implementation of environmental management actions and the promotion of environmental responsibility.

It is the obligation of all employees that work for MAPFRE to follow the company's guidelines in this area, to make every effort to minimize the environmental impact of their activities, and to use the equipment, facilities and work resources in the most efficient way possible.

All complaints, including the identity of the whistleblower, witnesses and employees named in the complaint, will be treated as confidential, unless the Company is otherwise required or compelled by law to release information. A whistleblower who makes or files a complaint anonymously may opt to provide means by which he or she can be contacted without compromising his or her anonymity.

Anti-Bribery and anti-corruption Policy

The Company formulated a Code of Business Conduct and Ethics which upholds professionalism and ethics in business dealings and transactions. In relation to this the Company abides with the Philippines's existing laws, rules and regulations governing Anti-Bribery and Anti-Corruption. (Republic Act No. 3019 Known as "Anti-Graft and Corrupt Practices Act")

Related Party Transaction

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Directors, Officers and Key management personnel of the company including all supervisors, managers and executives are required by the Company's Code of Business Conduct and Ethics to immediately report their interest in transactions and any conflict of interest or potential conflict.

Related Party transactions (RPT's) exist and details of which are provided in NOTE 32 of the Audited Financial Statement. None of these transactions may be classified as financial assistance to other entities other than companies with common control with the entity. These RPT's are conducted in a fair manner and at arm's length.

External Audit

As approved by the Board, the Company engages the services of R.G. Manabat and Co., KPMG Philippines as its external auditor. The audit fees of R.G. Manabat and Co., for 2016 amounted to P1.56 million while the non-audit fee is nil.

Supplier Code of Conduct

MAPFRE INSULAR is committed to the highest possible standards of corporate governance and responsibility. Our policy is not merely to comply with the letter of laws or regulations, but rather instill and maintain a true culture of compliance wherever we do business. This code contains the following:

1. Application – Suppliers and service providers ensure that all their representatives conduct business with the company in accordance with this code of conduct
2. Compliance with the Law and Regulations – The supplier has an unqualified responsibility to comply with all applicable laws and regulations
3. Anti-Bribery, Anti – Kickbacks, Bribes and Payoffs – Suppliers must comply with anti-bribery legislation and avoid all forms of corruption.
4. Data Protection and Record Accuracy and Retention – Suppliers shall ensure compliance with laws and directives providing for the protection, transfer, access and storage of personal information and to ensure that business records pertaining to the company are retained for the period required by law.
5. Fair Competition – Supplier shall not engage in collaboration or other activity that reduces competition
6. Insider Trading – Supplier shall ensure that any unpublished, inside information regarding to the company shall not be used to engage or support insider trading.
7. Environment Practices – Suppliers shall act responsibly towards the environment and provide data on the environmental footprint of their production process and their products and services upon request.

Creditors

The Company, as a matter of policy, upholds the rights of its creditors by publicly disclosing all material information, such as earning results and risk exposures, related to but not limited to loan covenant.

Corporate disclosures, controls and procedures include periodic reports to major lenders, such as the latest financial statements, among others.

The company honors all of its legal and valid obligations. No known case has been filed before a court by any creditor for non-payment of loans or financial obligations other than claims against the insurance policy.

SHAREHOLDER INFORMATION

Dividend Policy

The MAPFRE INSULAR INSURANCE CORPORATION Board of Directors, as the body responsible for presenting the Annual General Meeting with the proposal for distribution of the Company's profit and losses and also, where applicable, the proposal for distribution of dividends, has approved the present dividend policy:

1. Payment to shareholders must be linked with the Company's profit, solvency, liquidity and investment plans, and also its shareholders' expectations.
2. The Board of Directors will put the decisions that it deems appropriate to the Annual General Meeting in relation to the distribution of dividends, and may agree to pay sums on account, in accordance with aforementioned criteria and taking into account the Company's general situation and its sustainable growth.
3. Dividend payments will preferably be made in cash. Nonetheless, the Board of Directors may put forward alternative formulas for the payment of dividends with a duly justified proposal.
4. In general, the Board of Directors will propose a distribution of dividends to the Annual General Meeting of between 45 percent and 65 percent of the profit for the financial year attributable to the Company in its consolidated annual accounts. Nonetheless, the Board of Directors may make proposals under different terms to those indicated and must appropriately justify the suitability of the same.

Right of Shareholders

The Board shall respect the rights of the stockholders, namely:

1. Right to vote on all matters that require their consent or approval
2. Pre-emptive right to all stock issuances, subject to the requirement of the By-Laws and existing laws and regulations
3. Right to inspect corporate books and records
4. Right to Information
5. Right to Dividends; and
6. Appraisal Right

The Board should be transparent and fair in the conduct of the annual and special stockholder's meetings. The stockholders should be encouraged to personally attend such meetings. If they could not attend, they should be apprised ahead of time of their right to appoint a proxy subject to the requirement of the by-laws.

The Chairman shall ensure that the views of shareholders are communicated to the Board. The Board shall use the Annual General Meeting or Annual Stockholders' Meeting to communicate with shareholders and encourage their participation.

The Company's Shareholder

| NAME | SHARES HELD | AMOUNT PAID | % OF OWNERSHIP | NATIONALITY |
|--------------------------------------|-------------|-----------------|----------------|-------------|
| MAPFRE Internacional S.A. | 7,493,847 | PHP 374,692,350 | 74.94 % | Spanish |
| Luis C. LaO | 1 | PHP 50.00 | nil | Filipino |
| Tirso C. Abad | 1 | PHP 50.00 | nil | Spanish |
| Leire Jimenez Ayesa | 1 | PHP 50.00 | nil | Spanish |
| Ambrosio B. Mangilit, Jr. | 1 | PHP 50.00 | nil | Filipino |
| Insular Life Assurance Company, Ltd. | 2,499,998 | PHP 124,999,900 | 24.99 % | Filipino |
| Mona Lisa B. dela Cruz | 1 | PHP 50.00 | nil | Filipino |
| Mayo Jose B. Ongsingco | 1 | PHP 50.00 | nil | Filipino |
| Silverio Benny J. Tan | 1 | PHP 50.00 | nil | Filipino |
| Other Stockholders | 6,147 | PHP 307,350 | nil | Filipino |

Company Website

<https://www.mapfre.com.ph/insurance-ph/>

CORPORATE SOCIAL RESPONSIBILITY

At MAPFRE INSULAR, Corporate Social Responsibility (CSR) is a "voluntary and strategic commitment that entails attempting to achieve business objectives while strictly complying with legal and contractual obligations, applying principles of equity and stability in relationships with stakeholders, thereby contributing to satisfying current and emerging needs of society."

MAPFRE INSULAR assumes the impact that its commercial activity generates on the environment and on society, and its working model as regards social responsibility as well as its Corporate Social Responsibility Policy facilitate the integration of environmental, social and good governance aspects within the business and also the development of its commitment to solidarity through the activities of its Fundación MAPFRE.

Furthermore, to sustainably fulfill our commitments and meet our business objectives, MAPFRE Insular requires the involvement of its stakeholders, especially that of those defined in its mission, vision and values.

Corporate Social Responsibility is a form of corporate management with a medium and long-term vision (sustainability of the business) that takes into account social and environmental concerns (external to the company), integrating these through its relationships with its stakeholders.

Fundación MAPFRE

2017 FUNDACION MAPFRE ACTIVITIES CARRIED OUT IN THE PHILIPPINES (THRU MAPFRE INSULAR)

1. What is Fundacion MAPFRE

Fundacion MAPFRE is a non-profit institution of MAPFRE which have been committed to people's well being since 1975. Its mission is to contribute to improving people's quality of life and the progress of society through multinational programs and activities. It is committed to moving forward with its global projects structured around different areas of action. Through its wide range of activities worldwide based on five key areas (Social Action, Culture, Health Promotion, Prevention and Road Safety, and Insurance and Social Protection), Fundacion MAPFRE is certain to achieve its goals centered on a common objective: ethical commitment to society,

2. List of accredited organization in the Philippines, their background, and the amount donated to each

a. Eugenia Ravasco Day Care Center (ERDCC) – donation of 30,504.52 Euros / PHP 1,522,877.43

Eugenia Ravasco Day Care Center is an institution accredited by the local Department of Education to uphold the educational needs of children from Kinder 1 and 2. For the school year 2017 - 2018, a total of 63 children (aged 5-6) are identified as beneficiaries

These children came from the marginalized sector of the community in Barangay Don Bosco, 73 Venezuela St., Better Living Subdivision, Parañaque City.

For school year 2017 - 2018, Fundacion MAPFRE granted ERDCC a total of Php1,522,877.43 through its Semillas De Esperanza project. The grant is to help improve the children's health, nutrition, and total well-being all throughout the school year.

b. Kalipay Negrense Foundation, Inc. (KNFI) – donation of 30,000.00 Euros / PHP 1,530,000.00

Kalipay Negrense Foundation, Inc is a non-profit entity which aims to provided for the needs and protect the rights of disadvantaged children. The organization also reaches out to poor families in depressed areas. Their projects usually related to education, nutrition, health, and social services. For 2017, in collaboration with Fundacion MAPFRE, KNFI carried-out the "Residential Care Program" The beneficiary of the program involved children under the age of 14 and young people ages 15 – 18. Collectively, the children who were beneficiaries of the program included those who are physically/sexually abused; neglected/abandoned, orphaned; victims of armed conflict/child labor/trafficking; children of extreme poverty; and street/malnourished children.

Children under the program were taken to the KNFI where they lived with (2) two house parents and child care/social workers who ensured their healing and wellbeing. The project was aimed to let the children with negative circumstances from the past be able to experience the nurturing and healing environment of "home life". With this, they will still have the chance to develop and become healthy and productive individuals of the future.

3. Outreach programs ran in 2017 and its highlights

None for 2017

4. Employee engagement activities conducted with these institutions, if any, and its corresponding details

MAPFRE INSULAR employees along with some of their relatives and friends joined hands in volunteering activities below carried-out in Eugenia Ravasco Day Care Center.

- Collection and delivery of school materials on June 8th
- Teaching kids the importance of waste segregation and clean environment on June 24th
- Attended and facilitated health and nutrition activities during the Nutrition Month Celebration on July 29th
- Collection and delivery of food donations to families of the children on December 11th
- Attendance and assistance in the distribution of Christmas gifts to the children and their families during the Christmas Party of the center on December 11th.

5. Other donations (e.g. calamity-related) made by Fundacion MAPFRE, its costs, and pertinent details

None for 2017

7. Photos of the Activities



ERDCC (Nutrition Awareness, July 2017)



ERDCC (Christmas Party, December 2017)



ERDCC (Waste Segregation Activity, June 2017)



ERDCC (Sets of School Materials, June 8 2017)

8. Other donations (e.g. calamity-related) made by Fundacion MAPFRE, its costs, and pertinent details

None for 2017



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **Mapfre Insular Insurance Corporation**(the Company)is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors (the Board) is responsible for overseeing the Company's financial reporting process.

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

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders of the Company, has expressed its opinion on the fairness of presentation upon completion of such audit.

Silverio Benny J. Tan
Chairman of the Board

Tirso C. Abad
President and CEO

Jean A. Israel
Senior Vice President - Finance and Administration Division

Signed this 4th day of April 2018

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING
WITH THE BUREAU OF INTERNAL REVENUE**

The Board of Directors and Stockholders
Mapfre Insular Insurance Corporation
Mapfre Insular Corporate Center
Acacia Avenue, Madrigal Business Park
Ayala Alabang, Muntinlupa City

We have audited the accompanying financial statements of Mapfre Insular Insurance Corporation (the "Company") as at and for the year ended December 31, 2017, on which we have rendered our report dated April 4, 2018.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholder of the Company.

R.G. MANABAT & CO.

DENNIS I. ILAN

Partner

CPA License No. 089564

IC Accreditation No. SP-2017/015-R, Group A, valid until August 26, 2020

SEC Accreditation No. 1182-AR-1, Group A, valid until April 30, 2018

Tax Identification No. 161-313-405

BIR Accreditation No. 08-001987-28-2017

Issued September 5, 2017; valid until September 4, 2020

PTR No. 6615137MD

Issued January 3, 2018 at Makati City

April 4, 2018
Makati City, Metro Manila





R.G. Manabat & Co.
 The KPMG Center, 9/F
 6787 Ayala Avenue, Makati City
 Philippines 1226
 Telephone +63 (2) 885 7000
 Fax +63 (2) 894 1985
 Internet www.kpmg.com.ph
 Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Mapfre Insular Insurance Corporation
 Mapfre Insular Corporate Center
 Acacia Avenue, Madrigal Business Park
 Ayala Alabang, Muntinlupa City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mapfre Insular Insurance Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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



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

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

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

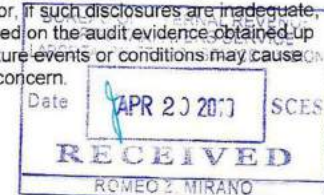
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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



R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
 PRC-BCA Registration No. 6001, valid until March 15, 2020
 SEC Accreditation No. 0204-PR-5, Group A, valid until November 15, 2020
 IC Accreditation No. F-2017-010-R, valid until August 26, 2020
 BIR - Selected External Auditor, Category A, valid for 3-year audit period (2017 to 2019)



- Evaluate the overall presentation, structure and content of the financial statements including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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

Report on the Supplementary Information Required Under Revenue Regulation No. 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 35 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue but is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Dennis I. Ilan
DENNIS I. ILAN

Partner

CPA License No. 089564

IC Accreditation No. SP-2017/015-R, Group A, valid until August 26, 2020

SEC Accreditation No. 1182-AR-1, Group A, valid until April 30, 2018

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BIR Accreditation No. 08-001987-28-2017

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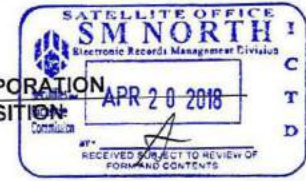
PTR No. 6615137MD

Issued January 3, 2018 at Makati City

April 4, 2018

Makati City, Metro Manila

**MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION**



| Note | December 31 | | January 1, |
|---|-----------------------|------------------------------------|------------------------------------|
| | 2017 | 2016 (As restated - Note 34) | 2016 (As restated - Note 34) |
| ASSETS | | | |
| Cash and cash equivalents | 7 P195,348,862 | P172,368,327 | P179,977,463 |
| Insurance receivables - net | 8 1,054,743,942 | 574,409,042 | 655,679,274 |
| Available-for-sale (AFS) financial assets | 9 1,347,692,874 | 1,477,135,351 | 1,464,822,023 |
| Loans and receivables - net | 10 100,953,030 | 148,517,981 | 222,309,818 |
| Accrued income | 11 15,429,575 | 30,309,988 | 24,739,440 |
| Reinsurance assets | 12 1,523,306,416 | 2,396,105,053 | 2,295,220,818 |
| Deferred acquisition costs | 13 228,062,270 | 234,333,039 | 233,747,708 |
| Property and equipment - net | 14 217,367,082 | 246,505,744 | 293,116,272 |
| Investment properties - net | 15 15,281,346 | 15,716,192 | 16,078,555 |
| Intangible assets - net | 16 117,722,928 | 102,059,925 | 45,144,455 |
| Goodwill | 17 33,794,284 | 33,794,284 | 33,794,284 |
| Net pension asset | 22 13,781,427 | - | - |
| Deferred tax assets - net | 28 170,746,733 | 185,133,315 | 84,410,780 |
| Other assets | 18 176,300,158 | 171,234,796 | 148,121,275 |
| | P5,210,530,927 | P5,787,623,037 | P5,697,162,165 |

| LIABILITIES AND EQUITY | | | |
|---|-----------------------|-----------------------|-----------------------|
| Liabilities | | | |
| Insurance contract liabilities | 19 P2,885,691,509 | P3,829,634,038 | P3,632,294,274 |
| Insurance payables | 20 733,970,956 | 318,683,006 | 213,900,983 |
| Trade and other liabilities | 21 463,961,913 | 456,040,384 | 498,888,159 |
| Deferred reinsurance commission | 13 38,636,577 | 31,066,198 | 29,531,572 |
| Net pension obligation | 22 - | 14,460,167 | 37,667,903 |
| | 4,122,260,955 | 4,649,883,793 | 4,412,082,891 |
| Equity | | | |
| Capital stock | 30 500,000,000 | 500,000,000 | 500,000,000 |
| Additional paid-in capital | 200,446,070 | 200,446,070 | 200,446,070 |
| Contributed surplus | 100,000,000 | 100,000,000 | 100,000,000 |
| Retirement benefit reserve | 22 (23,602,900) | (30,996,303) | (44,220,795) |
| Revaluation reserve on AFS financial assets | 9 (6,565,525) | 69,650,082 | 95,237,313 |
| Retained earnings | 317,992,327 | 298,639,395 | 433,616,686 |
| | 1,088,269,972 | 1,137,739,244 | 1,285,079,274 |
| | P5,210,530,927 | P5,787,623,037 | P5,697,162,165 |

See Notes to the Financial Statements



MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF INCOME

| Years Ended December 31 | | | |
|--|--------|----------------------------|-----------------|
| | | 2016 | 2017 |
| | Note | (As restated - Note 34) | |
| UNDERWRITING INCOME | | | |
| Gross premiums written | | P2,184,436,548 | P2,213,971,313 |
| Reinsurance premium assumed | | 30,384,187 | 24,471,262 |
| Gross premium on insurance contracts | 19, 23 | 2,214,820,735 | 2,238,442,575 |
| Reinsurance premium ceded | 19, 23 | (712,118,091) | (921,271,462) |
| Premium retained | | 1,502,702,644 | 1,317,171,113 |
| Net change in reserve for unearned premiums | | 17,684,405 | 46,252,682 |
| Net premiums earned | 19, 23 | 1,520,387,049 | 1,363,423,795 |
| Commission income | 13 | 76,139,132 | 84,271,551 |
| GROSS UNDERWRITING INCOME | | 1,596,526,181 | 1,447,695,346 |
| UNDERWRITING EXPENSES | | | |
| Gross insurance contract benefits and claims paid | 19 | 1,680,447,340 | 1,396,982,173 |
| Reinsurer's share of gross insurance contract benefits and claims paid | 19 | (1,072,591,138) | (761,303,761) |
| Gross change in insurance contract liabilities | | 225,820,449 | (1,217,687,553) |
| Reinsurer's share of gross change in insurance contract liabilities | | (111,680,515) | 1,192,796,342 |
| Net insurance benefits and claims | 24 | 721,996,136 | 610,787,201 |
| Commission expense | 13 | 454,675,838 | 440,912,406 |
| TOTAL UNDERWRITING EXPENSES | | 1,176,671,974 | 1,051,699,607 |
| NET UNDERWRITING INCOME | | 419,854,207 | 395,995,739 |
| OTHER INCOME - Net | | | |
| Investment income | 25 | 118,297,945 | 126,201,964 |
| Foreign exchange gain - net | | 2,544,847 | 7,497,506 |
| Loss on sale of property and equipment | 14 | (1,442,456) | (66,649) |
| Other income | | 7,760,288 | 5,546,541 |
| | | 127,160,624 | 139,179,362 |
| NET UNDERWRITING AND OTHER INCOME | | 547,014,831 | 535,175,101 |
| OTHER OPERATING EXPENSES | | | |
| General and administrative expenses - net | 26 | 719,983,242 | 459,745,357 |
| Service fees | 27 | 48,434,785 | 28,315,874 |
| | | 768,418,027 | 488,061,231 |
| INCOME (LOSS) BEFORE TAXES | | (221,403,196) | 47,113,870 |
| TAXES | | | |
| Current income tax | 28 | 5,188,470 | 3,800,871 |
| Deferred income tax | | (106,423,000) | 11,442,901 |
| Final tax | | 14,808,625 | 12,517,166 |
| | | (86,425,905) | 27,760,938 |
| NET INCOME (LOSS) | | (P134,977,291) | P19,352,932 |

See Notes to the Financial Statements.



MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

| Years Ended December 31 | | | |
|---|------|----------------------------|---------------|
| | | 2016 | 2017 |
| | Note | (As restated - Note 34) | |
| NET INCOME (LOSS) | | (P134,977,291) | P19,352,932 |
| OTHER COMPREHENSIVE LOSS | | | |
| Items to be reclassified to profit or loss in subsequent periods | | | |
| Net change in fair value of AFS financial assets | | (2,510,296) | (26,341,817) |
| Net change in fair value of AFS financial assets reclassified to profit or loss | | (23,044,109) | (50,098,711) |
| Income tax effect | | (32,826) | 224,921 |
| | 9 | (25,587,231) | (76,215,607) |
| Items not to be reclassified to profit or loss in subsequent periods | | | |
| Remeasurements of the net pension obligation | 22 | 18,892,131 | 10,562,004 |
| Income tax effect | | (5,667,639) | (3,168,601) |
| | | 13,224,492 | 7,393,403 |
| | | (12,362,739) | (68,822,204) |
| TOTAL COMPREHENSIVE LOSS | | (P147,340,030) | (P49,469,272) |

See Notes to the Financial Statements.

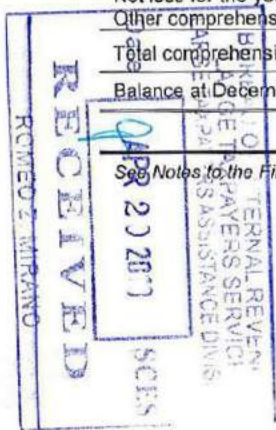


MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31

| | Capital Stock (Note 30) | Additional Paid-in Capital | Contributed Surplus | Retirement Benefit Reserves (Note 22) | Revaluation Reserves on AFS Financial Assets (Note 9) | Retained Earnings | Total |
|---|----------------------------|----------------------------------|------------------------|--|---|----------------------|-----------------------|
| Balance at January 1, 2017 | P500,000,000 | P200,446,070 | P100,000,000 | (P30,996,303) | P69,650,082 | P298,639,395 | P1,137,739,244 |
| Net income for the year | - | - | - | - | - | 19,352,932 | 19,352,932 |
| Other comprehensive income (loss) - net of tax effect | - | - | - | 7,393,403 | (76,215,607) | - | (68,822,204) |
| Total comprehensive loss for the year | - | - | - | 7,393,403 | (76,215,607) | 19,352,932 | (49,469,272) |
| Balance at December 31, 2017 | P500,000,000 | P200,446,070 | P100,000,000 | (P23,602,900) | (P6,565,525) | P317,992,327 | P1,088,269,972 |
| Balance at January 1, 2016, as previously reported | P500,000,000 | P200,446,070 | P100,000,000 | (P44,220,795) | P95,237,313 | P493,047,511 | P1,344,510,099 |
| Effect of restatement (Note 34) | - | - | - | - | - | (59,430,825) | (59,430,825) |
| Balance at January 1, 2016, as restated | 500,000,000 | 200,446,070 | 100,000,000 | (44,220,795) | 95,237,313 | 433,616,686 | 1,285,079,274 |
| Net loss for the year, as previously reported | - | - | - | - | - | (153,577,661) | (153,577,661) |
| Effect of restatement (Note 34) | - | - | - | - | - | 18,600,370 | 18,600,370 |
| Net loss for the year, as restated | - | - | - | - | - | (134,977,291) | (134,977,291) |
| Other comprehensive income (loss) - net of tax effect | - | - | - | 13,224,492 | (25,587,231) | - | (12,362,739) |
| Total comprehensive loss for the year | - | - | - | 13,224,492 | (25,587,231) | (134,977,291) | (147,340,030) |
| Balance at December 31, 2016 | P500,000,000 | P200,446,070 | P100,000,000 | (P30,996,303) | P69,650,082 | P298,639,395 | P1,137,739,244 |

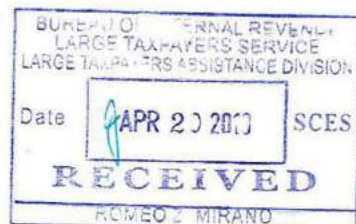
See Notes to the Financial Statements.



MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|-------------------------|-----------------|------------------------------------|
| | Note | 2017 | 2016 (As restated - Note 34) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income (loss) before taxes | | P47,113,870 | (P221,403,196) |
| Adjustments for: | | | |
| Change in: | | | |
| Reserve for unearned premiums - net of reinsurance premium reserved | 19, 23 | (46,252,682) | (17,684,405) |
| Deferred acquisition costs | 13 | 6,270,769 | (585,331) |
| Deferred reinsurance commissions | 13 | 7,570,379 | 1,534,626 |
| Depreciation and amortization | 14, 15, 16, 26 | 59,823,207 | 61,521,429 |
| Retirement expense | 22, 26 | 14,720,739 | 21,184,395 |
| Loss on sale of property and equipment | 14 | 66,649 | 1,442,456 |
| Rent income | | - | (199,575) |
| Dividend income | 11, 25 | (8,252,900) | (9,255,125) |
| Provision for (reversal of) impairment losses | 8, 10, 26 | (18,233,893) | 80,443,451 |
| Gain on sale of AFS financial assets | 9, 25 | (50,098,711) | (23,044,109) |
| Interest income | 25 | (65,230,760) | (83,508,502) |
| Operating loss before changes in working capital | | (52,503,333) | (189,553,886) |
| Decrease (increase) in: | | | |
| Insurance receivables | | (466,681,331) | 22,066,763 |
| Loans and receivables | | 52,145,275 | 52,551,855 |
| Reinsurance assets | | 1,192,796,343 | (111,680,515) |
| Other assets | | (5,065,362) | (23,113,521) |
| Increase (decrease) in: | | | |
| Insurance contract liabilities | | (1,217,687,553) | 225,820,449 |
| Insurance payables | | 415,287,950 | 104,782,023 |
| Trade and other liabilities | | 7,921,529 | (42,647,775) |
| Net cash provided by (used in) operations | | (73,786,482) | 38,225,393 |
| Income tax paid | | (16,542,957) | (19,997,095) |
| Net cash provided by (used in) operating activities | | (90,329,439) | 18,228,298 |

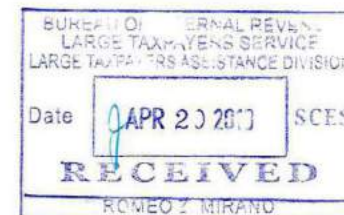
Forward



Years Ended December 31

| | Note | 2017 | 2016 (As restated - Note 34) |
|---|------|---------------------|------------------------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale/maturities of: | | | |
| AFS financial assets | | P259,081,092 | P316,660,290 |
| Property and equipment | | 2,155,992 | 5,563,265 |
| Intangible assets | | - | 1,757,946 |
| Interest received | | 80,111,173 | 78,137,528 |
| Dividends received | | 8,252,900 | 9,255,126 |
| Acquisitions of: | | | |
| Property and equipment | 14 | (13,726,704) | (29,637,262) |
| Intangible assets | 16 | (34,408,639) | (50,590,413) |
| AFS financial assets | 9 | (155,755,511) | (331,483,914) |
| Contributions to the Retirement Plan | 22 | (32,400,329) | (25,500,000) |
| Net cash provided by (used in) investing activities | | 113,309,974 | (25,837,434) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 22,980,535 | (7,609,136) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 172,368,327 | 179,977,463 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 7 | P195,348,862 | P172,368,327 |

See Notes to the Financial Statements.



MAPFRE INSULAR INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Mapfre Insular Insurance Corporation (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 1, 1934. On September 1, 1978, the Company amended its Articles of Incorporation to extend the corporate life of the Company for another fifty (50) years up to September 1, 2034.

The Company is engaged in the business of motor car, fire, marine, fidelity and surety insurance, and on all other forms of non-life insurance authorized by law. On December 15, 2015, Certificate of Authority was granted to the Company by the Insurance Commission (IC) effective January 1, 2016 to December 31, 2018.

The Company is 74.94% owned by Mapfre Internacional of Spain ("Mapfre Internacional" or the "Parent Company") and 24.99% owned by Insular Life Assurance Company, Ltd. ("Insular Life").

The Company's registered office address is at Mapfre Insular Corporate Center, Acacia Avenue, Madrigal Business Park, Ayala Alabang, Muntinlupa City.

2. Basis of Preparation

Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations.

The financial statements of the Company as at and for the year ended December 31, 2017 have been reviewed, approved and authorized for issue by the Board of Directors (BOD) of the Company on April 4, 2018.

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date:

| Items | Measurement Bases |
|---|--|
| Available-for-sale (AFS) financial assets | Fair value |
| Net pension asset obligation (asset) | Present value of the defined benefit obligation (DBO) less fair value of plan assets |

Functional and Presentation Currency

The financial statements are presented in Philippine peso, which is the Company's functional currency. All financial information is rounded off to the nearest peso, except when otherwise indicated.



3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company has adopted the following amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Company's financial statements.

- *Disclosure initiative (Amendments to PAS 7, Statement of Cash Flows).* The amended PAS 7 now requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes).* The amended PAS 12 provides clarifications on the following:
 - deductible temporary differences depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period;
 - the calculation of future taxable profit excludes tax deductions resulting from the reversal of the deductible temporary differences;
 - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
 - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

Insurance Contract

Insurance contract is an agreement whereby one party called the insurer undertakes, for a consideration paid by the other party called the insured, promises to pay money, or its equivalent or to do some act valuable to the latter, upon happening of a loss, liability or disability arising from an unknown or contingent event.

Classification of Insurance and Investment Contracts

The Company issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes the possibility of having to pay benefits on the occurrence of an insured event. The Company may also transfer insurance risk in insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10.00% more than the benefits payable if the insured event did not occur. Insurance contracts can also expose the insurer to financial risks. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or have expired.

Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Gross Premium on Insurance Contracts

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

Commission Expense and Deferred Acquisition Costs

Commissions are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as "Deferred acquisition costs" in the assets section of the statements of financial position. The net changes in deferred acquisition costs at the end of each reporting periods are recognized as "Commission expense" in the statements of income.

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

An impairment review is performed at the end of each reporting periods or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount. The impairment loss is charged to profit or loss.

Deferred acquisition costs is derecognized when the related contracts are settled or disposed of.

Reinsurance

The Company cedes insurance risk in the normal course of business

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

The Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized in profit or loss as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the assumed business. Insurance payables represent balances due to reinsurers and funds held for reinsurers. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsurance contract.

Gains and losses on buying reinsurance, if any, are recognized in profit or loss immediately at the date of purchase and are not amortized.

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

Reinsurance assets and liabilities are derecognized when the contractual right is extinguished or expired or when the contract is transferred to another party.

Reinsurance Contracts Held

Contracts entered into by the Company with reinsurers which compensate the Company for losses on one or more contracts insured by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Premiums payable for reinsurance contracts are recognized as a contra-income account upon recognition of related premiums. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The benefits unpaid recoverable to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance recoverable on unpaid losses classified under "Reinsurance assets" account in the statements of financial position. Reinsurance recoverable on unpaid losses are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts.

When the Company enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Company recognizes due to reinsurers under "Insurance payables" account in the statements of financial position at transaction price. Reinsurance premium ceded out will be withheld at 25% for marine and 40% for non-marine policies and recognized as funds held for reinsurers under "Insurance payables" account in the statements of financial position. The amount withheld is generally released after a year.

Impairment of Reinsurance Assets

The Company assesses its reinsurance assets for impairment at least annually. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognize that impairment loss in the statements of income. The Company gathers the objective evidence that a reinsurance asset is impaired using specific assessment. The Company identifies individually which accounts should be provided with impairment loss.

Commission Income and Deferred Reinsurance Commissions

Commissions earned from reinsurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as "Deferred reinsurance commissions" in the statements of financial position. The net changes in deferred reinsurance commissions between each end of reporting period are recognized as "Commission income" in the statements of income.

Insurance Contract Liabilities

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

Provision for Claims Reported and Incurred but Not Reported (IBNR) Claims

These liabilities are based on the estimated ultimate cost of all claims incurred but not reported at the end of the reporting period together with related claims handling costs and reduction for the expected value of salvage and other recoveries.

Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts. Significant delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR claims. The liability is derecognized when the contract is discharged, cancelled or has expired.

Reserve for Unearned Premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as reserve for unearned premiums as part of "Insurance contract liabilities" account in the statements of financial position. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. "Net change in the reserve for unearned premiums" account is taken to statements of income in order that revenue is recognized over the period of risk.

The related reinsurance premium ceded that pertains to the unexpired periods at end of the reporting period are accounted for as Reinsurance premiums reserve and shown as part of "Reinsurance assets" account in the statements of financial position. The net changes in reinsurance premiums reserve between each end of reporting period are recognized as part of "Net change in provision for unearned premium" account in the statements of income.

Liability Adequacy Test

At the end of each reporting period, liability adequacy test is performed to ensure the adequacy of insurance contract liabilities, net of the related deferred acquisition cost. The test considers current best estimates of future cash flows, claims handling cost and policy administrative expenses. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy arising from the test is immediately charged to profit or loss by establishing an unexpired risk provision for losses.

Net Insurance Benefits and Claims

Underwriting expenses consists of benefits and claims paid to policy holders, and changes in the valuation of insurance contract liabilities, except for changes in the reserve for unearned premiums. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Financial Instruments

Date of Recognition

Financial instruments are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of the instrument. The purchase or sale of a non-derivative financial asset that will be delivered within the timeframe generally established by regulation or convention in the market concerned, except for equity securities, are recognized on the date on which the instrument is actually transferred (the settlement date).

Initial Recognition

On initial recognition, a financial asset or financial liability is measured at fair value plus directly attributable transaction costs, unless the instrument is classified at fair value through profit or loss (FVPL). Normally, the fair value on initial recognition is the transaction price - i.e., the fair value of the consideration given (in case of an asset) or received (in case of a liability) for the financial instrument.

Classification

The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables, and AFS financial assets. The Company classifies its financial liabilities as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period.

As at December 31, 2017 and 2016, the Company has no financial instruments at FVPL and HTM investments.

Financial instruments issued by the Company are classified as a financial liability or equity in accordance with the substance of the contractual arrangement. Any interest, dividends, and realized and unrealized gains and losses from financial instruments or component considered as a financial liability are recognized in profit or loss for the period. On the other hand, distributions to holders of financial instruments classified as equity are treated as owner-related and thus charged directly to equity.

As at December 31, 2017 and 2016, financial instruments issued by the Company are classified as equity.

Reclassification

Financial instruments are reclassified at its fair value on the date of reclassification. For financial assets at FVPL, any gain or loss already recognized in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable. For debt instruments reclassified out of the AFS financial assets category, the gain or loss shall be amortized to profit or loss over the remaining life of instruments using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount. As for equity instruments reclassified out of the AFS financial assets category, the gain or loss shall be recognized in profit or loss when the financial asset is sold or otherwise disposed.

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. These financial assets are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. These include debt and equity securities.

Subsequent to initial recognition, AFS financial assets are measured at fair value. Fair value changes are recognized in OCI. Interest income is recognized under the effective interest method, with the effective interest rate (EIR) being calculated on the instrument's initial recognition. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Impairment losses and foreign exchange gains and losses on AFS debt instruments are recognized in profit or loss as they arise.

When the relevant asset is derecognized, on sale or other disposal, or is impaired, the cumulative fair value changes recognized in OCI are reclassified from equity to profit or loss. For a partial disposal, a proportionate share of the fair value gains and losses previously recognized in OCI is reclassified from equity to profit or loss. Such gains and losses include all fair value changes until the date of disposal.

The Company's government and private debt securities and quoted and unquoted equity securities are classified under this category (see Note 9).

Loans and Receivables

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees that are integral part of the EIR. Loans and receivables that are perpetual and that have either a fixed or a market-based variable rate of interest are measured at cost.

Any interest earned on loans and receivables is recognized in profit or loss on an accrual basis. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

Included in this category are: (a) cash and cash equivalents; (b) insurance receivables; (c) loans and receivables; (d) accrued income; and (e) security deposits presented under "Other assets" account in the statements of financial position (see Notes 7, 8, 10, 11 and 18).

Cash includes cash in banks which are stated at face amount. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and are subject to an insignificant risk of changes in value.

Financial Liabilities at Amortized Cost

Issued financial instruments or their components, which are not classified as FVPL, are classified as financial liabilities at amortized cost, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial instrument to the holder or lender, 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 the Company's own equity instruments.

Subsequent to initial measurement, these financial liabilities are carried at amortized cost using the effective interest method, less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees and costs that are an integral part of the EIR of the liability. The amortization is recognized in profit or loss.

Included in this category are: (1) provision for claims reported under "insurance contract liabilities"; (2) insurance payables; and (3) trade and other liabilities but excludes payable to government agencies (see Notes 19, 20 and 21).

Fair Value Measurements

Determination of Fair Values

The fair values of financial instruments traded in active markets at reporting date are based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair values are determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flows method, price comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

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

"Day 1" Profit

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" profit) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where data used as inputs in a valuation model are not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" profit.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements 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 financial asset and settle the financial liability simultaneously. This is not generally the case with master netting agreements, thus the related financial assets and financial liabilities are presented on a gross basis in the statements of financial position.

Impairment of Financial Assets

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

AFS financial Assets Carried at Fair Value

In case of equity securities classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. Where there is objective evidence of impairment, the cumulative loss lodged under equity, measured as the difference between the acquisition cost and the current fair value, less any allowance for impairment previously recognized in OCI, is transferred to profit or loss. Impairment loss on equity securities is not reversed through profit or loss but directly to equity as part of OCI.

In the case of AFS debt securities, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the EIR on the reduced carrying amount of the asset and is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss to the extent that the resulting carrying amount of the security does not exceed its carrying amount had no impairment loss been recognized.

For a partial disposal, a proportionate share of the fair value gains and losses previously recognized in OCI is reclassified from equity to profit or loss. Such gains and losses include all fair value changes until the date of disposal.

AFS financial Assets Carried at Cost

If there is an objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, 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 security.

Loans and Receivables

For financial assets carried at amortized cost such as loans and receivables, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Company includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that a borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If an asset has a variable rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. For collective impairment purposes, impairment losses is computed based on their respective default and historical loss experience.

The carrying amount of the loans and receivables shall be reduced either directly or through the use of an allowance account. The impairment losses for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment losses 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 impairment losses is recognized in profit or loss, to the extent that the carrying amount of the loans and receivables does not exceed its amortized cost at the reversal date.

Where loans and receivables have been ascertained to be worthless, the related amount is written-off against the corresponding allowance for impairment.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

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

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

When 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 but transferred control of the asset, the Company continues to recognize the asset to the extent of the Company's continuing involvement. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be acquired to pay.

Financial Liabilities

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

Property and Equipment

The initial cost of property and equipment comprises of its construction cost or purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation.

Subsequent to initial measurement, property and equipment are measured at cost less accumulated depreciation and amortization and any impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the cost of day-to-day servicing. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period these costs are incurred. Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the items can be measured reliably.

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property and equipment are capitalized during the construction period. CIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commences when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

| | Number of Years |
|------------------------------------|---|
| Building and building improvements | 50 |
| Office furniture and equipment | 5 |
| Transportation equipment | 5 |
| Leasehold improvements | 5 or lease term whichever is shorter |

The remaining useful lives, residual values and depreciation and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment.

The carrying amounts of the property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Investment Properties

Properties held for long-term rental yields and/or capital appreciation are classified as investment properties.

These properties are initially measured at cost, which includes transaction cost, but excludes day-to-day service cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Replacement cost is capitalized if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Subsequent to the initial measurement, investment properties are measured at cost less accumulated depreciation and impairment in value, if any.

Depreciation is computed using the straight-line method over the estimated useful life of fifty (50) years.

The estimated useful life and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic activity.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or of development with a view to sell.

Investment properties are derecognized when it has either been disposed of or the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss arising from the retirement and disposal of an item of investment properties (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Rental income from investment properties is in profit or loss on a straight-line basis over the term of the lease. Lease incentives are recognized as an integral part of the total rental income.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any impairment in value.

The Company's intangible assets comprise of computer software. Amortization is computed using the straight-line method over the estimated useful life of five to ten (5 - 10) years.

Intangible assets with definite useful lives are amortized on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at reporting date. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets are derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of intangible assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash generating unit (CGU) to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. A previously recorded impairment loss for goodwill can never be reversed.

