MAPFRE | INSULAR

President's Message

First of all, please allow me to thank each and every person in our organization for doing their best throughout 2018.

It is through your support that our company continues to adapt, manage, and even thrive through the many challenges facing not only our company but the entire insurance industry.

As you know, the enacted TRAIN LAW in 2018 had both good and bad effects on the insurance industry.

While it provided income tax exemptions to majority of Filipinos and increased their disposable income with which they can use to purchase insurance, the tax reform law also informed higher taxes on fuel and motor vehicles

This dampened somewhat the sales of automobiles in the country for 2018 resulting in slower car insurance sales.

Then there was also the downturn in the investment market and the stiff competition in tariffs.

However, such challenges are not out of the ordinary. What is more important is how we respond to these and other developments.

Our proper and prudent responses to these challenges in 2018 gave us an overall positive income, with a 98.7% combined ratio.

From this vantage point, let us go over the highlights for the past year and what we can expect moving forward:

Life means change. This profitable peformance came to be through a combination of factors, not least of which, are the innovations, digitization, and new efficiencies we are achieving; as well as the push towards centralization and standardization of operations and processes.

President's Message

Let me say that all of you have participated and supported all these changes commendably, despite the necessity of many - if not all - of us stepping out of our comfort zones and adjusting to many changes in these past four years.

Changes happen because our organization is alive. All living things move and strive towards growth, towards happiness and fulfillment.

It is the same for our organization, our customers, and our partners. So, lets all keep the faith and remain steadfast, eagerly anticipating the fruits of these changes.

The MAPFRE experience. 2018 was the year when we began to harvest the benefits of innovation, digitization, and the efficiencies we sought to integrate in our daily operations.

Thanks to your cooperation, we have centralized and standardized many, if not most, of our most crucial processes. This has resulted in greatef efficiency, productivity, and improved satisfaction among our employees and even our partners and customers.

We want to establish and make standard what we call the "MAPFRE experience", which means creating a seamless process that combines convenience, access, quality products, and service that makes customers feel that we are not simply their insurers. Beyond that, we are their partners in protecting their possessions and in giving them peace of mind amid an increasingly stressful and anxious world.

The MAPFRE experience extends to our employees as we strive, through innovation and digital technology, to provide them with work-life balance. As digital technology improves the pace and precision of our processes, our employees will have more time for other activities that are important to them. Eventually, we'll be looking at flexi-time or even work from home.

This same quality experience is something we also want to extend to our partners, intermediaries, and distributors - of course, as fitted to their concerns.

Financial ecosystem. A long-term goal for us is to be a company that helps promote financial literacy. Considering the size of the country's population and the present state of maturity of the insurance industry, we still have a quite a low penetration for insurance in the market here.

This is where awareness, education, and financial literacy come in. There's an entire financial ecosystem that we have to grow and nurture and sustain.

First you teach people to save, to use banks. Then you teach them to manage their income and cash flow, and then to invest. Next they should protect their health by getting health insurance. After that, they'll need to protect the important possessions they have: the car, the home.

So, there's an entire cycle, an ecosystem, of wealth creation, then wealth distribution, and then wealth protection. Once we have a citizenry with that level of financial literacy then we can improve insurance penetration.

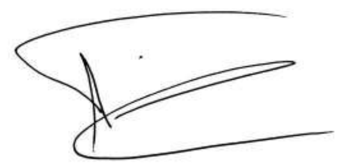
Greater presence. As we start reaping the benefits of the internal changes and reforms we invested in, we are also moving towards creating a greater presence in the market. For example, we've already grown from 10 branches to 16.

Its a matter of establishing greater presence on the ground and in the field. At the same time, we're also increasing our presence online, through our e-commerce platform. Beyond that, we are inking deals and partnerships with new distributors and opening up new channels for our products.

So again , after laying the groundwork in the last four years, let us all prepare for more changes as we set out towards the next stage as a living and thriving organization.

Rest assured, we are all in this together, and by keeping the faith and staying committed, we'll all be here for even greater harvests ahead in 2019.

Thank you.



Tirso C. Abad
President & CEO
MAPFRE INSULAR

Board of Directors

SILVERIO BENNY J. TAN
Chairman
Picazo Buyco Tan Fider Santos

Atty. Tan, 63 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.

LUIS C. LA Ó
Vice Chairman
Insular Life Representative

Mr. La O, 73 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 MAPFR 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

TIRSO C. ABAD
President and CEO
MAPFRE Philippines

NIKOS ANTIMISSARIS
General Director
MAPFRE Asistencia S.A

Mr. Abad, 55 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.

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.

Mr. Nikolaos Antimissaris, 49 years old, Greek, from Universidad De Lieja (Belgica). He serves as the General Director, Eurosos Assistance Services; General Director and Legal Representative, Insurance and Reinsurance at MAPFRE Assistencia (Greece Branch); Regional Director Europe, Insurance and Reinsurance, MAPFRE Assistencia (Regional Directorate Europe); Deputy Director General, Insurance and Reinsurance, MAPFRE Assistencia and General Director, Insurance and Reinsurance, MAPFRE Assistencia.

Board of Directors

FRANCISCO M. NORIEGA
Consultant for the Cement,
Infrastructure, Oil & Gas Ind.

Mr. Francisco M. Noriega, 67 years old, Indonesian, a BS Mechanical Engineering at University of Missouri at Rolla (Missouri School of Mines), USA with his MBA at IESA, Caracas, Venezuela and Internal Master at Global Leadership Program (GLP), CEMEX Mexico. A Senior Executive with + 35 years of professional experience across various geographies and industries. Proven his leadership capabilities, expertise turning business around to achieve sustainable results, strategic planning, investment and M&A with also an experience in doing DD & PMI valuating businesses and leading teams.

He serves as a Consultant for the Cement, Infrastructure, Oil & Gas Ind.; Founder of Red White Communications as Advising Partner; Board Member of Silso Corporation (Oil & Gas) Houston, Texas (USA); AP / Managing Partner of The Jakarta Consulting Group JAG,; International Expansion Leader in Semen Indonesia Group M&A Senior Adviser & Coach in PMI Vietnam Mentor; Adviser to the Board of Directos Schlumberger Indonesia and a Member of the Board of Commissioners of Abda-Mapfre.

Mr. Noriega serves as the Board of Directors and Commissioners Member at Concemex, Concem Ltd., Bermuda Cement Company Ltd.–Bermuda; Le Ciment Du Nord–Haiti (Chairman); National Cement Limited, Bahamas; Southington Limited, Haiti (Chairman); Concem Trade Limited, Cayman; Contrade Company Ltd, Cayman; Island Cement Company Ltd., Bahamas (Chairman); Nassau Deep Water Dock Ltd., Bahamas; Reliance Investments; Scancem International (St. Lucia) Limited, St. Lucia; Caribbean Cement Company Limited–Jamaica; Sierra trading; TCL Holdings Trinidad; Cementos Nacionales S.A.-Dominican Republic; Compañia Comercializadora, S.A.–Dominican Republic; Societe des Ciments Antillains, AVPC Asociacion Venezolana de Productores de Cemento , Caribbean Cement Association . Cemex Indonesia , Semen Gresik , PT EbioFuel , Silso , S &N Global Construction ,JAG, and Abda Asuransi approved by OJK Financial authorities of Indonesia.

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

Ms. Dela Cruz, 62 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.

Board of Directors

MAYO JOSE B. ONGSINGCO
Independent Director

PEDRO ROXAS
Chairman, President & CEO
Roxas & Co., Inc.

Mr. Mayo Jose B. Ongsingco, 67 years old, 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.

Mr. Pedro E. Roxas, 64 years old, Filipino, was educated at Portsmounth Abbey School, Rhode Island U.S.A. and received his Bachelor of Science Degree in Business Administration from University of Notre Dame.