Determination of Fair Value of Nonfinancial Assets

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

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

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

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

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

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

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

Impairment of Nonfinancial Assets

The carrying amounts of nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or CGU are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. The fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of future cash flows expected to be derived from an asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment loss is recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

As at December 31, 2017 and 2016, no impairment loss has been recognized on the Company's property and equipment, investment properties, intangible assets and goodwill.

EquityCapital Stock

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Additional Paid-in Capital (APIC)

APIC represents any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC. In the event that the APIC balance is exhausted as a result of redemption, the retained earnings account is reduced by redemptions in excess of par value.

Contributed Surplus

Contributed surplus represents the original contribution of the stockholders of the Parent Company, in addition to the APIC, in order to comply with the pre-licensing requirements as provided under the Insurance Code which is carried at cost.

Retained Earnings

Retained earnings includes the accumulated results of the Company's operation, as reported in the statements of income less any amount of dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the transitional provision of the standards.

Dividends distribution to the Company's shareholders is recognized in the year in which the dividends are approved by the Company's BOD. The Company intends to declare dividends subject to availability of retained earnings and operational requirements.

Revenue and Expenses Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and revenue can be reliably measured. Costs and expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Revenue and expenses are measured at the fair value of the consideration received or receivable or given, respectively, excluding taxes. The following specific criteria must also be met before revenue is recognized.

Determining whether the Company is Acting as Principal or an Agent

The Company assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Company has primary responsibility for providing the services;
- whether the Company has discretion in establishing prices; and
- whether the Company bears the credit risk.

If the Company has determined it is acting as a principal, the Company recognizes revenue on gross basis with the amount remitted to the other party being accounted as part of cost and expenses. If the Company has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Company has determined that it is acting as principal in its revenue from direct business arrangements.

Investment IncomeInterest Income

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend Income

Dividend income is recognized when the Company's right to receive the payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity shares.

Other Income

Income from other sources is recognized when earned or incurred.

General and Administrative Expenses

General and administrative expenses, except for lease agreements, are recognized as expense as they are incurred.

Service Fees

Service fees are recognized when incurred.

Employee BenefitsShort-term Employee Benefits

Short-term employee benefits are those expected to be settled wholly before 12 months after the end of the annual reporting period during which employee services are rendered, excluding termination benefits. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Benefits

The Company's net pension obligation is the aggregate of the present value of the DBO less fair value of plan assets at the end of the reporting period, adjusted for any effect of limiting a net defined benefit retirement asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The calculation of the net pension obligation is performed annually by a qualified actuary using the projected unit credit method.

Retirement costs comprise of current service cost, net interest cost and remeasurements of the net pension obligation.

Net interest cost on the net pension obligation is determined by applying the discount rate based on the government bonds at the beginning of the annual period to the net pension obligation, taking into account any changes in the net pension obligation during the period as a result of contributions and benefit payments. Net interest cost is recognized in profit or loss.

Remeasurements of the net pension obligation, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (excluding interest) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods but are closed in equity every reporting period.

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

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

The Company recognizes gains and losses on the settlement of a DBO when the settlement occurs.

Leases

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

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

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

Operating LeaseCompany as a Lessee

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as rent expense in profit or loss on a straight-line basis over the lease term.

Company as a Lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rent income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency Transactions and Translation

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates at reporting date; income and expenses are translated using the average rate for the year. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in OCI.

Taxes

Current Income Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Income Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - excess of Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of excess of MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

In determining the amount of current, final and deferred taxes, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current income tax and deferred income tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

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

Final Tax

Interest income from cash in banks, debt securities, funds held by ceding companies and dividend income, which is subject to final withholding tax, is presented at gross amounts while taxes paid or withheld are recognized as final tax under "Taxes" account in the statements of income.

Creditable Withholding Taxes (CWT)

CWT pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. CWT is initially recorded at cost under "Other current assets" account in the statements of financial position.

At each end of the tax reporting deadline, CWT may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company. If CWT is claimed as a refund, these will be recorded in the statements of financial position.

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

Value-added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

Related Parties

Related party relationships exist when one party has the ability to control or influence the other party, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Provisions

Provisions are recognized when the Company has: (a) a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

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

Events After the Reporting Date

Post year-end events that provide additional information about the Company's financial position at reporting date (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.

New or Revised Standards, Amendments to Standards and Interpretations Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Company has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant effect on the Company's financial statements.

Effective January 1, 2018

- *PFRS 9, Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of PFRS 9.

- *PFRS 15, Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretations Committee -31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company intend to apply the temporary exemption from PFRS 9 and will therefore continue to apply PAS 39 to its financial assets and liabilities until the Company applies the new standard on insurance contracts.

- *Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts (Amendments to PFRS 4).* The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39 if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at fair value through profit or loss under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

The Company is assessing the potential impact on its financial statements resulting from the application of PFRS 9 and PFRS 4.

- *Transfers of Investment Property (Amendments to PAS 40, Investment Property)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- *Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration.* The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Effective January 1, 2019

- *PFRS 16, Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases.

The Company shall apply this standard for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the Financial Reporting Standards Council has adopted International Financial Reporting Standard 15, the new revenue recognition standard. Once adopted, earlier application of PFRS 16 is permitted if the entity has adopted the new revenue recognition standard.

The Company is assessing the potential impact on its financial statements resulting from the application of PFRS 16.

- *Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty – either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change – e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

New Accounting Standard Issued by IASB which is Effective After the Reporting Period but not yet Adopted by the FRSC and Philippine SEC

- *IFRS 17, Insurance Contracts.* In May 2017, the IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4, *Insurance Contracts*.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- Portfolios are required to be divided, at a minimum, into three groups, namely: (1) contracts that are onerous at inception (i.e., initial recognition), (2) contracts that have no significant possibility of becoming onerous subsequently, and (3) all remaining contracts in the portfolio. Losses arising from the net outflow of the group of onerous contracts are recognized immediately in profit or loss at initial recognition;
- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows);
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognized in profit or loss over the service period (i.e., coverage period);
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period;
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (nondistinct investment components) are not presented in the income statement, but are recognized directly in the statements of financial position;
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense; and
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Company will adopt IFRS 17 on its effectivity date once adopted by the FRSC and Philippine SEC.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments, estimates and assumptions 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. Revisions are recognized in the period in which the judgments, estimates and assumptions are revised and in any future period affected.

Judgments

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

(a) *Determination of Functional Currency*

Based on the economic substance of the underlying circumstance relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the income and costs arising from the Company's operations.

(b) *Fair Value of Financial Assets and Liabilities*

Where the fair values of financial assets and liabilities recorded in the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Company uses judgment to select from variety of valuation models and makes assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

(c) *Impairment of AFS Financial Assets*

The Company considers that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share/market price and the future cash flows and the discount factors for unquoted equity securities. The Company generally regards fair value decline as being significant when decline exceeds 20.00% of the original cost of investment and prolonged when it persists for six (6) months. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Estimates and Assumptions

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

(a) *Claims Liability Arising from Insurance Contracts*

Estimates have to be made for the expected ultimate costs of claims reported at the reporting date. It can take a significant period of time before the ultimate costs of claims can be established with certainty. The primary technique adopted by Management in estimating the cost of notified claims is that of using past claims settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Insurance claims provisions are not discounted for the time value of money.

The main assumption underlying the estimation of the insurance claims provision is that a Company's past claims development experience can be used to project future claims development and hence, ultimate costs of claims. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or projected separately in order to reflect their future development.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future (i.e., to reflect one-off occurrences, changes in external or market factors such as public's attitude to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate costs of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

As at December 31, 2017 and 2016, provision for claims reported amounted to P1.54 billion and P1.61 billion, respectively (see Note 19).

(b) *Valuation of IBNR*

Estimates have to be made both for the expected ultimate costs of claims reported and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate costs of claims can be established with certainty.

The primary technique adopted by the management in estimating the ultimate cost of IBNR is using the Expected Loss Ratio and Incurred Chain Ladder Method to predict the future claims settlement. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision for claims reported and IBNR claims. Insurance contract liabilities are not discounted for the time value of money.

In 2017, there is a change in accounting estimate to predict the future claims settlement from purely Chain Ladder Method including one-off and large claims in 2016 to a combination of Expected Loss Ratio and Chain Ladder Method excluding one-off and large claims in 2017. Both actuarial projection techniques are acceptable as per IC CL No. 2016-67, *Valuation Standards for Non-Life Insurance Policy Reserves*. This resulted to change in provision for IBNR claims amounting to P1.14 billion and P23.42 million at gross amount and at net amount, respectively (see Note 24).

As at December 31, 2017 and 2016, the carrying values of provision for IBNR claims amounted to P115.94 million and P1.26 billion, respectively (see Note 19).

(c) *Estimation of Allowance for Impairment Losses of Receivables*

The Company maintains the allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of percentage of collectibility of the accounts.

Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers and counterparties, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

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

In 2017, there is a change in accounting estimate for collective provisioning of premiums receivable and due to brokers based on management's assessment of their current collection patterns. This resulted to reversal of impairment losses on premiums receivable and due from brokers amounting to P14.61 million and P0.04 million, respectively, in 2017.

As at December 31, 2017 and 2016, the carrying amount of insurance receivables amounted to P1.05 billion and P574.41 million, respectively, while the carrying amount of loans and receivables amounted to P100.95 million and P148.52 million, respectively (see Notes 8 and 10).

(d) *Estimation of Allowance for Impairment Losses of AFS Financial Assets*

The Company carries AFS financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of AFS financial assets would affect OCI.

As at December 31, 2017 and 2016, the Company assessed that there are no impairment indicators for its AFS financial assets.

As at December 31, 2017 and 2016, the carrying amount of AFS financial assets amounted to P1.35 billion and P1.48 billion, respectively (see Note 9).

(e) *Impairment of Nonfinancial Assets*

The Company assesses impairment on property and equipment, investment properties, intangible assets and goodwill whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

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

In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.

In 2017 and 2016, no impairment loss was recognized for the Company's nonfinancial assets.

| | Note | 2017 | 2016 |
|------------------------|------|---------------------|---------------------|
| Property and equipment | 14 | P217,367,082 | P246,505,744 |
| Investment properties | 15 | 15,281,346 | 15,716,192 |
| Intangible assets | 16 | 117,722,928 | 102,059,925 |
| Goodwill | 17 | 33,794,284 | 33,794,284 |
| | | P384,165,640 | P398,076,145 |

(f) *Realizability of Deferred Tax Assets*

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

As at December 31, 2017, management believes that it is not probable that sufficient future taxable income will be available for which the Company can utilize the benefits of its deferred tax asset on NOLCO. As such, the Company did not recognize deferred tax asset on NOLCO amounting to P102.65 million (see Note 28).

The Company has no unrecognized deferred tax assets as at December 31, 2016.

(g) *Present Value of DBO*

The determination of net pension obligation is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate. In accordance with PAS 19, *Employee Benefits*, actual results that differ from the Company's assumptions are recognized immediately as OCI in the statements of comprehensive income.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the net pension obligations.

As at December 31, 2017 and 2016, the Company's net pension asset and obligation amounted to P13.78 million and P14.46 million, respectively (see Note 22).

(h) *Contingencies*

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of claims have been developed in consultation and with the aid of legal counsels handling the Company's defense in these matters and based upon an analysis of potential results. Management does not believe that the outcome of these proceedings will have a material adverse effect on the Company's financial position. It is probable, however, that the future results of operations could be materially affected by changes in or the effectiveness of the strategies relating to these proceedings.

5. Management of Capital, Insurance and Financial Risk

Governance Framework

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. The Company recognizes the importance of having efficient and effective risk management system in place.

The Company has established risk management function with clear terms of reference for the BOD, its committees and the associated executive management committees. Further, a clear organization structure with documented delegated authorities and responsibilities from the BOD to executive management committees and senior managers has been developed. Lastly, a Company policy framework which sets out the risk appetite of the Company's operations has been put in place. Each committee has a member of senior management which is charged with overseeing compliance with the policy throughout the Company.

The BOD has approved the Company's risk management policies and meets regularly to approve any commercial, regulatory and own organizational requirements in such policies. The policies define the Company's identification of risks and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions [e.g., net worth requirements and risk-based capital (RBC) requirements]. Such restrictive provisions minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Net Worth Requirements

Under the Amended Insurance Code (Republic Act 10607) which was approved on August 15, 2013, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

| Net Worth | Compliance Date |
|---------------|--------------------------------|
| P250,000,000 | On or before June 30, 2013 |
| 550,000,000 | On or before December 31, 2016 |
| 900,000,000 | On or before December 31, 2019 |
| 1,300,000,000 | On or before December 31, 2022 |

As at December 31, 2017 and 2016, the Company has complied with the net worth requirements, based on internal calculations. The final amount of net worth can be determined only after the accounts of the Company have been examined by the IC, especially as to the admitted and non-admitted assets as defined under the Insurance Code.

RBC2 Requirements

IC Circular No. 2016-68, Amended RBC2 Framework, provides for the RBC2 framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the insurance companies in relation to the risks an insurance company is exposed to. Every non-life insurance company is annually required to maintain an RBC2 ratio of at least 100.00% and not to fail the trend test. Failure to meet the minimum RBC2 ratio shall subject the insurance company to regulatory intervention which could be at various levels depending on the degree of the violation.

The RBC2 ratio shall be calculated as total available capital (TAC) divided by the RBC2 requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits determined by IC. With Tier 1 Capital being the capital fully available to cover losses at all times on a going concern and winding up basis. And Tier 2 Capital as the capital that can also provide additional buffer to the insurance company, though it is not of the same high quality as Tier 1 Capital.

As at December 31, 2017 and 2016, the Company has complied with RBC2 requirements based on internal calculations.

The final RBC2 ratio can be determined only after the accounts of the Company have been examined by the IC, specifically as to admitted and non-admitted assets as defined under the Insurance Code.

Capital Management Framework

The primary objective of the Company's capital management is to ensure that it complies with the IC requirements.

The Company regularly assesses and changes its level of capital to ensure sufficient solvency margins and to adequately protect the policyholders in accordance with the regulations set by IC. The BOD, through its Executive Committee, promptly adjusts and considers strategies in order for the Company to maintain the net worth requirements.

The BOD also sees to it that the Company complies with the RBC2. The Company reports its capital and compliance with IC requirements to the Executive Committee on a monthly basis and to the BOD on a quarterly basis.

The Company regards the following as the capital it manages as at December 31:

| | Note | 2017 | 2016 |
|---|------|-----------------------|-----------------------|
| Capital stock | 30 | P500,000,000 | P500,000,000 |
| Additional paid-in capital | | 200,446,070 | 200,446,070 |
| Contributed surplus | | 100,000,000 | 100,000,000 |
| Retirement benefit reserve | 22 | (23,602,900) | (30,996,303) |
| Revaluation reserve on AFS financial assets | 9 | (6,555,525) | 69,650,082 |
| Retained earnings | | 317,992,327 | 298,639,395 |
| | | P1,088,269,972 | P1,137,739,244 |

There were no changes made to its capital base, objectives, policies and processes from previous years.

Insurance Risk

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

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

| | 2017 | | |
|-------------|--------------------------|---|------------------------|
| | Gross Claims Liabilities | Reinsurer's Share of Claims Liabilities | Net Claims Liabilities |
| Fire | P979,948,200 | P922,523,083 | P57,425,117 |
| Motorcar | 448,041,813 | 5,182,259 | 442,859,554 |
| Surety | 149,147,797 | 108,321,888 | 40,825,909 |
| Accident | 28,065,012 | 1,361,803 | 26,703,209 |
| Casualty | 26,308,171 | 19,449,448 | 6,858,723 |
| Marine | 15,678,003 | 12,174,962 | 3,503,041 |
| Engineering | 4,677,625 | 4,124,311 | 553,314 |
| Aviation | 1,502,023 | 1,502,023 | - |
| | P1,653,368,644 | P1,074,639,777 | P578,728,867 |

| | 2016 | | |
|-------------|--------------------------|---|------------------------|
| | Gross Claims Liabilities | Reinsurer's Share of Claims Liabilities | Net Claims Liabilities |
| Fire | P2,207,724,020 | P2,090,018,264 | P117,705,756 |
| Motorcar | 407,741,223 | 22,740,500 | 385,000,723 |
| Surety | 162,220,904 | 109,878,534 | 52,342,370 |
| Accident | 37,872,424 | (290,004) | 38,162,428 |
| Casualty | 32,942,058 | 27,164,561 | 5,777,497 |
| Marine | 16,253,198 | 12,281,197 | 3,972,001 |
| Engineering | 6,299,628 | 5,640,326 | 659,302 |
| Aviation | 2,742 | 2,742 | - |
| | P2,871,056,197 | P2,267,436,120 | P603,620,077 |

For general insurance contracts, the most significant risks arise from climate changes and natural disasters. These risks vary significantly in relation to the location of the risk insured by the Company and types of risks insured.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategies, strict claims review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims. The Company also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's premium retained.

The majority of reinsurance business ceded is placed on a surplus basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statements of financial position as reinsurance assets.

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

Terms and Conditions

The major classes of general insurance written by the Company include fire, motor car, surety, accident, casualty, marine, engineering and aviation. Risks under these policies usually cover twelve-month duration.

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

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported.

The measurement process primarily includes projections of future claims through use of actual experience data. 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 and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include variation in interest, delays in settlement and changes in foreign currency rates.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain variables such as legislative change and uncertainty in the estimation process is not possible 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 the reporting date.

Consequently, the ultimate costs of claims will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate costs of claims are recognized in subsequent financial statements.

The table below indicates the impact of changes in certain key assumptions in respect of general insurance business while other assumptions remain unchanged.

| | 2017 | | |
|--------------------------|----------------------|--|------------------------------------|
| | Change in Assumption | Impact on Insurance Contract Liabilities (Net of Reinsurance Assets) | Impact on Income before Income Tax |
| Average claim costs | 12.70% | P73,498,566 | (P73,498,566) |
| Average number of claims | 15.31% | 88,603,390 | (88,603,390) |
| Period of settlement | Within 12 months | - | - |
| | 2016 | | |
| | Change in Assumption | Impact on Insurance Contract Liabilities (Net of Reinsurance Assets) | Impact on Income before Income Tax |
| Average claim costs | 2.35% | P19,985,205 | (P19,985,205) |
| Average number of claims | 2.50% | 21,190,997 | (21,190,997) |
| Period of settlement | Within 12 months | - | - |

The Company determines that the above assumptions will best represent the movement of general insurance claims provision.