Mr. Roxas is the Chairman of the Board, President & Chief Executive Officer of Roxas & Company Inc.(RCI). RCI is the holding company of the Roxas Group. Its main holdings are raw real estate located in Nasugbu, Batangas, sugar-related assets and businesses held through Roxas Holdings, Inc. (RHI), a publicly-listed company and real estate development through its property arm, Roxaco Land Corporation (Roxaco). He is also the Chairman of Roxas Holdings Inc(RHI) a bio-sugar and bio-energy company, which is the largest integrated sugar business in the Philippines.

Mr. Roxas is the Chairman of Club Punta Fuego an 88-hectare premiere luxury seaside resort community in Batangas. He is also the Chairman of Hawaiian-Phil Co. the oldest and still very much operational sugar central in Silay City, Negros Occidental.

Mr. Roxas is the President of Philippine Sugar Millers Association, Inc. and Fundacion Santiago Inc. and an Independent Director of Philippine Long Distance Telephone Company (PLDT), Manila Electric Company (Meralco), Banco de Oro (BDO) Private Bank, and CEMEX Holdings Philippines, Inc.; Director of Brightnote Assets Corporation; a Trustee of the Philippine Business for Social Progress and Roxas Foundation.

Board of Directors

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.

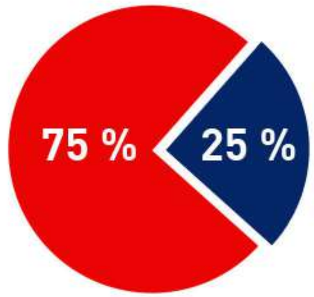
Corporate Profile

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.

MAPFRE

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

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

1934

The Company is founded by well-known Filipino entrepreneurs under the corporate name **Provident Insurance Company.**

MAPFRE ASIAN

1995

MAPFRE of Spain acquires Provident and renames the company **MAPFRE Asian Insurance Corporation.**

MAPFRE | INSULAR

2005

MAPFRE Asian Insurance Corp. merged with Insular Life Assurance Co., Ltd. and the resulting company is **MAPFRE Insular Insurance Corp.**

MAPFRE INSULAR

2017

MAPFRE INSULAR marks its 83rd year of corporate service.

Mission, Vision & Values

Mission

We are a multinational team that strives tirelessly to improve our services and ensure the best prossible relationships with our clients, distributors, providers, shareholders and society in general.

Vision

MAPFRE aims to be the most trusted global insurance company.

Values

- Solvency
- Integrity
- Service Vocation
- Innovation for Leadership
- Committed Team

Management Report

The Big Picture

The Philippines managed to achieve slight growth by the end of Q4 2018 despite heavy inflation in Q3 that caused a slump in some sectors.

The Philippines Statistics Authority marked GDP growth at 6.1% at Q4, which is significantly below targets cited by the country's economic managers.

Overall for the entirety of 2018, PSA pegged GDP full-year growth at 6.2% and still below previously mentioned targets.

According to ING, GDP expansion in Q4 slowed likely because of higher inflation combined with greater borrowing costs.

The PSA cited the industry sector for having the fastest growth with at 6.9%. The services sector followed with 6.3% growth, and then agriculture at 1.7%.

Other growth drivers in Q4 include construction, trade, personal and household goods, car repair, and other services.

Q4 Net Primary Income (NPI) grew by 0.9 percent. Meanwhile, Q4 Gross National Income (GNI) went up by 5.2 percent

Year-on-year, GNI grew by 5.8 percent, while NPI posted a 3.7 percent growth.

The Philippines' projected population for Q4 2018 is at 107.0 million and based on that, per capita GDP went up by 4.4 percent while GNI per capita grew 3.6 percent. Per capita Household Final Consumption Expenditure (HFCE) rose by 3.8 percent.

Management Report

The Insurance Industry in 2018

[All figures in millions of pesos; as of September 2018]

According to the Insurance Commission, the Philippines' insurance industry's assets went up by 0.87 percent, from 1,535,84.2 in 2017 to 1,595,221.5 in 2018.

Total liabilities also went up to 1,230,658.9 in 2018 compared to 1,215,441.4 in 2017. This represents a 1.25 percent increase.