Loss Development Tables

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis:

| At Gross - 2017 | | | | | | | | | | | | | | |
|--|-------------------|--------------|--------------|--------------|---------------|---------------|---------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Accident Year | 2006 and Prior | 2005 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
| Estimate of ultimate Costs of Claims | | | | | | | | | | | | | | |
| At the end of accident year | P807,868,919 | P682,536,058 | P491,237,990 | P555,641,559 | P659,479,570 | P515,391,998 | P642,863,378 | P728,854,274 | P1,858,997,896 | P1,572,774,474 | P1,681,703,901 | P2,144,855,583 | P1,192,198,222 | P1,192,198,222 |
| One year later | 1,155,005,607 | 647,103,582 | 435,912,000 | 466,986,924 | 1,128,760,022 | 892,833,942 | 1,239,747,137 | 752,809,387 | 3,304,397,744 | 744,751,007 | 1,157,498,415 | 820,607,752 | - | 820,607,752 |
| Two years later | 1,155,766,845 | 611,671,129 | 442,286,674 | 473,543,194 | 1,138,970,687 | 1,802,697,282 | 1,205,732,582 | 670,064,893 | 5,065,549,445 | 712,666,312 | 1,505,763,834 | - | - | 1,505,763,834 |
| Three years later | 1,136,411,503 | 594,923,713 | 442,473,542 | 526,907,413 | 1,125,912,547 | 1,800,951,056 | 1,208,426,445 | 659,219,208 | 5,374,844,574 | 690,815,130 | - | - | - | 690,815,130 |
| Four years later | 1,110,305,218 | 596,066,445 | 422,926,881 | 526,885,869 | 1,143,511,740 | 1,797,587,290 | 1,208,954,539 | 658,129,426 | 5,371,957,929 | - | - | - | - | 5,371,957,929 |
| Five years later | 1,109,851,704 | 594,990,142 | 421,168,354 | 527,652,988 | 735,052,347 | 1,794,562,722 | 1,210,105,176 | 655,598,498 | - | - | - | - | - | 655,598,498 |
| Six years later | 1,100,246,748 | 594,925,866 | 421,283,185 | 514,874,333 | 1,155,468,018 | 1,801,674,067 | 1,209,776,694 | - | - | - | - | - | - | 1,209,776,694 |
| Seven years later | 1,099,010,943 | 595,417,149 | 421,158,686 | 588,031,847 | 1,161,370,810 | 1,801,136,995 | - | - | - | - | - | - | - | 1,801,136,995 |
| Eight years later | 1,100,132,505 | 594,395,375 | 422,047,278 | 587,759,402 | 1,158,247,586 | - | - | - | - | - | - | - | - | 1,158,247,586 |
| Nine years later | 1,098,147,095 | 592,754,462 | 420,559,647 | 577,423,580 | - | - | - | - | - | - | - | - | - | 577,423,580 |
| Ten years later | 1,104,686,504 | 590,983,837 | 420,383,092 | - | - | - | - | - | - | - | - | - | - | 420,383,092 |
| Eleven years later | 1,104,307,912 | 590,252,060 | - | - | - | - | - | - | - | - | - | - | - | 590,252,060 |
| Twelve years later | 1,111,030,868 | - | - | - | - | - | - | - | - | - | - | - | - | 1,111,030,868 |
| Current estimate of cumulative claims | 1,111,030,868 | 590,252,060 | 420,383,092 | 577,423,580 | 1,158,247,586 | 1,801,136,995 | 1,209,776,694 | 655,598,498 | 5,371,057,929 | 690,815,130 | 1,505,763,834 | 820,607,752 | 1,192,198,222 | 17,104,292,240 |
| Cumulative payments to date | 1,109,223,727 | 583,406,689 | 420,383,092 | 445,563,150 | 732,598,178 | 1,754,186,771 | 1,206,581,127 | 652,850,177 | 5,308,477,919 | 683,429,985 | 1,479,578,160 | 701,573,986 | 373,050,625 | 15,460,923,596 |
| Gross claims liability in the statements of financial position | P1,897,141 | P6,845,371 | P - | P131,860,430 | P425,649,408 | P46,950,224 | P3,215,567 | P2,708,321 | P62,580,010 | P7,385,145 | P26,185,674 | P119,033,758 | P819,147,597 | P1,653,368,644 |

| At Gross - 2018 | | | | | | | | | | | | | | |
|--|-------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|--------------|----------------|----------------|----------------|----------------|----------------|
| Accident Year | 2004 and Prior | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
| Estimate of ultimate Costs of Claims | | | | | | | | | | | | | | |
| At the end of accident year | P530,407,080 | P277,461,929 | P682,536,058 | P491,237,990 | P555,641,559 | P659,479,570 | P515,391,998 | P642,863,378 | P728,854,274 | P1,858,997,896 | P1,572,774,474 | P1,681,703,901 | P2,144,855,583 | P2,144,855,583 |
| One year later | 795,050,193 | 370,955,414 | 647,103,582 | 435,912,000 | 466,986,924 | 1,128,760,022 | 892,833,942 | 1,239,747,137 | 752,809,387 | 3,304,397,744 | 744,751,907 | 1,157,498,415 | - | 1,157,498,415 |
| Two years later | 800,993,255 | 354,773,590 | 611,671,129 | 442,286,674 | 473,543,194 | 1,138,970,687 | 1,802,697,282 | 1,205,732,582 | 670,064,893 | 5,065,549,445 | 712,666,312 | - | - | 712,666,312 |
| Three years later | 797,819,738 | 338,591,767 | 594,923,713 | 442,473,542 | 526,907,413 | 1,125,912,547 | 1,800,951,056 | 1,208,426,445 | 659,219,208 | 5,374,844,574 | - | - | - | 5,374,844,574 |
| Four years later | 796,356,772 | 313,948,448 | 596,066,445 | 422,926,881 | 526,885,869 | 1,143,511,740 | 1,797,587,290 | 1,208,954,539 | 658,129,426 | - | - | - | - | 658,129,426 |
| Five years later | 795,907,523 | 313,944,081 | 594,990,142 | 421,168,354 | 527,652,988 | 735,052,347 | 1,794,562,722 | 1,210,105,176 | - | - | - | - | - | 1,210,105,176 |
| Six years later | 795,145,657 | 304,101,081 | 594,925,865 | 421,283,185 | 514,874,333 | 1,155,468,018 | 1,801,674,067 | - | - | - | - | - | - | 1,801,674,067 |
| Seven years later | 798,821,859 | 302,189,065 | 595,417,149 | 421,158,686 | 588,031,847 | 1,161,370,810 | - | - | - | - | - | - | - | 1,161,370,810 |
| Eight years later | 798,856,754 | 303,275,751 | 594,395,375 | 422,047,278 | 587,759,402 | - | - | - | - | - | - | - | - | 587,759,402 |
| Nine years later | 798,771,344 | 301,375,751 | 592,754,462 | 420,559,647 | - | - | - | - | - | - | - | - | - | 420,559,647 |
| Ten years later | 798,798,328 | 307,888,176 | 590,983,837 | - | - | - | - | - | - | - | - | - | - | 590,983,837 |
| Eleven years later | 798,798,328 | 307,509,584 | - | - | - | - | - | - | - | - | - | - | - | 307,509,584 |
| Twelve years later | 797,040,787 | - | - | - | - | - | - | - | - | - | - | - | - | 797,040,787 |
| Current estimate of cumulative claims | 797,040,787 | 307,509,584 | 590,983,837 | 420,559,647 | 587,759,402 | 1,161,370,810 | 1,801,674,067 | 1,210,105,176 | 658,129,426 | 5,374,844,574 | 712,666,312 | 1,157,498,415 | 2,144,855,583 | 16,924,997,620 |
| Cumulative payments to date | 796,798,328 | 292,401,905 | 583,343,024 | 420,378,064 | 446,227,485 | 731,051,555 | 1,753,580,209 | 1,204,888,848 | 651,859,917 | 5,298,478,292 | 658,308,816 | 831,380,646 | 365,253,434 | 14,053,941,423 |
| Gross claims liability in the statements of financial position | P242,459 | P15,107,679 | P7,640,813 | P180,893 | P141,531,917 | P430,319,255 | P48,093,858 | P5,235,328 | P6,269,508 | P76,386,282 | P54,357,490 | P326,107,769 | P1,750,602,148 | P2,871,056,197 |

At Net - 2017

| Accident Year | 2005 and Prior | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|--|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Estimate of ultimate Costs of Claims | | | | | | | | | | | | | | |
| At the end of accident year | P564,946,246 | P312,325,941 | P361,595,928 | P398,113,064 | P414,109,113 | P372,190,374 | P479,922,860 | P424,939,841 | P666,565,556 | P593,362,848 | P371,757,540 | P806,397,477 | P745,706,554 | P745,706,554 |
| One year later | 670,150,522 | 283,328,675 | 324,283,112 | 356,764,683 | 472,130,317 | 351,581,420 | 997,538,801 | 478,751,084 | 594,595,312 | 797,871,472 | 296,520,006 | 728,529,684 | - | 728,529,684 |
| Two years later | 677,024,776 | 277,957,678 | 332,700,341 | 363,501,880 | 465,845,050 | 353,518,768 | 990,902,331 | 440,452,474 | 627,522,762 | 778,560,811 | 260,287,975 | - | - | 260,287,975 |
| Three years later | 677,643,391 | 278,656,607 | 337,642,087 | 373,730,900 | 491,791,878 | 353,776,795 | 995,202,360 | 443,533,927 | 631,721,673 | 765,416,972 | - | - | - | 765,416,972 |
| Four years later | 672,717,075 | 279,648,203 | 338,856,291 | 373,853,997 | 487,467,157 | 354,021,083 | 996,346,727 | 436,967,035 | 629,886,528 | - | - | - | - | 629,886,528 |
| Five years later | 673,198,485 | 280,021,693 | 338,313,036 | 374,761,255 | 478,205,318 | 354,292,570 | 998,421,922 | 434,701,601 | - | - | - | - | - | 434,701,601 |
| Six years later | 663,680,104 | 279,998,658 | 338,356,287 | 374,374,830 | 478,557,055 | 361,969,215 | 998,837,559 | - | - | - | - | - | - | 998,837,559 |
| Seven years later | 663,186,369 | 280,482,823 | 337,964,645 | 374,415,690 | 483,092,407 | 361,997,573 | - | - | - | - | - | - | - | 361,997,573 |
| Eight years later | 663,772,473 | 280,169,962 | 338,008,039 | 374,139,554 | 482,707,457 | - | - | - | - | - | - | - | - | 482,707,457 |
| Nine years later | 663,827,883 | 280,174,509 | 337,338,428 | 365,196,836 | - | - | - | - | - | - | - | - | - | 365,196,836 |
| Ten years later | 663,854,867 | 279,318,110 | 337,303,378 | - | - | - | - | - | - | - | - | - | - | 337,303,378 |
| Eleven years later | 663,748,943 | 278,572,054 | - | - | - | - | - | - | - | - | - | - | - | 278,572,054 |
| Twelve years later | 669,974,325 | - | - | - | - | - | - | - | - | - | - | - | - | 669,974,325 |
| Current estimate of cumulative claims | 669,974,325 | 278,572,054 | 337,303,378 | 365,196,836 | 482,707,457 | 361,997,573 | 998,837,559 | 434,701,601 | 629,886,528 | 765,416,972 | 260,287,975 | 728,529,684 | 745,706,554 | 7,059,118,496 |
| Cumulative payments to date | 668,729,872 | 278,478,557 | 337,303,378 | 340,935,913 | 471,379,030 | 363,763,661 | 998,417,081 | 433,336,152 | 626,651,522 | 761,153,956 | 242,751,894 | 627,735,793 | 339,762,023 | 6,480,389,629 |
| Net claims liability in the statements of financial position | P1,244,453 | P93,497 | P - | P24,260,923 | P11,328,427 | P8,243,912 | P419,678 | P1,365,449 | P3,235,006 | P4,263,016 | P17,536,081 | P100,793,894 | P405,944,531 | P578,728,867 |

At Net - 2016

| Accident Year | 2004 and Prior | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|--|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Estimate of ultimate Costs of Claims | | | | | | | | | | | | | | |
| At the end of accident year | P315,581,556 | P249,364,691 | P312,325,941 | P361,595,928 | P398,113,064 | P414,109,113 | P372,190,374 | P479,922,860 | P424,939,841 | P666,565,556 | P593,362,848 | P371,757,540 | P806,397,477 | P806,397,477 |
| One year later | 419,025,043 | 251,125,479 | 283,328,675 | 324,283,112 | 356,764,683 | 472,130,317 | 351,581,420 | 997,538,801 | 478,751,084 | 594,595,312 | 797,871,472 | 296,520,006 | - | 296,520,006 |
| Two years later | 425,301,263 | 251,723,513 | 277,957,678 | 332,700,341 | 363,501,880 | 485,845,050 | 353,518,768 | 990,902,331 | 440,452,474 | 627,522,762 | 778,560,811 | - | - | 778,560,811 |
| Three years later | 424,737,431 | 252,905,960 | 278,656,607 | 337,642,087 | 373,730,900 | 491,791,878 | 353,776,795 | 995,202,360 | 443,533,927 | 631,721,673 | - | - | - | 631,721,673 |
| Four years later | 424,063,890 | 248,053,085 | 279,648,203 | 338,856,291 | 373,853,997 | 487,467,157 | 354,021,083 | 996,346,727 | 436,967,035 | - | - | - | - | 436,967,035 |
| Five years later | 425,149,765 | 248,048,720 | 280,021,683 | 338,313,036 | 374,761,255 | 478,205,318 | 354,292,570 | 998,421,922 | - | - | - | - | - | 998,421,922 |
| Six years later | 425,485,473 | 238,194,631 | 279,998,658 | 338,356,287 | 374,374,830 | 478,557,055 | 361,969,215 | - | - | - | - | - | - | 361,969,215 |
| Seven years later | 425,831,300 | 237,355,069 | 280,482,823 | 337,964,645 | 374,415,690 | 483,092,407 | - | - | - | - | - | - | - | 483,092,407 |
| Eight years later | 425,866,196 | 237,906,277 | 280,169,962 | 338,008,039 | 374,138,554 | - | - | - | - | - | - | - | - | 374,138,554 |
| Nine years later | 425,951,606 | 237,876,277 | 280,174,509 | 337,338,428 | - | - | - | - | - | - | - | - | - | 337,338,428 |
| Ten years later | 425,978,590 | 237,876,277 | 279,318,110 | - | - | - | - | - | - | - | - | - | - | 279,318,110 |
| Eleven years later | 425,978,590 | 237,770,353 | - | - | - | - | - | - | - | - | - | - | - | 237,770,353 |
| Twelve years later | 426,115,303 | - | - | - | - | - | - | - | - | - | - | - | - | 426,115,303 |
| Current estimate of cumulative claims | 426,115,303 | 237,770,353 | 279,318,110 | 337,338,428 | 374,138,554 | 483,092,407 | 361,969,215 | 998,421,922 | 436,967,035 | 631,721,673 | 778,560,811 | 296,520,006 | 806,397,477 | 6,446,331,294 |
| Cumulative payments to date | 425,978,590 | 222,727,788 | 278,419,493 | 337,299,250 | 341,265,254 | 471,215,953 | 353,198,744 | 996,702,172 | 433,066,439 | 624,283,147 | 760,346,723 | 226,323,978 | 373,851,080 | 5,844,711,217 |
| Net claims liability in the statements of financial position | P138,713 | P15,042,565 | P898,617 | P39,178 | P32,873,300 | P11,876,454 | P8,770,471 | P1,719,750 | P3,870,595 | P7,438,526 | P18,212,088 | P70,166,028 | P432,545,791 | P603,620,077 |

Financial Risk

The primary objective of the Company's risk management framework is to ensure the sustainable achievement of its financial performance goals and objectives.

The Company, through the quarterly BOD and the monthly Executive Committee meetings, reviews and assesses the different financial risks it is exposed to. It promptly aligns its management strategies to properly manage these risk exposures. These normally include identification of related risks and their interpretation, and setting up of appropriate limit structures to ensure the suitable quality and diversification of assets.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk (consisting of foreign currency risk, interest rate risk, and price risk). The Chief Financial Officer is tasked to identify, monitor, analyze, control, and report financial risks.

Credit Risk

Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to meet its contractual obligations. The Company is exposed to credit risk on its cash in banks, short-term placements, insurance receivables, AFS financial assets, loans and receivables, accrued income and security deposits.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to an annual review.

Guidelines on the level of credit risk are discussed and approved during weekly meetings of the Management Committee and/or monthly meetings of the Executive Committee.

With respect to investment securities, the Company ensures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer.

With regard to loans and receivables, the Company transacts only with recognized, accredited and creditworthy borrowers and counterparties. The Company's Credit and Collection Unit (CCU) manages credit exposure by ensuring that borrowers and counterparties undergo credit verification procedures and by setting standard business terms that are required to be met by all counterparties. CCU also monitors the loans and receivables on a regular basis to determine the Company's appropriate exposure to impairment losses.

The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

Maximum Credit Exposure

The table below shows the maximum exposure to credit risk for the components of the statements of financial position and items such as future commitments. The maximum exposure is shown net of allowance for impairment losses, before deducting collaterals.

| | Note | 2017 | 2016 |
|----------------------------|------|-----------------------|-----------------------|
| Cash and cash equivalents* | 7 | P195,169,084 | P171,988,549 |
| Insurance receivables | 8 | 1,054,743,942 | 574,409,042 |
| AFS financial assets** | 9 | 1,188,178,718 | 1,298,261,417 |
| Loans and receivables | 10 | 100,953,030 | 148,517,981 |
| Accrued income | 11 | 15,429,575 | 30,309,988 |
| Security deposits*** | 18 | 9,569,551 | 9,608,450 |
| | | P2,564,043,900 | P2,233,095,427 |

* Excluding cash on hand

** Excluding equity securities

*** Included under "Other assets" account

Credit Quality of Financial Assets

The tables below provide information of the credit quality of the Company's financial assets that are neither past due nor impaired.

a) Cash and Cash Equivalents and AFS Financial Assets

The Company uses Philippine Rating Services Corporation (Phil Ratings) credit rating to present credit quality of cash and cash equivalents and AFS financial assets that are neither past due nor impaired as at December 31, 2017 and 2016.

PRS Aaa. This rating has a smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is secured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

PRS Ba. This rating is judged to have speculative elements. The issuer's capability to pay for such issues cannot be considered as well as assured. Often, the protection of interest and principal payments may be very moderate and thereby not well safeguarded during good and bad times over the future.

PRS B. This rating generally lacks characteristics of a desirable investment. Assurance of interest and principal payments or maintenance of other terms of contract over any long period of time may be small.

| | 2017 | | | | Total |
|-----------------------------------|---------------------|---------------------|----------|---------------------|-----------------------|
| | PRS Aaa | PRS Ba | PRS B | Not Rated | |
| Cash and cash equivalents: | | | | | |
| Cash in banks | P - | P - | P - | P151,127,296 | P151,127,296 |
| Short-term deposits | - | - | - | 44,041,788 | 44,041,788 |
| AFS financial assets: | | | | | |
| Government securities: | | | | | |
| Local currency | - | 602,068,816* | - | - | 602,068,816 |
| Bonds and notes: | | | | | |
| Local currency | 487,028,282 | - | - | 99,081,620 | 586,109,902 |
| Total Credit Risk Exposure | P487,028,282 | P602,068,816 | - | P294,250,704 | P1,383,347,802 |

*The credit ratings are the equivalent to Moody's specific issue credit rating for the same debt securities as at December 31, 2017.

| | 2016 | | | | Total |
|-----------------------------------|---------------------|---------------------|------------|---------------------|-----------------------|
| | PRS Aaa | PRS Ba | PRS B | Not Rated | |
| Cash and cash equivalents: | | | | | |
| Cash in banks | P - | P - | P - | P102,100,987 | P102,100,987 |
| Short-term deposits | - | - | - | 69,887,562 | 69,887,562 |
| AFS financial assets: | | | | | |
| Government securities: | | | | | |
| Local currency | - | 663,830,585* | - | - | 663,830,585 |
| Bonds and notes: | | | | | |
| Local currency | 500,241,785 | - | - | 98,552,492 | 598,794,277 |
| Foreign currency | - | - | - | 35,636,555 | 35,636,555 |
| Total Credit Risk Exposure | P500,241,785 | P663,830,585 | P - | P306,177,596 | P1,470,249,966 |

*The credit ratings are the equivalent to Moody's specific issue credit rating for the same debt securities as at December 31, 2016.

The Company's cash in banks and short-term placements are placed, invested, or deposited in foreign and local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability.

Bonds and notes that fall under the 'Not Rated column' includes long-term debt securities issued by local and multinational corporations belonging to the top fifty (50) corporations in the Philippines in terms of resources and profitability.

b) *Insurance Receivable, Loans and Receivable, Accrued Income and Security Deposits*

The Company uses the following credit rating to provides information on the credit quality of insurance receivables, loans and receivables, accrued income and security deposits that are neither past due nor impaired as at December 31 based on the borrowers and counterparties' overall creditworthiness as follows:

Grade A - This rating class is given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations.

Grade B - This rating class is given to borrowers and counterparties who possess above average capacity to meet its obligations. These counterparties are somewhat susceptible to adverse changes in business and economic conditions.

Grade C - This rating class is given to borrowers and counterparties who possess average capacity to meet its obligations. These borrowers and counterparties are more likely to have a significant deterioration of its capacity during adverse business and economic conditions relative to Classes A and B.

The above credit ratings are determined by considering the borrower and counterparty's credit payment history and financial condition with strong consideration given to cash flows, working capital and net worth.

| | 2017 | | | | Past Due and Impaired | Total |
|--|--------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Grade A | Grade B | Grade C | Total | | |
| Insurance receivables: | | | | | | |
| Premiums receivable | P - | P - | P794,481,297 | P794,481,297 | P52,155,970 | P846,637,267 |
| Due from brokers | - | - | 101,335,191 | 101,335,191 | 4,964,194 | 106,299,385 |
| Due from ceding companies | - | - | 8,763,355 | 8,763,355 | 3,238,306 | 12,001,661 |
| Reinsurance recoverable on paid losses | - | - | 150,164,099 | 150,164,099 | 10,542,293 | 160,706,392 |
| Loans and receivables: | | | | | | |
| Accounts receivable | - | 86,516,067 | - | 86,516,067 | 20,509,186 | 107,025,253 |
| Short-term investments | - | 1,873,167 | - | 1,873,167 | - | 1,873,167 |
| Car financing loans | 9,168,207 | - | - | 9,168,207 | - | 9,168,207 |
| Mortgage loans | 3,395,589 | - | - | 3,395,589 | - | 3,395,589 |
| Accrued income: | | | | | | |
| Accrued interest income | - | 12,517,132 | - | 12,517,132 | - | 12,517,132 |
| Accrued dividend income | - | 2,583,333 | - | 2,583,333 | - | 2,583,333 |
| Accrued rent | - | - | 329,110 | 329,110 | - | 329,110 |
| Security deposits* | - | - | 9,569,551 | 9,569,551 | - | 9,569,551 |
| Total | P12,563,796 | P103,489,699 | P1,064,842,603 | P1,180,696,098 | P91,409,949 | P1,272,105,047 |

*Presented under "Other assets" account

| | 2016 | | | | Past Due and Impaired | Total |
|--|--------------------|---------------------|---------------------|---------------------|-----------------------|---------------------|
| | Grade A | Grade B | Grade C | Total | | |
| Insurance receivables: | | | | | | |
| Premiums receivable | P - | P - | P327,894,881 | P327,894,881 | P66,766,036 | P394,659,917 |
| Due from brokers | - | - | 129,039,488 | 129,039,488 | 5,006,697 | 134,046,185 |
| Due from ceding companies | - | - | 8,819,630 | 8,819,630 | 3,376,790 | 12,196,420 |
| Reinsurance recoverable on paid losses | - | - | 108,655,043 | 108,655,043 | 9,403,806 | 118,058,852 |
| Loans and receivables: | | | | | | |
| Accounts receivable | - | 106,053,216 | - | 106,053,216 | 25,068,510 | 131,121,726 |
| Short-term investments | - | 7,339,170 | - | 7,339,170 | - | 7,339,170 |
| Car financing loans | 14,680,298 | - | - | 14,680,298 | - | 14,680,298 |
| Mortgage loans | 7,445,297 | - | - | 7,445,297 | - | 7,445,297 |
| Long-term investments | - | 10,000,000 | - | 10,000,000 | - | 10,000,000 |
| Accrued income: | | | | | | |
| Accrued interest income | - | 27,397,545 | - | 27,397,545 | - | 27,397,545 |
| Accrued dividend income | - | 2,583,333 | - | 2,583,333 | - | 2,583,333 |
| Accrued rent | - | - | 329,110 | 329,110 | - | 329,110 |
| Security deposits* | - | - | 9,608,450 | 9,608,450 | - | 9,608,450 |
| Total | P22,125,565 | P156,373,264 | P584,346,602 | P762,845,461 | P109,843,842 | P872,489,303 |

*Presented under "Other assets" account

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as at December 31, 2017 and 2016.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its contractual obligations and commitments. The major liquidity risk confronting the Company is the daily cash calls on its available cash resources with respect to claims arising from insurance contracts.

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

On May 28, 2015, the BOD authorized and approved the establishment and renewal of the Company's credit line facilities with the Bank of the Philippine Islands (BPI) as follows:

- Establishment of Foreign Exchange Line amounting to \$2,500,000;
- Renewal of Bills Purchase Line amounting to P50,000,000; and
- Renewal of Corporate Guarantee Line amounting P10,000,000

As at December 31, the Company's financial assets and liabilities have contractual maturities which are presented below:

| | 2017 | | | | Total |
|-------------------------------|-------------------------|---------------------|---------------------|---------------------|---------------------|
| | On Demand | 1 to 3 Years | 4 to 5 Years | More than 5 Years | |
| Financial Assets | | | | | |
| Cash and cash equivalents | P195,348,862 | P - | P - | P - | P195,348,862 |
| Insurance receivables - net | 1,054,743,942 | - | - | - | 1,054,743,942 |
| AFS financial assets | 207,675,129 | 111,555,669 | 296,166,466 | 822,295,610 | 1,347,692,874 |
| Loans and receivables - net | 90,722,932 | 6,104,837 | 2,525,506 | 1,599,755 | 100,953,030 |
| Accrued income | 15,429,575 | - | - | - | 15,429,575 |
| Security deposits | 9,569,551 | - | - | - | 9,569,551 |
| | 1,573,489,991 | 117,660,506 | 208,691,972 | 823,895,365 | 2,723,737,834 |
| Financial Liabilities | | | | | |
| Provision for claims reported | 1,537,425,338 | - | - | - | 1,537,425,338 |
| Insurance payables | 733,970,956 | - | - | - | 733,970,956 |
| Trade and other liabilities* | 346,065,313 | - | - | - | 346,065,313 |
| | 2,617,461,607 | - | - | - | 2,617,461,607 |
| Net Liquidity | (P1,043,971,616) | P117,860,506 | P208,691,972 | P823,895,365 | P106,276,227 |

*Excluding payable to regulatory agencies

| | 2016 | | | | Total |
|-------------------------------|-------------------------|--------------------|---------------------|---------------------|---------------------|
| | On Demand | 1 to 3 Years | 4 to 5 Years | More than 5 Years | |
| Financial Assets | | | | | |
| Cash and cash equivalents | P172,368,327 | P - | P - | P - | P 172,368,327 |
| Insurance receivables - net | 574,409,042 | - | - | - | 574,409,042 |
| AFS financial assets | 226,988,529 | 30,453,348 | 326,053,028 | 893,640,446 | 1,477,135,351 |
| Loans and receivables - net | 126,734,763 | 6,095,287 | 10,353,662 | 5,334,289 | 148,517,981 |
| Accrued income | 30,309,988 | - | - | - | 30,309,988 |
| Security deposits | 9,608,450 | - | - | - | 9,608,450 |
| | 1,140,419,099 | 36,548,615 | 336,406,690 | 898,974,735 | 2,412,349,139 |
| Financial Liabilities | | | | | |
| Provision for claims reported | 1,610,462,276 | - | - | - | 1,610,462,276 |
| Insurance payables | 318,683,006 | - | - | - | 318,683,006 |
| Trade and other liabilities* | 351,701,199 | - | - | - | 351,701,199 |
| | 2,280,846,481 | - | - | - | 2,280,846,481 |
| Net Liquidity | (P1,140,427,382) | P36,548,615 | P336,406,690 | P898,974,735 | P131,502,656 |

*Excluding payable to regulatory agencies

Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (foreign currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in prices is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Increasing market fluctuations may result in significant impact on the Company's equity, cash flows and profit.

The Company manages market risk exposures by setting up limits structures and by promulgating specific investment guidelines and strategies (e.g., investing only in high grade securities and only with reputable foreign reinsurers). The Company only invests in financial institutions or corporate entities with acceptable ratings from domestic and international credit rating agencies, or is at least within the top 10 rank in case of banks. The Company also ensures that its investments shall comply with the guidelines and requirements set out by the IC.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's principal transactions are carried out in Philippine Peso (PHP) and its exposure to foreign currency risk arise primarily with respect to the Company's dealings with foreign reinsurers in its settlement of obligations and receipt of any claim reimbursements, which is denominated in US Dollars (USD).

The table below summarizes the Company's exposure to currency risk on foreign currency denominated financial assets and their PHP equivalents as follows:

| | 2017 | |
|---------------------------|-------------|--------------|
| | USD | PHP |
| Cash and cash equivalents | \$1,010,836 | P50,521,583 |
| Accounts payable | (521,658) | (26,072,444) |
| | \$489,178 | P24,449,139 |
| | 2016 | |
| | USD | PHP |
| Cash and cash equivalents | \$188,837 | P9,407,859 |
| AFS financial assets: | | |
| Bonds and notes | 715,378 | 35,640,132 |
| Accrued interest income | 10,761 | 536,113 |
| Accounts payable | (958,015) | (47,728,316) |
| | (\$43,039) | (P2,144,212) |

The table below lists down the exchange rates per P1.00 from Philippine Dealing and Exchange Corporation in translating foreign currency-denominated financial assets into USD amounts as at December 31, 2017 and 2016. Translation differences are due to rounding off of foreign exchange rates used.

| | 2017 | 2016 |
|-----|-------|-------|
| USD | 49.98 | 49.82 |

As at December 31, 2017 and 2016, the Company has no foreign currency-denominated financial liabilities.

The following table shows the sensitivity to a reasonably possible change in US dollar exchange rate, with all other variables held constant of the Company's income before income tax.

| | Change in USD Exchange Rate | Effect on Income Before Income Tax | |
|------|-----------------------------|------------------------------------|-----------|
| | | Effect on Equity | |
| 2017 | +5.00% | P1,222,457 | P855,720 |
| | -5.00% | (1,222,457) | (855,720) |
| 2016 | +5.00% | 107,211 | 75,047 |
| | -5.00% | (107,211) | (75,047) |

The Company determined the reasonably possible change in foreign currency using the one year volatility of the USD and PHP as this will best represent the movement in foreign exchange rate until the next reporting date.

There is no other impact on the Company's equity other than those already affecting profit or loss.

Interest Rate Risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates since its interest bearing AFS debt securities have fixed interest rates.

The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration on the maturity profile.

The following table shows the information relating to the financial assets that are exposed to fair value interest rate risk presented by maturity profile:

| | 2017 | | | | |
|----------------------------|-------------------------|--------------|--------------|--------------|----------------|
| | Range of Interest Rates | 1 - 3 Years | 4 - 5 Years | Over 5 Years | Total |
| AFS Debt Securities | | | | | |
| Government debt securities | 3.38% - 11.25% | P68,931,358 | P24,579,549 | P518,557,909 | P602,068,816 |
| Bonds and notes | 3.92% - 6.94% | 100,795,284 | 181,586,918 | 303,737,700 | 585,109,902 |
| | | P169,716,642 | P206,166,467 | P822,295,609 | P1,188,178,718 |
| | 2016 | | | | |
| | Range of Interest Rates | 1 - 3 Years | 4 - 5 Years | Over 5 Years | Total |
| AFS Debt Securities | | | | | |
| Government debt securities | 3.38% - 11.25% | P69,448,382 | P - | P594,382,203 | P663,830,585 |
| Bonds and notes | 4.47% - 6.94% | 186,153,861 | 185,773,862 | 262,503,109 | 634,430,832 |
| | | P255,602,243 | P185,773,862 | P856,885,312 | P1,298,261,417 |

Any increase by 100 basis points (1%) in interest rates, with all other variables held constant, will increase income before income tax by P11.88 million and P12.98 million for the years ended December 31, 2017 and 2016, respectively. The decrease in same basis points will reduce the income before income tax by the same amount.

In 2017 and 2016, the Company determined the reasonably possible change in interest rate based on the historical change in weighted average yield rates of outstanding investments of the Company.

Equity Price Risk

Equity price risk is the risk that future cash flows will fluctuate because of changes in market prices of individual stocks and the changes in the level of Philippine Stock Exchange index (PSEi).

The Company's equity price risk exposure relates to quoted equity shares classified as AFS financial assets.

The table below shows the income before income tax impact of reasonably possible change of PSEi as at December 31, 2017 and 2016.

| | Change in Equity Prices | Effect in Equity |
|------|-------------------------|------------------|
| 2017 | 5.00% | P7,398,308 |
| | -5.00% | (7,398,308) |
| 2016 | 5.00% | 7,706,947 |
| | -5.00% | (7,706,947) |

On the assumption that an increase of 5% on the price of the investments in 2017 and in 2016, equity would increase by P7.40 million and Php7.71 million, respectively. A 5% decrease in price in 2017 and 2016, respectively, would have an equal but opposite effect. This assumes that all the variables are held constant and all the Company's equity instruments moved according to the historical correlation with the index.

6. Fair Value Measurement

Financial Instruments

The carrying amount of the Company's financial instruments such as cash and cash equivalents (excluding cash on hand), insurance receivables, loans and receivables, accrued income, provision for claims reported (included under "Insurance contract liabilities" account), insurance payable and trade and other payables (excluding government payables), approximate their fair values at each reporting date due to the relatively short-term maturities of these financial assets and financial liabilities.

The carrying amount of refundable security deposits (included under "Other assets" account) approximates fair value at year end. The management believes that the effect of discounting and future cash flows of this instrument using the prevailing market rate is not significant.

AFS financial assets is measured at fair value. The fair values of quoted equity and debt securities were determined by reference to quoted market prices published by Philippine Stock Exchange (PSE) and Philippine Dealings and Exchange Corporation (PDEX), respectively.

If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. The market price reference in determining the market values of the Company's debt securities is derived from PDEX as at December 29, 2017 and 2016.

Investments in unquoted equity instruments for which no reliable basis for fair value measurement is available are carried at cost, net of any allowance for impairment losses.

The Company has no foreign currency placements as at December 31, 2017.

Interest income earned on cash and cash equivalents amounted to P0.40 million and P0.60 million in 2017 and 2016, respectively (see Note 25). Accrued interest income amounted to P34,750 and P111,911 as at December 31, 2017 and 2016, respectively (see Note 11).

8. Insurance Receivables - net

As at December 31, this account consists of:

| | Note | 2017 | 2016 |
|---|------|-----------------------|---------------------|
| Premiums receivable: | | | |
| Third parties | | P827,019,418 | P391,942,405 |
| Related parties | 31 | 19,617,849 | 2,717,512 |
| Due from brokers | | 106,299,385 | 134,048,185 |
| Due from ceding companies | | 12,001,661 | 12,196,420 |
| Reinsurance recoverable on paid losses: | | | |
| Related parties | 31 | 19,617,849 | 2,717,512 |
| Third parties | | 141,088,543 | 115,341,340 |
| | | 1,125,644,705 | 658,963,374 |
| Less allowance for impairment losses | | 70,900,763 | 84,554,332 |
| | | P1,054,743,942 | P574,409,042 |

Premiums receivable and due from brokers pertain to amounts receivable from agents and brokers, respectively, for policy issuances of the Company. Normal credit term of these receivables is 30-90 days.

Due from ceding companies pertains to amounts receivable from facultative and treaty reinsurance panels of the Company.

Reinsurance recoverable on paid losses pertains to amounts recoverable from the reinsurers in respect of claims already paid by the Company.

As at December 31, the aging of insurance receivables are as follows:

| | 2017 | | | | | | | Total |
|--|---------------------|--------------------|--------------------|--------------------|--------------------|---------------------|-----------------------|-------|
| | < 30 Days | 31 to 60 Days | 61 to 90 Days | 91 to 180 Days | 181 to 360 Days | Over 360 Days | | |
| Premiums receivable | P638,385,497 | P35,832,947 | P20,336,792 | P36,288,554 | P41,103,950 | P76,688,527 | P846,537,267 | |
| Due from brokers | 25,313,682 | 8,273,046 | 5,815,087 | 18,838,383 | 16,440,836 | 31,818,552 | 106,299,385 | |
| Due from ceding companies | 2,048,873 | 389,564 | 274,107 | 1,289,591 | 1,457,948 | 6,541,578 | 12,001,661 | |
| Reinsurance recoverable on paid losses | 136,306,797 | 4,167,837 | 4,324,306 | 1,761,598 | 913,651 | 13,232,204 | 160,706,392 | |
| | P800,054,848 | P48,663,394 | P30,750,291 | P58,178,126 | P58,916,184 | P128,981,861 | P1,125,644,705 | |

| | 2016 | | | | | | | Total |
|--|---------------------|--------------------|--------------------|---------------------|---------------------|--------------------|---------------------|-------|
| | < 30 Days | 31 to 60 Days | 61 to 90 Days | 91 to 180 Days | 181 to 360 Days | Over 360 Days | | |
| Premiums receivable | P91,470,529 | P82,880,787 | P59,593,993 | P 96,032,064 | P 82,682,524 | P - | P394,659,917 | |
| Due from brokers | 22,676,832 | 29,995,206 | 13,826,836 | 34,503,980 | 32,948,529 | - | 134,048,185 | |
| Due from ceding companies | 422,817 | 152,194 | 338,711 | 1,521,065 | 4,850,381 | 4,911,262 | 12,196,420 | |
| Reinsurance recoverable on paid losses | 82,596,057 | 8,511 | 121,481 | 710,598 | 670,113 | P23,951,722 | 118,058,852 | |
| | P207,165,235 | P93,036,700 | P73,880,801 | P134,868,117 | P121,149,547 | P28,862,974 | P658,963,374 | |

The reconciliation of allowance for impairment losses on insurance receivables is as follows:

| | Note | Premiums Receivable | Due from Brokers | Due from Ceding Companies | Reinsurance Recoverable on Paid Losses | Total |
|--|------|---------------------|-------------------|---------------------------|--|--------------------|
| January 1, 2017 | | P66,765,036 | P5,008,697 | P3,376,790 | P9,403,809 | P84,554,332 |
| Provision for (reversal of) impairment losses for the year | 26 | (14,609,066) | (44,503) | 200,000 | 800,000 | (13,653,569) |
| December 31, 2017 | | P52,155,970 | P4,964,194 | P3,576,790 | P10,203,809 | P70,900,763 |
| Individually impaired | | P8,315,578 | P2,483,111 | P3,576,790 | P10,203,809 | P13,780,599 |
| Collectively impaired | | 43,840,292 | 2,481,083 | - | - | 57,120,164 |
| | | P52,155,970 | P4,964,194 | P3,576,790 | P10,203,809 | P70,900,763 |

| | Note | Premiums Receivable | Due from Brokers | Due from Ceding Companies | Reinsurance Recoverable on Paid Losses | Total |
|--|------|---------------------|-------------------|---------------------------|--|--------------------|
| January 1, 2016 | | P17,460,315 | P1,007,687 | P3,257,681 | P3,625,180 | P25,350,863 |
| Provision for impairment losses for the year | 26 | 49,304,721 | 4,001,010 | 119,109 | 5,778,629 | 59,203,469 |
| December 31, 2016 | | P66,765,036 | P5,008,697 | P3,376,790 | P9,403,809 | P84,554,332 |
| Individually impaired | | P - | P - | P3,376,790 | P9,403,809 | P12,780,599 |
| Collectively impaired | | 66,765,036 | 5,008,697 | - | - | 71,773,733 |
| | | P66,765,036 | P5,008,697 | P3,376,790 | P9,403,809 | P84,554,332 |

9. AFS Financial Assets

As at December 31, this account consists of:

| | 2017 | 2016 |
|---------------------------------|-----------------------|-----------------------|
| Securities at Fair Value | | |
| Equity securities: | | |
| Listed | P147,966,156 | P154,138,934 |
| Unlisted | 11,548,000 | 24,735,000 |
| | 159,514,156 | 178,873,934 |
| Government debt securities: | | |
| Local currency | 602,068,816 | 663,830,585 |
| Bonds and notes: | | |
| Local currency | 586,109,902 | 598,794,277 |
| Foreign currency | - | 35,636,555 |
| | 1,188,178,718 | 1,298,261,417 |
| | P1,347,692,874 | P1,477,135,351 |

The cost or amortized cost of AFS financial assets as at December 31 is as follows:

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Securities at Cost or Amortized Cost | | |
| Equity securities: | | |
| Listed | P170,231,581 | P177,004,547 |
| Unlisted | 6,914,772 | 15,885,097 |
| | 177,146,353 | 192,889,644 |
| Government debt securities: | | |
| Local currency | 587,691,223 | 595,590,290 |
| Bonds and notes: | | |
| Local currency | 589,631,626 | 590,652,753 |
| Foreign currency | - | 28,319,756 |
| | 1,177,322,849 | 1,214,562,799 |
| | P1,354,469,202 | P1,407,452,443 |

The breakdown of investments in bonds, government and other securities by contractual maturity dates as at December 31, classified under AFS financial assets is as follows:

| | 2017 | | |
|----------------------------|---------------------|-----------------------|-----------------------|
| | Due Within One Year | Due Beyond One Year | Total |
| Government debt securities | P - | P602,068,816 | P602,068,816 |
| Bonds and notes | 48,160,973 | 537,948,929 | 586,109,902 |
| | P48,160,973 | P1,140,017,745 | P1,188,178,718 |

| | 2016 | | |
|----------------------------|---------------------|-----------------------|-----------------------|
| | Due Within One Year | Due Beyond One Year | Total |
| Government debt securities | P10,279,319 | P653,551,266 | P663,830,585 |
| Bonds and notes | 35,636,555 | 598,794,277 | 634,430,832 |
| | P45,915,874 | P1,252,345,543 | P1,298,261,417 |

In 2017 and 2016, the Company recognized interest income amounting to P60.36 million and P75.35 million, respectively, with annual interest rates ranging from 3.38% to 11.25% (see Note 25).