The insurance industry's net worth dipped by 0.57 percent in 2018. In 2017, total net worth was posted at 320,402.8; this went down slightly to 318,532.6 in 2018.

Total paid-up capital and guaranty fund in 2018 was at 52,801.5, which is slightly up from 50,171.9 in 2017, by 5.24%

Investments in 2018 totaled 1,300,189.5; this is down by 0.60% from 1,308,048.2 in 2017

Total premiums for 2018 were at 218,912.1 which is up by 18.0% from 185,514.8 in 2017.

The insurance industry's total benefits payment/losses incurred in 2018 also went up to 75,663.6 from 68,255.3 in 2017. This was an increase of 10.85%.

Total net income went down by 19.36% from 27,855 in 2017 to 22,461.3 in 2018.

Life insurance in 2018

Total assets for life insurance went down by 0.54% in 2018, dipping to 1,242,900.7 from 1,249,593.2 in 2017.

Total liabilities in 2018 went down to 1,035,864.4 from 1,042,197 in 2017, representing a decrease of 0.61 percent.

Meanwhile, total net worth in 2018 went down slightly by 0.17% to 207,036.3 from 207,396.2 in 2017.

Total paid up capital for 2018 was at 21,521.1 which is up by 11.32% compared to 2017 which was at 19,332.0

Total investments 2018 went down to 1,140,257.1 compared to 1,160,169.2 in 2017. This represents a dip of 1.72%.

Total premiums 2018 were at 174,154.6, which is up by 20.39% from 144,663.8 in 2017.

Total net income 2018 was at 16,397.5 which is down by25.34% from 21,963.9 in 2017

Management Report

Non-life insurance in 2018

Total assets for non-life insurance grew by 5.16% in 2018 at 222, 680.3up from 211,752.1 in 2017

Total liabilities 2018 also went up to145,008, higher by14.15% compared to 2017, which was posted at 127,028.5

Total net worth 2018 went down to77,672.3 by about8.32% compared to 2017, which was posted at 84,723.6

Total paid-up capital 2018 rose by 1.32% at 30,339 compared to 29,945.1 in 2017

Total investments 2018 went up to 84,135.4, about 3.32% higher compared to 2017, which was at 81,420.1.

Total gross premiums written 2018 is posted at 66,321.1. This is higher by 11.06% compared to 59,717.4 in 2017

Total net premiums written 2018 amounted to 36,829.8, higher by 7.34% compared to 34,310.2 in 2017.

Total premiums earned in 2018 rose by 7.70% to 34,474.1 compared to 2017 which was posted at 32,009.

Total losses incurred in 2018 also rose to 15,832.7 up from 14,462.6 in 2017, going up by about 9.47%.

Total net income in 2018, went down to 2,128.8, compared to 2,759.9 in 2017, a dip of 22.87%.

MBAs (Mutual Benefits Associations) in 2018

Mutual benefits associations gained 12% in total assets in 2018, posting this at 83,640.5, compared to 74,498.9 in 2017.

Total liabilities went up to 49,785.5 in 2018, compared to 46,215.9 in 2017, representing a 7.73% increase.

Total fund balance went up in 2018 by 19.70% at 33,854, higher than in 2017 which was posted at 28,283.

Total guaranty fund rose to 941.4 in 2018, up by 5.21% from 894.8 in 2017.

Total investments in 2018 is at 75,797, which is 14.06% higher compared to 66,450.9 posted in 2017.

Total contributions/premiums in 2018 rose to 7, 927.7, which is higher by 21.20% compared to 6,540.8 in 2017.

Total benefits payments/expenses increased in 2018 by 9.67%, posting at 4,683.2 compared to 2017 which was at 4,270.2

In 2018, the MBAs had a higher total net surplus at 3,935, which is 25.67% higher than in 2017, which was 3,131.2.

Management Report

The Auto industry in 2018

The automotive industry experienced slower sales in Q4 with a downturn of 5.7% in November 2018.

Figures consolidated from the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI) and the Truck Manufacturers Association (TMA) show 31,258 total unit sales total for that month.