As at December 31, 2017 and 2016, government securities amounting to P137.50 million are deposited with the IC in accordance with the provisions of the Amended Insurance Code as security for the benefit of policyholders and creditors of the Company.

As at December 31, the reconciliation of AFS financial assets is as follows:

| | Note | 2017 | 2016 |
|-------------------------------|------|-----------------------|-----------------------|
| Balance at beginning of year | | P1,477,135,351 | P1,464,822,023 |
| Additions | | 155,755,511 | 331,483,914 |
| Disposals and maturities | | (208,757,460) | (293,616,181) |
| Fair value loss: | | | |
| Reported as OCI | | (26,341,817) | (2,510,296) |
| Transferred to profit or loss | 25 | (50,098,711) | (23,044,109) |
| Balance at end of year | | P1,347,692,874 | P1,477,135,351 |

The rollforward of revaluation reserves on AFS financial assets is as follows:

| | Note | 2017 | 2016 |
|---|------|---------------------|---------------------|
| Balance at beginning of year | | P69,650,082 | P95,237,313 |
| Movements: | | | |
| Net change in fair value reported in OCI | | (26,341,817) | (2,510,296) |
| Net change in fair value reclassified to profit or loss | 25 | (50,098,711) | (23,044,109) |
| Income tax effect | | 224,921 | (32,826) |
| | | (76,215,607) | (25,587,231) |
| Balance at end of year | | (P6,565,525) | P69,650,082 |

The effect on actual earnings of changes in fair value of equity securities will depend on the market prices of these investments at the time of sale. In 2017 and 2016, the Company's realized gain on sale of equity securities amounted to P50.10 million and P23.04 million, respectively (see Note 25).

Dividend income earned from these investments amounted to P8.25 million and P9.26 million in 2017 and 2016, respectively (see Note 25).

10. Loans and Receivables - net

Loans and receivables consists of:

| | Note | 2017 | 2016 |
|--------------------------------------|------|---------------------|---------------------|
| Accounts receivable: | | | |
| Third parties | | P90,741,376 | P58,358,533 |
| Related parties | 31 | 16,283,877 | 75,784,193 |
| Short-term investments | | 1,873,167 | 7,339,170 |
| Car financing loans | | 9,168,207 | 14,680,298 |
| Mortgage loans | | 3,395,589 | 7,445,297 |
| Long-term investment | | - | 10,000,000 |
| | | 121,462,216 | 173,607,491 |
| Less allowance for impairment losses | | 20,509,186 | 25,089,510 |
| | | P100,953,030 | P148,517,981 |

Accounts receivable are non-interest bearing and due within one year. The Company does not require collateral in respect of accounts receivable.

As at December 31, 2017 and 2016, the Company recognized receivable from Retirement Plan amounting to P13.04 million and P7.62 million, respectively, under Accounts receivable for the retirement benefits to its employees paid in advance by the Company.

Short-term investments pertain to time deposits and special savings with maturity of over 90 days but less than 1 year with interest rate of 1.00% in 2017 and from 1.00% to 1.25% in 2016.

Car financing and mortgage loans earn interest at rates ranging from 1.00% to 9.00% per annum and with maturities of two (2) to twenty five (25) years. Loans granted are subject to retention of title clauses, so that in the event of non-payment, the Company may have a secured claim.

Long-term investments pertain to time deposits with maturity of ten (10) years with interest rate of 10.00% in 2017 and 2016. Long-term investment matured on April 26, 2017.

The reconciliation of allowance for impairment losses on loans and receivables is as follows:

| | Note | 2017 | 2016 |
|--|------|-------------|-------------|
| Balance at beginning of year | | P25,089,510 | P3,849,528 |
| Provision for (reversal of) impairment losses for the year | 26 | (4,580,324) | 21,239,982 |
| Balance at end of year | | P20,509,186 | P25,089,510 |

The breakdown of loans and receivables by contractual maturity dates as at December 31 is as follows:

| | 2017 | | | | Total |
|------------------------|--------------|-------------|-------------|--------------|--------------|
| | Up to a Year | 1 - 3 Years | 3 - 5 Years | Over 5 Years | |
| Accounts receivable | P107,025,253 | P - | P - | P - | P107,025,253 |
| Short-term investments | 1,873,167 | - | - | - | 1,873,167 |
| Car financing loans | 1,241,417 | 6,104,837 | 1,821,953 | - | 9,168,207 |
| Mortgage loans | 1,092,281 | - | 703,553 | 1,599,755 | 3,395,589 |
| | P111,232,118 | P6,104,837 | P2,525,506 | P1,599,755 | P121,462,215 |

| | 2016 | | | | Total |
|------------------------|--------------|-------------|-------------|--------------|--------------|
| | Up to a Year | 1 - 3 Years | 3 - 5 Years | Over 5 Years | |
| Accounts receivable | P134,142,728 | P - | P - | P - | P134,142,728 |
| Short-term investments | 7,339,170 | - | - | - | 7,339,170 |
| Car financing loans | 208,049 | 4,937,905 | 9,534,344 | - | 14,680,298 |
| Mortgage loans | 134,328 | 1,157,362 | 819,318 | 5,334,269 | 7,445,297 |
| Long-term investment | 10,000,000 | - | - | - | 10,000,000 |
| | P151,824,273 | P6,095,267 | P10,353,662 | P5,334,269 | P173,607,491 |

Interest income earned from loans and receivables are as follows:

| | Note | 2017 | 2016 |
|-----------------------|------|------------|------------|
| Accounts receivable | | P1,475,038 | P4,369,450 |
| Short-term investment | | 974,287 | 1,178,577 |
| Mortgage loans | | 719,202 | 627,631 |
| Long-term investment | | 317,547 | - |
| Car financing loans | | 313,954 | 953,940 |
| | 25 | P3,800,028 | P7,129,598 |

11. Accrued Income

As at December 31, this account consists of:

| | 2017 | 2016 |
|-------------------------|-------------|-------------|
| Accrued interest income | P12,517,132 | P27,397,545 |
| Accrued dividends | 2,583,333 | 2,583,333 |
| Accrued rent | 329,110 | 329,110 |
| | P15,429,575 | P30,309,988 |

Accrued interest income pertains mainly to interest accrued arising from cash equivalents, long-term investments, and debt securities under AFS financial assets.

Accrued dividends pertain to dividends accruing from its investments in preferred shares classified under "AFS financial assets" account in the statements of financial position. The preferred shares earned dividends of 8.00% in 2017 and 2016.

12. Reinsurance Assets

As at December 31, this account consists of:

| | Note | 2017 | 2016 |
|--|------|----------------|----------------|
| Reinsurance recoverable on unpaid losses | | P1,074,639,777 | P2,267,436,120 |
| Reinsurance premiums reserve | | 448,666,639 | 128,668,933 |
| | 19 | P1,523,306,416 | P2,396,105,053 |

Reinsurance recoverable on unpaid losses pertains to amount recoverable from reinsurers under treaty and facultative agreements as their share in unpaid losses and loss adjustments expense net of salvage or recoveries. This also includes reinsurer's share on claims in respect of claims events that have occurred but have not been reported to the Company as of the valuation date.

13. Deferred Acquisition Costs and Deferred Reinsurance Commissions

As at December 31, the reconciliation of deferred acquisition costs is as follows:

| | 2017 | 2016 |
|----------------------------------|---------------|---------------|
| Balance at beginning of year | P234,333,039 | P233,747,708 |
| Commission expense for the year | 434,641,637 | 455,261,169 |
| Commission incurred for the year | (440,912,406) | (454,675,838) |
| Balance at end of year | P228,062,270 | P234,333,039 |

As at December 31, the reconciliation of deferred reinsurance commissions is as follows:

| | 2017 | 2016 |
|--|--------------|--------------|
| Balance at beginning of year | P31,066,198 | P29,531,572 |
| Reinsurance commission for the year | 91,841,930 | 77,673,758 |
| Reinsurance commission earned for the year | (84,271,551) | (76,139,132) |
| Balance at end of year | P38,636,577 | P31,066,198 |

14. Property and Equipment - net

As at December 31, the rollforward of property and equipment is as follows:

| Note | 2017 | | | | | Total |
|---|------------------------------------|--------------------------------|--------------------------|------------------------|--------------|-------|
| | Building and Building Improvements | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | | |
| Cost | | | | | | |
| January 1, 2017 | P223,204,444 | P100,491,033 | P32,020,188 | P48,873,351 | P404,589,016 | |
| Additions | - | 6,487,230 | 8,417,635 | 821,839 | 13,726,704 | |
| Disposals | - | (76,575) | (3,034,467) | - | (3,111,442) | |
| December 31, 2017 | 223,204,444 | 106,901,288 | 35,403,356 | 49,695,190 | 415,204,278 | |
| Accumulated Depreciation and Amortization | | | | | | |
| January 1, 2017 | 43,681,675 | 65,723,149 | 13,279,335 | 35,399,113 | 158,083,272 | |
| Depreciation and amortization | 26 | 10,830,345 | 15,434,704 | 8,124,414 | 40,642,725 | |
| Disposals | - | (65,376) | (823,425) | - | (888,801) | |
| December 31, 2017 | 54,312,020 | 81,092,477 | 18,909,172 | 43,523,527 | 197,837,196 | |
| Carrying Amount as at December 31, 2017 | P168,892,424 | P25,808,811 | P16,494,184 | P6,171,663 | P217,367,082 | |

| Note | 2016 | | | | | Total |
|---|--------------------------|------------------------------------|--------------------------------|--------------------------|------------------------|--------------|
| | Construction in Progress | Building and Building Improvements | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | |
| Cost | | | | | | |
| January 1, 2016 | P18,351,533 | P228,606,518 | P136,534,015 | P44,203,424 | P66,463,230 | P493,178,030 |
| Additions | - | 3,686,114 | 17,607,849 | 6,787,138 | 1,277,161 | 29,657,262 |
| Reclassifications | 16 | (18,351,533) | (45,879,944) | 208,357 | 426,536 | (45,679,944) |
| Disposals | - | (27,085,828) | (5,571,787) | (19,175,741) | (19,313,579) | (72,246,932) |
| December 31, 2016 | - | 223,204,444 | 100,491,033 | 32,020,188 | 48,873,351 | 404,589,016 |
| Accumulated Depreciation and Amortization | | | | | | |
| January 1, 2016 | - | 56,930,650 | 74,616,487 | 23,830,572 | 44,884,649 | 200,082,358 |
| Depreciation and amortization | 25 | - | 9,368,553 | 17,054,675 | 7,476,342 | 33,868,123 |
| Reclassifications | 15 | - | - | (20,193,484) | - | (20,193,484) |
| Disposals | - | (22,645,528) | (5,754,529) | (17,827,579) | (19,313,579) | (65,541,211) |
| December 31, 2016 | - | 43,681,675 | 65,723,149 | 13,279,335 | 35,399,113 | 158,083,272 |
| Carrying Amount as at December 31, 2016 | P - | P179,522,769 | P34,767,884 | P18,740,853 | P13,474,238 | P246,506,744 |

As at December 31, 2017 and 2016, fully depreciated property and equipment amounted to P82.15 million and P14.00 million, respectively.

In 2017 and 2016, the Company disposed property and equipment with carrying amount of amounting to P2.22 million and P7.01 million which resulted to P0.07 million and P1.44 million net loss on sale, respectively.

Items with a carrying amount of P25.49 million and previously classified as property and equipment were reclassified in 2016 to intangible assets to properly classify costs related to the Company's new insurance production system (see Note 16).

15. Investment Properties - net

As at December 31, the rollforward of investment properties is as follows:

| Note | 2017 | 2016 |
|------------------------------|-------------|-------------|
| Cost | P21,742,307 | P21,742,307 |
| Accumulated Depreciation | | |
| Balance at beginning of year | 6,026,115 | 5,663,752 |
| Depreciation for the year | 26 | 434,846 |
| Balance at end of year | 6,460,961 | 6,026,115 |
| Carrying Amount | P15,281,346 | P15,716,192 |

The Company's investment properties represent condominium units that the Company holds for lease.

As at December 31, 2017 and 2016, the fair value of investment properties amounted to P17.77 million and P17.55 million, respectively, based on the latest appraisal report determined by independent professionally qualified appraisers dated April 5, 2018 and January 12, 2017, respectively.

The value of the properties was arrived at using the market approach. In this approach, the value of the properties was based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the 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 properties. The comparison was premised on the factors of time, unit area or size, building age, unit improvements, building location, building age, building features or amenities, bargaining allowance, and others.

Rental income earned from investment properties amounted to P2.62 million and P2.49 million in 2017 and 2016, respectively (see Note 25 and 32).

Related direct operating expenses amounted to P0.43 million and P0.36 million in 2017 and 2016, respectively.

16. Intangible Assets - net

As at December 31, the rollforward of intangible assets is as follows:

| | Note | 2017 | 2016 |
|---|------|--------------|--------------|
| Cost | | | |
| Balance at beginning of year | | P132,607,331 | P45,144,455 |
| Additions | | 34,408,639 | 50,590,413 |
| Reclassification from property, plant and equipment | 14 | - | 45,679,944 |
| Disposals | | - | (8,807,481) |
| Balance at end of year | | 167,015,970 | 132,607,331 |
| Accumulated Amortization | | | |
| Balance at beginning of year | | 30,547,406 | - |
| Amortization | 26 | 18,745,636 | 17,403,457 |
| Reclassification from property, plant and equipment | 14 | - | 20,193,484 |
| Disposals | | - | (7,049,535) |
| Balance at end of year | | 49,293,042 | 30,547,406 |
| Carrying Amount | | P117,722,928 | P102,059,925 |

Intangible assets pertains to "The Real-time Operating system Nucleus" (TRON) Web, a new core insurance production system acquired by the Company and other software.

17. Goodwill

The goodwill arose from the merger of the Company with Insular General Insurance Co., Inc. (Insular General) in 2005. The recoverable amount of goodwill has been determined using the value in use approach. Value in use was based on the cash flow projections on the most recent financial forecasts approved by senior management which are management's best estimate of the ranges of economic conditions covering a five (5)-year period. The pre-tax discount rate applied to cash flow projections is 4.89% in 2016 and 2015, plus return on equity and cash flows beyond the five (5)-year period are extrapolated using a steady growth rate.

As at December 31, 2017 and 2016, the carrying amount of goodwill amounted to P33.79 million.

The recoverable amount is higher than the carrying amount of the CGU (Insular General). As such, no impairment losses is recognized in 2017 and 2016.

18. Other Assets

Others assets consists of:

| | Note | 2017 | 2016 |
|------------------------------------|------|--------------|--------------|
| Input VAT | | P80,641,622 | P69,492,117 |
| Creditable withholding taxes (CWT) | | 61,408,878 | 49,225,999 |
| Prepaid assets | | 14,071,096 | 15,806,847 |
| Security deposits | 32 | 9,569,551 | 9,608,450 |
| Documentary stamps tax (DST) | | 3,229,085 | 17,205,392 |
| Others | | 7,379,926 | 9,895,991 |
| | | P176,300,158 | P171,234,796 |

Input VAT is applied against output VAT. The remaining balance is recoverable in the future periods.

CWT represents the taxes withheld at source by the counterparty which can be applied against future income tax liability.

Prepaid assets pertains to advance payments to various suppliers and service providers.

Significant portion of the Company's DST pertains to advance payment of DST on premiums.

Security deposits represents advance rentals on operating leases and will be refunded to the Company within thirty (30) to sixty (60) days upon termination of the corresponding lease contracts.

19. Insurance Contract Liabilities

As at December 31, insurance contract liabilities may be analyzed as follows:

| | 2017 | | | 2016 | | |
|---|--------------------------------|--|----------------|--------------------------------|--|----------------|
| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 12) | Net | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 12) | Net |
| Provision for claims reported | P1,537,425,338 | P981,871,913 | P555,553,425 | P1,010,402,276 | P1,058,442,917 | P552,021,358 |
| Provision for IBNR claims | 115,943,306 | 92,767,864 | 23,175,442 | 1,280,593,921 | 1,208,995,203 | 51,598,718 |
| Provision for claims reported and IBNR claims | 1,653,368,644 | 1,074,639,777 | 578,728,867 | 2,871,096,197 | 2,267,438,120 | 603,620,077 |
| Reserve for unearned premiums | 1,232,322,855 | 448,656,539 | 783,666,226 | 958,577,841 | 128,668,933 | 829,908,908 |
| | P2,885,691,509 | P1,523,306,416 | P1,362,385,093 | P3,829,674,038 | P2,396,105,053 | P1,433,528,985 |

Provision for claims reported pertains to estimated amount of reported claims that have not yet been settled as at valuation date and expenses for setting those claims.

As at December 31, provisions for claims reported and IBNR may be analyzed as follows:

| | Note | 2017 | | | 2016 | | |
|---------------------------------|------|--------------------------------|--|---------------|--------------------------------|--|---------------|
| | | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 12) | Net | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 12) | Net |
| Balance at beginning of year | | P2,871,056,197 | P2,267,436,120 | P603,620,077 | P2,845,235,748 | P2,155,755,605 | P489,480,143 |
| Claims incurred during the year | | 1,223,945,235 | 684,734,757 | 539,210,478 | 1,537,679,768 | 803,679,496 | 733,999,273 |
| Claims paid - net of recoveries | 24 | (1,396,982,173) | (761,303,761) | (635,678,412) | (1,880,447,340) | (1,072,691,136) | (807,655,202) |
| Increase in IBNR | 24 | (1,144,650,615) | (1,116,227,339) | (28,423,276) | 388,389,020 | 380,202,157 | (11,903,137) |
| Balance at end of year | | P1,653,368,644 | P1,074,639,777 | P578,728,867 | P2,871,056,197 | P2,267,436,120 | P603,620,077 |

As at December 31, reserve for unearned premiums may be analyzed as follows:

| | Note | 2017 | | 2016 | | |
|--------------------------------------|------|--------------------------------|--|--------------------------------|--|-----------------|
| | | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 12) | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 12) | Net |
| Balance at beginning of year | | P958,577,841 | P128,658,933 | P829,908,908 | P587,058,526 | P847,593,313 |
| New policies written during the year | 23 | 2,238,442,676 | 921,271,462 | 1,317,171,113 | 2,214,820,735 | 1,502,702,644 |
| Premiums earned during the year | 23 | (1,954,897,551) | (501,273,755) | (1,363,423,795) | (2,243,201,420) | (1,520,397,049) |
| Balance at end of year | | P1,232,322,965 | P448,666,639 | P783,656,226 | P958,577,841 | P829,908,908 |

20. Insurance Payables

As at December 31, this account consists of:

| | Note | 2017 | 2016 |
|----------------------------|------|--------------|--------------|
| Due to reinsurers: | | | |
| Third parties | | P421,069,898 | P78,348,853 |
| Related parties | 31 | 129,175,179 | 117,838,562 |
| Funds held for reinsurers: | | | |
| Related parties | 31 | 183,656,088 | 122,491,223 |
| Third parties | | 69,791 | 4,368 |
| | | P733,970,956 | P318,683,006 |

Due to reinsurers pertains to reinsurance premiums payable by the Company to all its treaty and facultative reinsurers which is expected to be settled within one year or less.

Funds held for reinsurers pertains to a portion of reinsurance premium ceded to reinsurers withheld by the Company in accordance with the treaty agreements.