This represents a 23.4% drop in sales compared to 40,799 total units sold in November 2017.

Total sales volume for the entire automotive industry (in the first 11 months of 2018) went down by 14.4%.

Passenger car sales declined by 2.62%, which totaled 9,197 units and represented 29.42% of the market.

Industry-specific developments

Two of the most significant developments in the insurance industry are related to new regulations.

First, the Insurance Commission is implementing phased increases in risk-based and minimum capitalization requirements, along with more stringent reserving standards. All (re) insurers are expected to comply with an increasing minimum net worth from PHP550m ($11m) in 2016; going up to PHP900m ($18m) in 2019; and ultimately, to PHP1.3bn ($26m) in 2022.

Second, there's the forthcoming introduction of the new global insurance accounting standard, IFRS17, which takes effect in 2021.

The benefits of these regulations include:

a) Strengthening the solvency of insurance companies; and

b) Creating a regionally competitive Philippine insurance industry that is compliant with global best practices.

At the same time however, Philippine insurance companies would be facing significant challenges in the course of complying with these regulations.

For example, since 2016 there have been 11 local insurance companies either shut down by the Insurance Commission, or voluntarily surrendered their licenses. This was because they were unable to meet the capital requirements.

More local insurance firms potentially face the same fate unless they manage to acquire adequate capitalization.

There were also other changes in regulations by the Insurance Commision that have an impact on MAPFRE and the insurance industry as a whole. These include:

Strengthening AMLA (CL no.2018-48; CL no.2018-60) - This helps promote good governance in the insurance industry. It actually makes the industry as a whole more aligned with the policies of MAPFRE HQ.

Allowing BPO activities except for functions directly related to doing insurance business (CL No.2018-72) - this helps MIIC increase its flexibility as an organization. We can now focus more on our core competencies and speed up our business process.

Allowing insurance aggregators (CL No.2018-51) - this legalizes insurance price comparison sites; it helps promote compliance with mandated tariff rates.

Standardizing brokers agreement (advisory 13-2018) and revising penalties for breached rates(CL No.2018-67) - this regulation mandates intermediaries to share payment of penalties with insurers.

Management Report

What about adopting the IFRS17?

This requires insurance companies to implement new systems and processes -- including changing the way data is collected, analyzed, and processed.

Evidently, this means training the workforce in the proper and efficient use of these new systems and processes.

Insurance companies are required to adopt IFRS17 -- and those who fail to prepare for this (through proper training of personnel) will face sanctions and risk falling behind competitors.

Fortunately, as a multinational entity MAPFRE Insular, led by MAPFRE Global, has started preparing for the IFRS 17.

There are no foreseen problems in transitioning since there is already an able team consisting of concerned personnel; they are ready to be trained and to implement the IFRS 17 by 2022.

Our preparations were initiated much earlier than the required implementation of the Insurance Commission which is on year 2023

Tax cuts and technology

The new TRAIN Law (tax reform for acceleration and inclusion) has pros and cons for the insurance industry.

On one hand, it reduces income taxes for individual taxpayers, giving them more disposable include.

This bodes well when viewed in the context of how, by the end of 2017, insurance premiums among the total population have grown by almost 10% or about PHP 2, 477 per person.

With more disposable income among Filipinos, it is reasonable to expect this trend to continue, as a potential source of growth for the insurance sector.

On the other hand, TRAIN also imposed higher excise taxes on gasoline and automobiles. The effects of this were felt in 2018, especially during Q1 and Q2 when motor vehicle sales plummeted sharply.

For 2019, the ripples that TRAIN will cause throughout the automobile and insurance industries will have to be monitored and dealt with.

As for technology, the government pushed (in March 2018) for financial institutions and other concerned sectors to take more serious and proactive measures to protect their clients personal information and sensitive personal information, based on the new Data Privacy Act.

This can be a potential growth driver for non-life insurance providers as this may spur greater demand for cyber insurance policies. The innovation and development of insurance products related to data privacy is something local insurers should look into.

Management Report

Effects of these developments

The TRAIN Law in 2018 produced mixed effects for the non-life insurance sector.

In general, while the Non-Life sector is growing, it is still relatively small considering the size of the Philippines and its stage of insurance development.

This is because, overall, most Filipinos still consider non-life insurance as a luxury and something for which they usually do not allot funding.

As mentioned earlier, TRAIN gave more Filipinos more disposable income because of income tax cuts. At the same time, however, it imposed higher excise taxes on fuel and vehicles raised prices for these and other goods.

The push-and-pull effect of this development was seen in 2018 when MAPFRE Insular Motor Insurance Policy sales fell, primarily because both retail and commercial requirements for general insurance sought thinner margins particularly in the premium products.

Also, many customers already bought cars by Q4 of 2017 before TRAIN went in effect. This dampened the sales of motor vehicles (and car insurance policies) in 2018.

A silver lining to this was seen in a trend in the residential property market. Condominium units, duplexes, and townhouses all saw year-on-year increases in prices, while single detached/attached housing prices fell slightly. Overall, however, 2018 was still a strong year for residential properties.

This opened an opportunity to increase sales in residential property insurance as well as more uptake of construction-related insurance requirements like Contractor's All Risk (CAR) Insurance; and Erection All Risks (EAR) Insurance and Bonds.

Overcoming financial challenges

A continuing challenge not just for MAPFRE but the whole insurance industry, particularly non-life, is that they are in a highly competitive market environment with minimal margins.

To manage this, MAPFRE transformed the business into several areas of expertise that include: finance; issuance, claims, and delivery operations; technical underwriting; and commercial distribution and human capital (leveraging on technological advances to re-allocate and maximize resources). Throughout, business and administrative costs were kept at an optimal level based on cost-benefit analysis.

A major financial challenge in 2018 was the overall performance of the Philippines' investment market. Yields went up as stock prices went down; there was also peso depreciation. In the face of this, MAPFRE chose to be more prudent in its active investment management.

Management Report

Overcoming operations challenges

MAPFRE's efforts to centralize and streamline operations keeps on bearing fruit for the entire organizations and its people.

The centralization of key processes resulted in better management and improved quality of work. A large contributor to this were the standardized procedures that everyone had to follow.

This, in turn, led to reduced administrative costs. Changes were also implemented to streamline processes. Quick implementation of these changes resulted in better service for customers.

Another factor in improving operations was automation. 2018 saw the implementation of automated systems for purely clerical and repetitive tasks. This enabled MAPFRE to redirect personnel to assume functions that require technical knowledge and decision-making: Overall, this resulted in improved quality of services.

MAPFRE's commercial structure was also re-focused towards prioritized distribution channels. This meant the relocation of 10 offices and the opening of 6 new offices for a new sales team.

With this, there are expected benefits in terms of enhanced market reach; business growth; increased profitability; organizational efficiency; and a shift to a production-based structure.

These will be aided by maintaining a strategic presence as well as a standard cost, even as a more effective sales office structure continues its development.

Greater cost efficiency is also being target by maximizing savings through reengineering existing processes and rationalizing agreements with business partners.

Overall performance for 2018

Despite all the challenges faced by MAPFRE in 2018, its overall performance resulted in a positive income, with a 98.7% combined ratio.

Net result before taxes went up by 95.5% compared to 2017. Net results after taxes were also higher by 32% compared to 2017. This is based on unaudited 2018 results

Positive net income resulted from the following: better claims experience in 2018; and an improvement in acquisition costs and managed expenses (this despite the combined impact of lower premiums written and a more challenging investment market).

As for the new capitalization and reserve requirements as well as the new accounting regulations, MAPFRE Insular's multinational status enables it to meet the new capitalization and reserve requirements as well as the new accounting regulations.

With the support of the Global office in Spain MAPFRE started early to adopt the new accounting standards. Local insurance partner Insular Life for its part helped increase the capitalization requirements.

MAPFRE also reinforced the MAPFRE Insular Virtual Office in Q4 2018. Technology has always been one of MAPFRE's strong points, and the virtual office is one way to cater to customers' needs.