The movement of insurance payables is as follows:

| | 2017 | | |
|------------------------------|-------------------|---------------------------|---------------|
| | Due to Reinsurers | Funds Held for Reinsurers | Total |
| Balance at beginning of year | P196,187,415 | P122,495,591 | P318,683,006 |
| Arising during the year | 951,392,187 | 183,725,879 | 1,135,118,066 |
| Utilized | (597,334,525) | (122,495,591) | (719,830,116) |
| Balance at end of year | P550,245,077 | P183,725,879 | P733,970,956 |
| | 2016 | | |
| | Due to Reinsurers | Funds Held for Reinsurers | Total |
| Balance at beginning of year | P126,830,742 | P87,070,241 | P213,900,983 |
| Arising during the year | 472,600,999 | 122,495,591 | 595,096,590 |
| Utilized | (403,244,326) | (87,070,241) | (490,314,567) |
| Balance at end of year | P196,187,415 | P122,495,591 | P318,683,006 |

21. Trade and Other Liabilities

As at December 31, this account consists of:

| | Note | 2017 | 2016 |
|---------------------------------|------|--------------|--------------|
| Accounts payable: | | | |
| Related parties | 31 | P34,997,774 | P53,785,440 |
| Third parties | | 141,596,098 | 130,187,255 |
| Commission payable | | 168,365,099 | 166,622,162 |
| Payable to regulatory agencies: | | | |
| Other taxes payable | | 43,964,639 | 40,270,494 |
| Output VAT | | 37,536,448 | 30,459,889 |
| Accrued VAT | | 35,360,758 | 32,467,535 |
| Contributions | | 1,034,755 | 1,141,267 |
| Accrued expenses | | 622,194 | 622,194 |
| Dividends payable | 30 | 484,148 | 484,148 |
| | | P463,961,913 | P456,040,384 |

Accounts payable consists of collateral bonds from policyholders, rental deposits and unpaid utility bills and fees.

Payable to regulatory agencies pertain to other taxes payable which consists primarily of documentary stamp tax, expanded withholding tax and local government tax, output and accrued VAT and contributions.

Accrued expenses mainly include accrued employee benefits and rentals.

All liabilities are expected to be settled within twelve (12) months after the reporting date.

22. Net Pension Obligation

The Company has a funded, noncontributory, defined benefit retirement plan covering all of its permanent employees (the "Retirement Plan"). The Retirement Plan of the Company payout benefit is based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is as at December 31, 2017. Valuation is obtained on an annual basis.

The Retirement Plan is registered with the BIR as a tax-qualified plan under Republic Act No. 4917, As Amended.

The Company's plan assets is managed by a trustee.

The following table shows reconciliation of the net pension obligation (asset) and its components:

| | Present Value of Defined Benefit Obligation | | Fair value of Plan Assets | | Net Pension Obligation (Asset) | |
|---|---|---------------------|---------------------------|--------------------|--------------------------------|--------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | P103,272,529 | P168,080,676 | P88,812,362 | P130,412,772 | P14,460,197 | P37,697,903 |
| Balance at beginning of year | | | | | | |
| Recognized in profit or loss | | | | | | |
| Current service cost | 13,970,257 | 19,323,601 | - | - | 13,970,257 | 19,323,601 |
| Interest expense | 6,359,844 | 8,303,185 | - | - | 6,359,844 | 8,303,185 |
| Interest income | - | - | 4,609,362 | 6,442,391 | (4,609,362) | (6,442,391) |
| | 19,330,101 | 27,626,786 | 4,609,362 | 6,442,391 | 14,720,739 | 21,184,395 |
| Recognized in OCI | | | | | | |
| Re-measurements: | | | | | | |
| Actuarial loss arising from: | | | | | | |
| Changes in financial assumptions | (970,889) | (3,847,339) | - | - | (970,889) | (3,847,339) |
| Experience adjustments | (10,917,942) | (19,000,972) | - | - | (10,917,942) | (19,000,972) |
| Return on assets (excluding amount included in net interest cost) | - | - | (626,627) | (4,024,180) | 626,627 | 4,024,180 |
| | (11,888,631) | (22,916,311) | (626,627) | (4,024,180) | (10,862,004) | (18,892,131) |
| Others | | | | | | |
| Contributions | - | - | 32,400,329 | 25,500,000 | (32,400,329) | (25,500,000) |
| Benefits paid | (11,682,939) | (99,518,621) | (11,682,939) | (99,518,621) | - | - |
| | (11,682,939) | (99,518,621) | 20,717,390 | (44,018,621) | (32,400,329) | (25,500,000) |
| Balance at end of year | P99,731,060 | P103,272,525 | P113,512,487 | P88,812,352 | (P13,781,427) | P14,460,167 |

*Based on retirement fund as of November 30, 2017 and projected contributions and withdrawals for one month as presented in the 2017 Actuarial Valuation Report.

The benefits paid in advance by the Company were not reflected as liability in the plan assets report as at December 31, 2017 amounting to P11.68 million. Other differences in fair value of plan assets per actuarial valuation report and trust fund report was due to difference of actual results and projected movement in fund value.

The rollforward of retirement benefit reserves is as follows:

| | 2017 | 2016 |
|---|--------------------|--------------------|
| Balance at beginning of year | P30,996,303 | P44,220,795 |
| Actuarial loss on DBO | (11,188,631) | (22,916,311) |
| Return on assets (excluding amount included in net interest cost) | 626,627 | 4,024,180 |
| Income tax effect | 3,168,601 | 5,667,639 |
| Balance at end of year | P23,602,900 | P30,996,303 |

The Company's annual contribution to the Retirement Plan consists of payments covering the current service cost. The Company is expected to contribute the amount of P24.12 million to its plan assets in 2018.

The distribution of the plan assets as at December 31 is as follows:

| | 2017 | 2016 |
|-----------------------------|--------------|-------------|
| Assets | | |
| Cash | P203 | P635 |
| Investments: | | |
| Government securities | 90,693,218 | 69,416,320 |
| Mutual funds | 22,939,581 | 13,129,328 |
| Unit investment trust funds | 7,616,258 | 5,135,740 |
| Receivables | 3,543,216 | 1,264,519 |
| | 124,792,476 | 88,946,542 |
| Liability | | |
| Trust fee payable | 157,600 | 134,180 |
| | P124,634,876 | P88,812,362 |

The carrying amounts disclosed above reasonably approximate fair value.

The Retirement Plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan assets falls below this rate, it will create a deficit in the plan. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Company to manage the plan efficiently.

Longevity and Salary Risks. The present value of the defined benefit retirement obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

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

| | 2017 | 2016 |
|-------------------------|-------|-------|
| Discount rate | 5.64% | 5.19% |
| Rate of salary increase | 4.50% | 4.09% |

The discount rate was based on weighted average present value approach using bootstrapped-derived zero rates from PDEX PDST-R2 index.

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables. Mortality table is based on 1994 US Group Annuity Mortality Table for male and female while disability table is based on 1952 Disability Table of Society of Actuaries.

The Company has no specific matching strategy for the plan liabilities.

The average duration of the DBO at the end of the reporting period is 24 years.

As at December 31, the reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the DBO by the amounts below.

| | Change in Assumption | 2017 | 2016 |
|----------------------|----------------------|--------------|--------------|
| Discount rate | +0.5% | (P5,992,085) | (P6,819,089) |
| | -0.5% | 7,334,087 | 8,129,758 |
| Salary increase rate | +1.00% | 15,965,516 | 17,477,334 |
| | -1.00% | (10,529,210) | (12,085,688) |

Maturity Profile

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

| | 2017 | 2016 |
|--|----------------|----------------|
| Less than one (1) year | P - | P - |
| More than one (1) year to five (5) years | 4,573,394 | - |
| More than five (5) years to 10 years | 3,242,265 | 4,026,434 |
| More than 10 years to 15 years | 33,098,489 | 59,820,044 |
| More than 15 years to 20 years | 180,006,434 | 110,710,583 |
| More than 20 years | 2,786,028,615 | 2,682,306,860 |
| | P3,006,949,197 | P2,856,863,921 |

23. Premiums Earned

Details of net earned premiums on insurance contracts are as follows:

| | Note | 2017 | 2016 |
|---|------|----------------|----------------|
| Gross premium on insurance contracts | | | |
| Insurance contract premiums revenue: | | | |
| Gross premium written | | P2,213,971,313 | P2,184,436,548 |
| Reinsurance premium assumed | | 24,471,262 | 30,384,187 |
| | 19 | 2,238,442,575 | 2,214,820,735 |
| Gross change in reserve for unearned premiums | | (273,745,024) | 28,480,685 |
| | 19 | 1,964,697,551 | 2,243,301,420 |
| Reinsurer's share of gross premiums on insurance contracts | | | |
| Reinsurer's share of: | | | |
| Gross premium written | | 908,520,359 | 697,033,867 |
| Reinsurance premiums assumed | | 12,751,103 | 15,084,224 |
| | | 921,271,462 | 712,118,091 |
| Gross change in reinsurance premiums reserves | | (319,997,706) | 10,796,280 |
| | 19 | 601,273,756 | 722,914,371 |
| | | P1,363,423,795 | P1,520,387,049 |

24. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid are as follows:

| | Note | 2017 | 2016 |
|--|------|----------------|----------------|
| Direct insurance | | P1,378,546,914 | P1,632,153,828 |
| Assumed reinsurance | | 18,435,259 | 48,293,512 |
| Total insurance contract benefits and claims paid | 19 | P1,396,982,173 | P1,680,447,340 |

Reinsurers' share of gross insurance contract benefits and claims paid are as follows:

| | Note | 2017 | 2016 |
|---|------|--------------|----------------|
| Direct insurance | | P749,360,616 | P1,036,318,256 |
| Assumed reinsurance | | 11,943,145 | 36,272,882 |
| Total reinsurers' share of insurance contract benefits and claims paid | 19 | P761,303,761 | P1,072,591,138 |

Gross change in insurance contract liabilities are as follows:

| | Note | 2017 | 2016 |
|---|------|-------------------------|---------------------|
| Direct insurance | | (P43,455,859) | (P90,239,718) |
| Assumed reinsurance | | (29,581,079) | (52,328,853) |
| Change in provision for IBNR claims | 19 | (1,144,650,615) | 368,389,020 |
| Total gross change in insurance contract liabilities | | (P1,217,687,553) | P225,820,449 |

Reinsurers' share of gross change in insurance contract liabilities are as follows:

| | Note | 2017 | 2016 |
|--|------|-------------------------|---------------------|
| Direct insurance | | (P61,007,393) | (P148,415,689) |
| Assumed reinsurance | | (15,561,610) | (120,195,953) |
| Change in provision for IBNR claims | 19 | (1,116,227,339) | 380,292,157 |
| Total reinsurers' share of gross change in insurance contract liabilities | | (P1,192,796,342) | P111,680,515 |

25. Investment Income

Investment income consists of:

| | Note | 2017 | 2016 |
|--------------------------------------|--------|--------------|--------------|
| Interest income on: | | | |
| AFS financial assets | 9 | P60,361,680 | P75,350,483 |
| Loans and receivables | 10 | 3,800,028 | 7,129,598 |
| Cash and cash equivalents | 7 | 401,901 | 596,466 |
| Funds held by ceding companies | | 667,151 | 431,955 |
| | | 65,230,760 | 83,508,502 |
| Gain on sale of AFS financial assets | 9 | 50,098,711 | 23,044,109 |
| Dividend income | 9 | 8,252,900 | 9,255,125 |
| Rental income | 15, 32 | 2,619,593 | 2,490,209 |
| | | P126,201,964 | P118,297,945 |

26. General and Administrative Expenses - net

General and administrative expenses consists of:

| | Note | 2017 | 2016 |
|--|------|--------------|--------------|
| Salaries and benefits | | P262,769,892 | P363,984,744 |
| Depreciation and amortization: | | | |
| Property and equipment - net | 14 | 40,642,725 | 43,755,609 |
| Intangible assets - net | 16 | 18,745,636 | 17,403,457 |
| Investment properties - net | 15 | 434,846 | 362,363 |
| Professional and other fees | | 31,139,771 | 36,171,395 |
| Repairs and maintenance | | 21,493,071 | 20,330,444 |
| Communications | | 20,309,698 | 25,570,474 |
| Rent | 32 | 16,725,302 | 18,496,842 |
| Current service cost on pension obligation | 22 | 13,970,257 | 19,323,601 |
| Transportation and travel | | 13,057,059 | 15,364,702 |
| Stationery and supplies | | 8,459,936 | 8,961,666 |
| Light and water | | 6,829,411 | 7,430,738 |
| Advertising and promotions | | 6,197,912 | 9,647,395 |
| Scholarship and training | | 4,658,825 | 3,469,384 |
| Taxes and licenses | | 4,098,923 | 40,992,693 |
| Bank charges | 22 | 2,889,315 | 2,561,050 |
| Insurance | | 2,704,612 | 735,536 |
| Entertainment, amusement and recreation | | 1,977,754 | 2,024,210 |
| Net interest cost on pension obligation | 22 | 750,482 | 1,860,794 |
| Books and periodicals | | 123,823 | 1,090,967 |
| Provision (reversal of) for impairment losses: | | | |
| Loans receivables | 10 | (4,580,324) | 21,239,982 |
| Insurance receivables | 8 | (13,653,569) | 59,203,469 |
| Others | | - | 1,727 |
| | | P459,745,357 | P719,983,242 |

Salaries and benefits consists of:

| | 2017 | 2016 |
|-------------------------------|--------------|--------------|
| Salaries and wages | P238,061,729 | P335,059,323 |
| Other benefits and allowances | 24,708,163 | 28,925,421 |
| | P262,769,892 | P363,984,744 |

27. Service Fees

Service fees consists of:

| | Note | 2017 | 2016 |
|--|------|--------------------|-------------------|
| Sales incentive fees | | P7,839,508 | P4,175,135 |
| Agent convention fees | | 7,345,801 | 6,740,815 |
| Road assistance service fees | 31 | 6,571,203 | 15,764,029 |
| Certificate of cover authentication fees | | 4,398,964 | 18,847,978 |
| Others | | 2,160,398 | 2,906,828 |
| | | P28,315,874 | 48,434,785 |

28. Income Tax

As at December 31, the Company's net deferred tax assets consist of:

| | 2017 | 2016 (As restated - Note 34) |
|---|---------------------|------------------------------------|
| Deferred tax assets on: | | |
| NOLCO | P174,406,364 | P174,406,364 |
| Allowance for impairment losses | 27,422,985 | 32,893,153 |
| Excess MCIT | 12,188,807 | 14,471,388 |
| Unamortized past service cost | 12,024,035 | 8,597,024 |
| Deferred reinsurance commissions | 11,590,973 | 9,319,859 |
| Provisions for IBNR claims | 6,952,633 | 15,479,615 |
| Changes in fair value AFS financial assets | 413,992 | 189,071 |
| Accrued rent expense | 186,658 | 186,658 |
| Net pension obligation | - | 4,338,050 |
| | 245,186,447 | 259,881,182 |
| Deferred tax liabilities on: | | |
| Deferred acquisition costs | 68,418,681 | 70,299,912 |
| Net pension assets | 4,134,428 | - |
| Excess of unearned premiums per tax over per books basis | 1,787,872 | 4,349,222 |
| Accrued rent | 98,733 | 98,733 |
| | 74,439,714 | 74,747,867 |
| | P170,746,733 | P185,133,315 |

Movements in net deferred tax assets - net comprises of:

| | 2017 | 2016 |
|------------------------------|---------------------|---------------------|
| Balance at beginning of year | P185,133,315 | P84,410,780 |
| Recognized in profit or loss | (11,442,901) | 106,423,000 |
| Recognized in OCI | (2,943,681) | (5,700,465) |
| Balance at end of year | P170,746,733 | P185,133,315 |

As at December 31, 2017, details of excess MCIT over RCIT which can be claimed as deduction from future RCIT is as follows:

| Year Incurred | Year of Expiry | Additions | Expired/Used | Excess MCIT |
|---------------|----------------|------------|--------------|-------------|
| 2014 | 2017 | P6,083,452 | P6,083,452 | P - |
| 2015 | 2018 | 3,199,466 | - | 3,199,466 |
| 2016 | 2019 | 5,188,470 | - | 5,188,470 |
| 2017 | 2020 | 3,800,871 | - | 3,800,871 |

The NOLCO incurred by the Company that can be claimed as deduction from future taxable income or used as deduction against future income tax liabilities is as follows:

| Year Incurred | Year of Expiry | Additions | NOLCO Written-off | NOLCO |
|---------------|----------------|--------------|----------------------|--------------|
| 2015 | 2018 | P302,789,891 | P102,650,407 | P200,139,484 |
| 2016 | 2019 | 278,564,654 | - | 278,564,654 |
| 2017 | 2020 | 102,650,407 | - | 102,650,407 |

The unrecognized DTA on NOLCO pertains to 2017 amounting to P102.65 million because the management does not expect that sufficient future taxable profit will be available against which the tax benefits can be utilized.

The reconciliation of statutory income tax rate to effective income tax rate is as follows:

| | 2017 | 2016 |
|--|--------------------|----------------------|
| Income (loss) before taxes | P47,113,870 | (P221,403,196) |
| Income tax expense computed using statutory income tax rate | P14,134,161 | (P66,420,959) |
| NOLCO written-off | 30,795,122 | - |
| Expired MCIT | 6,083,452 | 4,338,837 |
| Non-deductible expenses | - | 11,668,224 |
| Change in UPR due to transition adjustment | - | (18,600,370) |
| Dividend income | (2,475,870) | (2,776,538) |
| Income already subjected to final tax | (5,746,313) | (7,721,866) |
| Nontaxable income | (15,029,614) | (6,913,233) |
| Income tax expense computed using effective income tax rate | P27,760,938 | (P86,425,905) |

29. Reconciliation of Net Income Under PFRS to Statutory Net Income

The reconciliation of net loss under PFRS to statutory net loss is as follows:

| | 2017 | 2016 |
|--|--------------------|-----------------------|
| Net income (loss) under PFRS | P19,352,932 | (P134,977,291) |
| Add (deduct): | | |
| Provision for IBNR | 9,514,650 | (11,903,137) |
| Difference in change in reserve for unearned premiums - net | 8,537,837 | 30,980,842 |
| Tax effects of PFRS differences | (5,415,745) | (5,723,312) |
| | P31,989,674 | (P121,622,896) |

30. Equity

Capital Stock

The Company has 10,000,000 shares of authorized capital stock at P50 par value, all of which are issued and outstanding as at December 31, 2017 and 2016.

Dividends payable as at December 31, 2017 and 2016 amounted to P0.48 million (see Note 21).

No dividends have been declared in 2017 and 2016.

31. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Affiliates are related entities of the Company by virtue of common ownership and representation to management where significant influence is apparent.

Significant related party transactions are summarized below:

- a. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including managers and executives of the Company.