As more people are increasingly dependent on smartphones, tablets, and other gadgets for faster, more secure, and more convenient online transactions, the MAPRE Insular Virtual Office is one way of reaching out to them.

However, as the next section of this report shows, the digital channel is best used as a support (not a replacement) for non-digital, conventional, real-life channels.

Digital technology

The adoption of digital technology is a way to delight and encourage customers to take up greater interest in buying an insurance policy. However, this still cannot overcome what customers usually cite as the main factor in their decision to buy or not to buy car insurance: the price of the policy.

Studies also show that customers who rely solely on mobile digital channels to purchase car insurance (or any other insurance) are less loyal.

Studies do show that, overall, the most loyal customers are the "hybrid" ones -- those who keep contact with their insurance provider through multiple channels including digital, insurance agents, and call centers.

Customers who use digital only give their insurance providers lower marks when it comes to personalization, understanding their needs, and in their level of trust in the company's ability to solve problems that may arise.

Speaking of digital tools, presently, MAPFRE has a QR (Quick Response) Code in all Tronweb-issued policy documents. This not only allows customers to make transactions online but also reduces the level of fraud. This level of security and authenticity has become a differentiator among insurance providers. This has already enabled MAPFRE to detect two attempts at fraud from provincial sales offices.

MAPFRE also installed two digital services on its website, the CTPL Online page (compulsory third party liability) and the Claims Upload Documents page (UpDocs).

On March 2018, MAPFRE activated the UpDocs function on its website. This provides customers a convenient and hassle-free way to submit claims documents right from their home or office. Claimants are not notified via e-mail for faster processing.

On the other hand, the CTPL Online Page was activated on October 1, 2018. This allows customers to apply for and process CTPL insurance online - a major convenience.

Both of these online features help create a seamless customer experience, crossing over from digital to non-digital channels and vice-versa

Management Report

Customer care

In 2018, MAPFRE Insular showed that it can adapt and even thrive in a changing, challenging, and competitive environment -- and manage to attract and retain customers.

In doing so, it has redefined what it means to be a non-life insurance company. This was done by changing how it relates to customers and intermediaries: essentially transforming from a provider into a partner.

Of course, the usual order of business was done well: assessing risk, selling policies, and processing claims.

However, all that was made even better for customers and intermediaries by leveraging technological innovations in service deliver; centralizing support operations; allocating capital; and more crucially, providing comprehensive and innovative solutions to customers' everyday needs to better protect their wealth, health, and personal property.

Management Report

Corporate governance

MAPFRE still ranks in the Top 5 Non-Life Insurance Companies based on its official ACGS scorecard for 3 consecutive years.

In 2018, it was determined that MAPFRE Insular was 92.00 % Compliant towards Solvency Policies and Corporative Regulations of the MAPFRE GROUP.

Also, the compliance team in the Philippines was able to meet 89.72% of the thirty-five [35] Periodic Obligations identified by the insurance regulator.

MAPFRE INSULAR also remains highly preferred as a place to work by its employees. According to the employees, they take pride and enthusiasm to be part of a company that upholds transparency and integrity.

They also appreciate how the company champions cultures and values, the drive for innovation, and the creation of opportunities within the organization.

They see that the company as a whole is at the forefront of innovation and digital transformation, and is a leader when it comes to advances in the industry.

Key Risks

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

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 benefits 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 the originally estimated and subsequent development of long-term claims.

Investment Risk - This risk refers to the probability or likelihood of occurence of losses relative to the expected return on any particular investment.

Credit Risk - This risk refers to the probability that a counter party fails to meet its contractual obligations resulting to an adverse effect on the value of a money market or debt security such as a bond.

Currency Risk or Foreign Exchange Risk - This risk refers to the probability that the valou of investments held in foreign currencies, such as the US Dollar, may fluctuate against the local currency or Philippine Peso due to changing interest rates and inflation rates. This risk may also occur when foreign governments restrict currency exchange, impeding cash distributions or processing of fund redemptions.