The summary of compensation of key management personnel is as follows:

| | 2017 | 2016 |
|---|--------------|--------------|
| Salaries and other short-term employee benefits | P152,145,623 | P222,406,280 |
| Pension and other post-employment benefits | 21,849,584 | 24,301,538 |
| | P173,995,207 | P246,707,818 |

- b. Transactions with related party consist mainly of the following activities:

| Category/Transaction | Note | Year | Amount of the Transaction | Outstanding Balances | | Terms | Conditions |
|---|------|-------------|---------------------------|--------------------------|----------------------|--|--------------------------|
| | | | | Due from a Related Party | Due to Related Party | | |
| Mapfre Re Compañía de Reaseguros S.A. | | | | | | | |
| <i>(Entity under Common Control)</i> | | | | | | | |
| Inward commissions | | 2017 | P81,841,168 | P1,444 | P - | Due and demandable; non-interest bearing | Unsecured; no impairment |
| | | 2016 | 80,509,151 | 1,444 | - | | |
| Reinsurance premium ceded | 20 | 2017 | 232,752,003 | - | 129,175,179 | Due and demandable; non-interest bearing | Unsecured |
| | | 2016 | 117,538,592 | - | 117,538,592 | Due and demandable; non-interest bearing | Unsecured |
| Funds held to reinsurers | 20 | 2017 | 312,195,415 | - | 178,250,187 | Due and demandable; non-interest bearing | Unsecured |
| | | 2016 | 117,538,592 | - | 117,538,592 | Due and demandable; non-interest bearing | Unsecured |
| Mapfre Global Risks S.A. | | | | | | | |
| <i>(Entity under Common Control)</i> | | | | | | | |
| Reinsurance premium ceded | 20 | 2017 | 530,398,562 | - | - | Due and demandable; non-interest bearing | Unsecured |
| | | 2016 | 322,547,409 | - | - | Due and demandable; non-interest bearing | Unsecured |
| Premiums receivable | 8 | 2017 | 19,617,849 | 19,617,849 | - | Due and demandable; non-interest bearing | Unsecured |
| | | 2016 | 2,717,512 | 2,717,512 | - | Due and demandable; non-interest bearing | Unsecured |
| Mapfre Asistencia Compañía Internacional de Seguros Y Reaseguros, S.A. | | | | | | | |
| <i>(Entity under Common Control)</i> | | | | | | | |
| Reinsurance premium ceded | 20 | 2017 | 10,418,779 | - | - | Due and demandable; non-interest bearing | Unsecured |
| | | 2016 | 5,086,459 | - | - | Due and demandable; non-interest bearing | Unsecured |
| Funds held to reinsurers | 20 | 2017 | 9,405,901 | - | 5,405,501 | Due and demandable; non-interest bearing | Unsecured |
| | | 2016 | - | - | 4,652,061 | Due and demandable; non-interest bearing | Unsecured |
| Insular Life Assurance Company, Ltd. (Insular Life) | | | | | | | |
| <i>(Entity under Common Control)</i> | | | | | | | |
| Accounts receivables | 31a | 2017 | 59,601,247 | 15,304,272 | - | Due and demandable; non-interest bearing | Unsecured; no impairment |
| | | 2016 | 2,202,626 | 74,905,519 | - | Due and demandable; non-interest bearing | Unsecured |
| Accounts payable | 31b | 2017 | 21,655,872 | - | 26,072,444 | Due and demandable; non-interest bearing | Unsecured |
| | | 2016 | 51,408,626 | - | 47,728,316 | Due and demandable; non-interest bearing | Unsecured |
| Fundación Mapfre | | | | | | | |
| <i>(Entity under Common Control)</i> | | | | | | | |
| Accounts receivables | 10 | 2017 | 100,931 | 979,605 | - | Due and demandable; non-interest bearing | Unsecured; no impairment |
| | | 2016 | - | 879,674 | - | Due and demandable; non-interest bearing | Unsecured; no impairment |
| Ibero Asistencia, S.A. | | | | | | | |
| <i>(Entity under Common Control)</i> | | | | | | | |
| Service fees | 27 | 2017 | 5,571,203 | - | 709,000 | Due and demandable; non-interest bearing | Unsecured |
| | | 2016 | 15,794,029 | - | - | Due and demandable; non-interest bearing | Unsecured |
| Accounts payables | 21 | 2017 | 2,898,268 | - | 8,925,330 | Due and demandable; non-interest bearing | Unsecured |
| | | 2016 | 1,254,004 | - | 6,057,124 | Due and demandable; non-interest bearing | Unsecured |
| Mapfre Tech, S.A | | | | | | | |
| <i>(Entity under Common Control)</i> | | | | | | | |
| Intangible assets | 16 | 2017 | 1,810,469 | - | - | Due and demandable; non-interest bearing | Unsecured |
| | | 2016 | 1,345,380 | - | - | Due and demandable; non-interest bearing | Unsecured |
| Total | | 2017 | | P35,903,170 | P339,243,710 | | |
| Total | | 2016 | | P78,503,149 | P180,941,679 | | |

- 31a. The Company entered into a Memorandum of Agreement (MOA) with Insular Life on policies issued for migrant workers. Under the said MOA, at the end of each policy year, Insular Life and the Company shall compute for the share in net profit based on the separately-computed net profit (loss) of each entity based on the formula provided in the MOA. The amount of share in the net profit shall be the amount which will be available to provide deficit recovery to the other company if necessary. If both parties are in a net profit or net loss position, no share in net profit will be computed. However, if one of the parties has incurred a loss and the other a profit, the entity who has a profit will be the one to reimburse the entity for its deficiency. The amount to be transferred shall not exceed the net profit of the entity who will reimburse the loss. Likewise, the amount that may be received by the negative account shall only be to the extent of such deficit that may be fully recovered. The Company records accrual of profit commission under 'Accounts receivable'.
- 31b. This pertains to amount due to Insular Life for the life insurance coverage of the Company's policies for migrant workers.

32. Lease Commitments

The Company as Lessee

The Company has entered into non-cancelable operating lease agreements for several of its branch offices with terms of one (1) to five (5) years. The lease agreements include escalation clauses that allow a reasonable increase in rates. The leases are renewable under certain terms and conditions.

Future minimum rentals payable under non-cancelable operating leases as at December 31 follow:

| | 2017 | 2016 |
|---|--------------------|-------------|
| Within one year | P9,543,352 | P9,267,419 |
| After one year but not more than five (5) years | 10,799,170 | 13,193,552 |
| | P20,342,522 | P22,460,971 |

In 2017 and 2016, rent expense included in the statements of income amounted to P16.73 million and P18.50 million, respectively (see Note 26 and 15).

The Company as Lessor

The Company has entered into property leases on its investment properties portfolio, consisting of the Company's surplus office spaces. These non-cancelable leases have remaining lease terms of less than five (5) years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Security deposits pertaining to these lease contracts amounted to P9.57 million and P9.61 million as at December 31, 2017 and 2016, respectively (see Note 18).

Future minimum rentals receivable under non-cancelable operating leases as at December 31, 2017 and 2016 follow:

| | 2017 | 2016 |
|---|-------------------|------------|
| Within one year | P2,713,778 | P2,713,778 |
| After one year but not more than five (5) years | 4,070,667 | 6,784,446 |
| | P6,784,445 | P9,498,224 |

Rent income amounted to P2.62 million and P2.49 million in 2017 and 2016, respectively (see Note 25).

33. Contingencies

The Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. Provisions have been recognized in the financial statements to cover liabilities that may arise as a result of adverse decisions that may be rendered by the courts. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the Company's position with regard to the outcome of these claims.

34. Prior Period Adjustment and Reclassification

On March 9, 2018, the IC issued CL No. 2018-18 which provides the revised valuation standards for non-life insurance policy reserves. Based on this Circular, reserve for unearned premiums shall be calculated based on 24th method for all classes of business, on both gross and net of reinsurance basis, except for policies covering migrant workers which uses the Table of Premiums for Reserve Computation stipulated in Annex A of CL No. 2015-06 dated February 11, 2015. This Circular also supersedes CL No. 2016-67 and amends CL No. 2015-06, *New Reserves Computation for the Compulsory Insurance Coverage for Migrant Workers*.

Prior to 2017, the Company has been calculating its reserve for unearned premiums using the 24th method for financial reporting purposes. For taxation purposes, reserve for unearned premium was computed at 40% of gross premiums, less returns and cancellations, received on policies or risks having no more than a year to run, except for marine cargo risks wherein the reserve was 40% of the premiums written in the policies upon yearly risks and the full amount of the premiums written during the last two months of the calendar year upon all other marine risks not terminated in accordance with Section 213 of the Presidential Decree No. 1460. Further, for tax purposes, policies for migrant workers was computed based on CL No. 2015-06.

The Company adopted CL 2018-18 retrospectively for taxation purposes. Accordingly, the Company restated its December 31, 2016 financial statements and the beginning balance of the earliest comparative period presented.

The following table summarizes the adjustments made to correct the balances previously reported as at December 31, 2016 and January 1, 2016:

| | December 31, 2016 | | |
|---|------------------------|---------------|----------------|
| | As Previously Reported | Adjustments | As Restated |
| STATEMENTS OF FINANCIAL POSITION | | | |
| Assets | | | |
| Cash and cash equivalents | P172,368,327 | P - | P172,368,327 |
| Insurance receivables - net | 574,409,042 | - | 574,409,042 |
| Available-for-sale (AFS) financial assets | 1,477,135,351 | - | 1,477,135,351 |
| Loans and receivables - net | 148,517,981 | - | 148,517,981 |
| Accrued income | 30,309,988 | - | 30,309,988 |
| Reinsurance assets | 2,396,105,053 | - | 2,396,105,053 |
| Deferred acquisition costs | 234,333,039 | - | 234,333,039 |
| Property and equipment - net | 246,505,744 | - | 246,505,744 |
| Investment properties - net | 15,716,192 | - | 15,716,192 |
| Intangible assets - net | 102,059,925 | - | 102,059,925 |
| Goodwill | 33,794,284 | - | 33,794,284 |
| Deferred tax assets - net | 225,963,770 | (40,830,455) | 185,133,315 |
| Other assets | 171,234,796 | - | 171,234,796 |
| | P5,828,453,492 | (P40,830,455) | P5,787,623,037 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Insurance contract liabilities | P3,829,634,038 | P - | P3,829,634,038 |
| Insurance payables | 318,683,006 | - | 318,683,006 |
| Trade and other liabilities | 456,040,384 | - | 456,040,384 |
| Deferred reinsurance commissions | 31,066,198 | - | 31,066,198 |
| Net pension obligation | 14,460,167 | - | 14,460,167 |
| | 4,649,883,793 | - | 4,649,883,793 |
| Equity | | | |
| Capital stock | 500,000,000 | - | 500,000,000 |
| Additional paid-in capital | 200,446,070 | - | 200,446,070 |
| Contributed surplus | 100,000,000 | - | 100,000,000 |
| Retirement benefit reserve | (30,996,303) | - | (30,996,303) |
| Revaluation reserve on AFS financial assets | 69,650,082 | - | 69,650,082 |
| Retained earnings | 339,469,850 | (40,830,455) | 298,639,395 |
| | 1,178,569,699 | (40,830,455) | 1,137,739,244 |
| | P5,828,453,492 | (P40,830,455) | P5,787,623,037 |

The following summarizes the adjustments made to restate the balances previously reported as at January 1, 2016:

| | As Previously Reported | Adjustments | As Restated |
|---|------------------------|---------------|----------------|
| STATEMENTS OF FINANCIAL POSITION | | | |
| Assets | | | |
| Cash and cash equivalents | P179,977,463 | P - | P179,977,463 |
| Insurance receivables - net | 655,679,274 | - | 655,679,274 |
| Available-for-sale (AFS) financial assets | 1,464,822,023 | - | 1,464,822,023 |
| Loans and receivables - net | 222,309,818 | - | 222,309,818 |
| Accrued income | 24,739,440 | - | 24,739,440 |
| Reinsurance assets | 2,295,220,818 | - | 2,295,220,818 |
| Deferred acquisition costs | 233,747,708 | - | 233,747,708 |
| Property and equipment - net | 293,116,272 | - | 293,116,272 |
| Investment properties - net | 16,078,555 | - | 16,078,555 |
| Intangible assets - net | 45,144,455 | - | 45,144,455 |
| Goodwill | 33,794,284 | - | 33,794,284 |
| Deferred tax assets - net | 143,841,605 | (59,430,825) | 84,410,780 |
| Other assets | 148,121,275 | - | 148,121,275 |
| | P5,756,592,990 | (P59,430,825) | P5,697,162,165 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Insurance contract liabilities | P3,632,294,274 | P - | P3,632,294,274 |
| Insurance payables | 213,900,983 | - | 213,900,983 |
| Trade and other liabilities | 498,688,159 | - | 498,688,159 |
| Deferred reinsurance commissions | 29,531,572 | - | 29,531,572 |
| Net pension obligation | 37,667,903 | - | 37,667,903 |
| | 4,412,082,891 | - | 4,412,082,891 |
| Equity | | | |
| Capital stock | 500,000,000 | - | 500,000,000 |
| Additional paid-in capital | 200,446,070 | - | 200,446,070 |
| Contributed surplus | 100,000,000 | - | 100,000,000 |
| Retirement benefit reserve | (44,220,795) | - | (44,220,795) |
| Revaluation reserve on AFS financial assets | 95,237,313 | - | 95,237,313 |
| Retained earnings | 493,047,511 | (59,430,825) | 433,616,686 |
| | 1,344,510,099 | (59,430,825) | 1,285,079,274 |
| | P5,756,592,990 | (P59,430,825) | P5,697,162,165 |

The effects of the prior period adjustments and reclassification of accounts on the statement of income for the year ended December 31, 2016 are shown below:

| | As Previously Reported | Adjustments | As Restated |
|--|------------------------|----------------------|-----------------------|
| UNDERWRITING INCOME | | | |
| Gross premium written | P2,184,436,548 | P - | P2,184,436,548 |
| Reinsurance premium assumed | 30,384,187 | - | 30,384,187 |
| Gross premium on insurance contracts | 2,214,820,735 | - | 2,214,820,735 |
| Reinsurance premium ceded | (712,118,091) | - | (712,118,091) |
| Premium retained | 1,502,702,644 | - | 1,502,702,644 |
| Net change in reserve for unearned premiums | 17,684,405 | - | 17,684,405 |
| Net premiums earned | 1,520,387,049 | - | 1,520,387,049 |
| Commission income | 76,139,132 | - | 76,139,132 |
| GROSS UNDERWRITING INCOME | 1,596,526,181 | - | 1,596,526,181 |
| UNDERWRITING EXPENSES | | | |
| Gross insurance contract benefits and claims paid | 1,680,447,340 | - | 1,680,447,340 |
| Reinsurer's share of gross insurance contract benefits and claims paid | (1,072,591,138) | - | (1,072,591,138) |
| Gross change in insurance contract liabilities | 225,820,449 | - | 225,820,449 |
| Reinsurer's share of gross change in insurance contract liabilities | (111,680,515) | - | (111,680,515) |
| Net insurance benefits and claims | 721,996,136 | - | 721,996,136 |
| Commission expense | 454,675,838 | - | 454,675,838 |
| TOTAL UNDERWRITING EXPENSES | 1,176,671,974 | - | 1,176,671,974 |
| NET UNDERWRITING INCOME | 419,854,207 | - | 419,854,207 |
| OTHER INCOME - Net | | | |
| Investment income | 118,297,945 | - | 118,297,945 |
| Foreign exchange gain - net | 2,544,847 | - | 2,544,847 |
| Loss on sale of property and equipment | (1,442,456) | - | (1,442,456) |
| Other income | 7,760,288 | - | 7,760,288 |
| | 127,160,624 | - | 127,160,624 |
| | 547,014,831 | - | 547,014,831 |
| OTHER OPERATING EXPENSES | | | |
| General and administrative expenses - net | 719,983,242 | - | 719,983,242 |
| Services fees | 48,434,785 | - | 48,434,785 |
| | 768,418,027 | - | 768,418,027 |
| INCOME (LOSS) BEFORE TAXES | (221,403,196) | - | (221,403,196) |
| TAXES | | | |
| Current income tax | 5,188,470 | - | 5,188,470 |
| Deferred income tax | (87,822,630) | (18,600,370) | (106,423,000) |
| Final tax | 14,808,625 | - | 14,808,625 |
| | (67,825,535) | (18,600,370) | (86,425,905) |
| NET INCOME (LOSS) | (P153,577,661) | (P18,600,370) | (P134,977,291) |

35. Supplementary Information Required under Revenue Regulation No. 15-2010 of the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRSs.

The following are the tax information/disclosures required for the taxable year ended December 31, 2017:

A. Value Added Tax (VAT)

| | |
|--|----------------|
| 1. Output VAT | P218,654,702 |
| Basis of the Output VAT: | |
| Vatable sales | P2,282,149,936 |
| The Company has premiums generated to entities that are registered in Philippine Economic Zone Authority which is subject to zero-rated and/or exempt output VAT amounting P334,652,398 in 2017. | |
| 2. Input VAT | |
| Beginning at beginning of year | P69,412,117 |
| Current year's domestic purchases: | |
| a. Goods for resale/manufacture or further processing | |
| b. Goods other than for resale or manufacture | 30,479,724 |
| c. Capital goods subject to amortization | 3,443,751 |
| d. Capital goods not subject to amortization | 89,578 |
| e. Services lodged under cost of goods sold | - |
| f. Services lodged under other accounts | 64,542,043 |
| Claims for tax credit/refund and other adjustments | 4,476,343 |
| Balance at end of the year | P172,443,556 |

B. Documentary Stamp Tax

The Company paid documentary stamp tax on premiums amounting to P256 million in 2016.

C. Withholding Taxes

The Company's withholding taxes during the year are as follows:

| | |
|--|--------------|
| Expanded withholding taxes | P64,256,128 |
| Withholding taxes on compensation and benefits | 56,731,068 |
| Final withholding taxes | 366,054 |
| | P121,353,250 |

D. Fringe Benefit Tax

Fringe benefits tax paid by the Company in 2017 amounted to P2.46 million and is recorded under "Salaries and benefits" account in the statements of income.

E. All Other Taxes and Licenses (Local and National)

Other taxes and licenses paid during the year under "Taxes and licenses" account in the statements of income are as follows:

| | |
|-------------------------|-------------------|
| License and permit fees | P3,585,625 |
| Real estate taxes | 479,110 |
| Documentary stamp taxes | 29,338 |
| Others | 4,850 |
| | P4,098,923 |

F. Tax Assessments and Deficiencies

In 2016, the Company settled the 2014 tax assessment with the BIR. Also, in 2016, the Company received a letter of authority to examine its books for the taxable year 2013. The Company has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.

PRODUCTS



Car Insurance

Safeguard your prized possession - your car. We have a selection of packages ranging from the most simple to the most complete paired with unique benefits and services that you can count on for emergency assistance & quick claims processing.

- Compulsory Third Part Liability (CTPL)
- Liability Guard
- Auto Comprehensive
- Comprehensive with Acts of Nature



Home Insurance

Your house is more than just a dwelling place; it is the home of your family. We have insurance that protects your house from loss and damage caused by fire, lightning and other perils.

- Home Insurance FIRE
- Home Insurance WATER
- Home Insurance EARTH



Personal Accident Insurance

Accidents are part of everyone's life and it's best to be prepared. Choose your preferred personal accident insurance with coverages and benefits that answer you and your beneficiaries' immediate emergency assistance needs.

- Family Provider's Accident Insurance
- Hospital Cash Benefit Insurance
- Household Employees Insurance



Travel Insurance

Travel at ease and worry no more about unforeseen events while traveling. We have superior travel insurance that provides comprehensive personal assistance anytime, anywhere.

- Travel Insurance International
- Travel Insurance Domestic



OFW Insurance

Feel secure while working abroad. We provide protection for OFWs from unjust and immediate termination or dismissal by employers abroad.

- OFW Compulsory Insurance



Business Establishment Insurance



Business Renovation Insurance



Property Insurance for Corporations



Motor Vehicle Insurance Solution



Accident Insurance for Employees



Travel Insurance for Business



Engineering Insurance



Surety Solutions



Casualty Insurance



Marine Cargo Insurance

SERVICES & ADVANTAGE

Teleservice

Teleservice Hotline (632) 876-4400 assists clients with their claims, requests for quotation and inquiries regarding MAPFRE INSULAR's products and services.

QR Code in Policies

All MAPFRE INSULAR policies have Quick Response Code. This QR Code can be used to verify the authenticity of the policy.

MIVO (MAPFRE INSULAR Virtual Office)

A virtual office especially designed for MAPFRE INSULAR Agents for them to generate quotations, encode packaged product policies, monitor and renew expiring policies and manage premium collection, anytime, anywhere.

MAPFRE Road Assist

This 24-hour vehicle and personal assistance helps client during any mishaps such as vehicle breakdowns or accidents, fire or theft of vehicle or even unexpected occurrences like discharged battery, engine breakdown, or misplaced car keys.

Security Glass Etching

Glass Etching on your vehicle is a proven car theft deterrent. This benefit is given FREE to MAPFRE INSULAR car insurance policy holders.

**Note: For select packages only.*

MAPFRE Home Assist

A 24-hour emergency home assistance services benefit* to secure the insured dwelling place."

**Available for Home Insurance Packages*

Complaints Management Unit

Clients can send feedback and complaint directly to CMU (Complaints Management Unit). Call (632) 772-5494 or email complaints@mapfreinsular.com