Interest Rate Risk - This risk refers to the possibilit that the value of an investments with holding in fixed-income securities such as bonds may rise and fall rates contrary, when interest rate rise, the value of an existing bond generally falls

Liquidity Risk - This risk refers to the possibility that assets or securites may not be bought or sold within a desired time and at fair value, which in turn may affect the value of an investment or satisify investment purchase and redemption services of the Company to its policy holders.

Regulatory Risk - This risk refers to the probability that certain laws and regulations applicable to insurance products, including income tax and other regulations and the administrative policies and practices of regulatory authorities may change in a manner that adversely affects the value of premium.

Management Report

Prospects for 2019

MAPFRE Insular sees that a personalized approach to customers can create the biggest opportunities for 2019.

This means collecting data systematically and providing access to them across the organization. This also means using artificial intelligence to emulate retailers and create bespoke offerings.

(Along with customer data and engagement, MAPFRE is also increasing visibility through more sales offices across the country. Its compliance with the new regulatory requirement on capitalization increases will also give MAPFRE and edge over those who are unable to comply immediately or at all.)

By knowing and understanding customers more, MAPFRE is able to reach out to customers in a timely manner, right up to when they are ready to purchase policies through their preferred distribution channels, whether digital or non-digital.

Greater understanding of customers and their needs allows for the creation of ecosystem services with the potential to build loyalty and increase profits.

Policyholders with ecosystem services are likely to be safer, healthier, and they provide enough data to further customize offerings and allow MAPFRE to be more efficient in delivering these.

The desired result is a product program that provides product proposals that are individualized to how much they are willing to pay in return for a chosen benefit for an asset that is of value to them.

This will, in turn, help create loyalty programs that increase and enhance customer experience.

This approach is also more cost-effective: research shows that retaining an existing customer is seven times less costly than acquiring a new customer.

More customer data and engagement also potentially leads to markets were MAPFRE Insular may compete more profitably (and benefit customers and business partners as well).

Corporate Governance

STATEMENT ON FULL COMPLIANCE WITH CODE OF GOOD CORPORATE GOVERNANCE

To support the objectives of the Insurance Commission of enhancing the corporate accountability of insurers and intermediaries, promote the interests of their stakeholders specifically those of the policyholders, claimants and creditors, MAPFRE Insular has prepared and adopted a Code on Corporate Governance.

The governing bodies of MAPFRE Insular have felt a particular concern for good corporate governance, and to this end, a series of principles and rules were established in order to define the structure and composition of its management bodies and govern the relations between them, in order to ensure their actions are in accordance with the rules and principles defined herein. MAPFRE Insular's directors, officers, and staff are enjoined to implement and observe this Code. As MAPFRE Insular progresses, the Code shall be kept under constant review and revision to meet the emerging standards of good corporate governance practices.

COMPLIANCE TO REVISED CODE OF ETHICS AND CONDUCT

The Code and its supplementary regulations shall be complied by all directors, management and employees of the companies in the MAPFRE Group. This code shall likewise be applicable to the members of these companies' administrative bodies and to anyone who maintains a relation of close or permanent collaboration with MAPFRE 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.

It must be ensured that the providers, contractors and other individuals who maintain professional relationships with MAPFRE are familiar with all aspects of the Code that affect them. Where necessary, and where this depends on MAPFRE, they will be required to behave according to the principles and standards established therein.

PRINCIPLES OF ETHICAL, TRANSPARENT AND SOCIALLY RESPONSIBLE BEHAVIOR

These three principles constitute the cornerstone of the standards in this Code, and include the following:

Ethical, Transparent and socially-committed action, in recognition of the role and responsibility of private companies in contributing to the effective development and progress of society. In addition, respect must be ensured for the legitimate rights of all natural persons and legal entities with whom it maintains relations, and with those of society as a whole. This implies:

a) Strict compliance with the laws, contracts and obligations deriving from them, and with good uses and commercial practices

b) Respect for the rights and commitments undertaken with anyone participating as partners or shareholders in the various MAPFRE companies

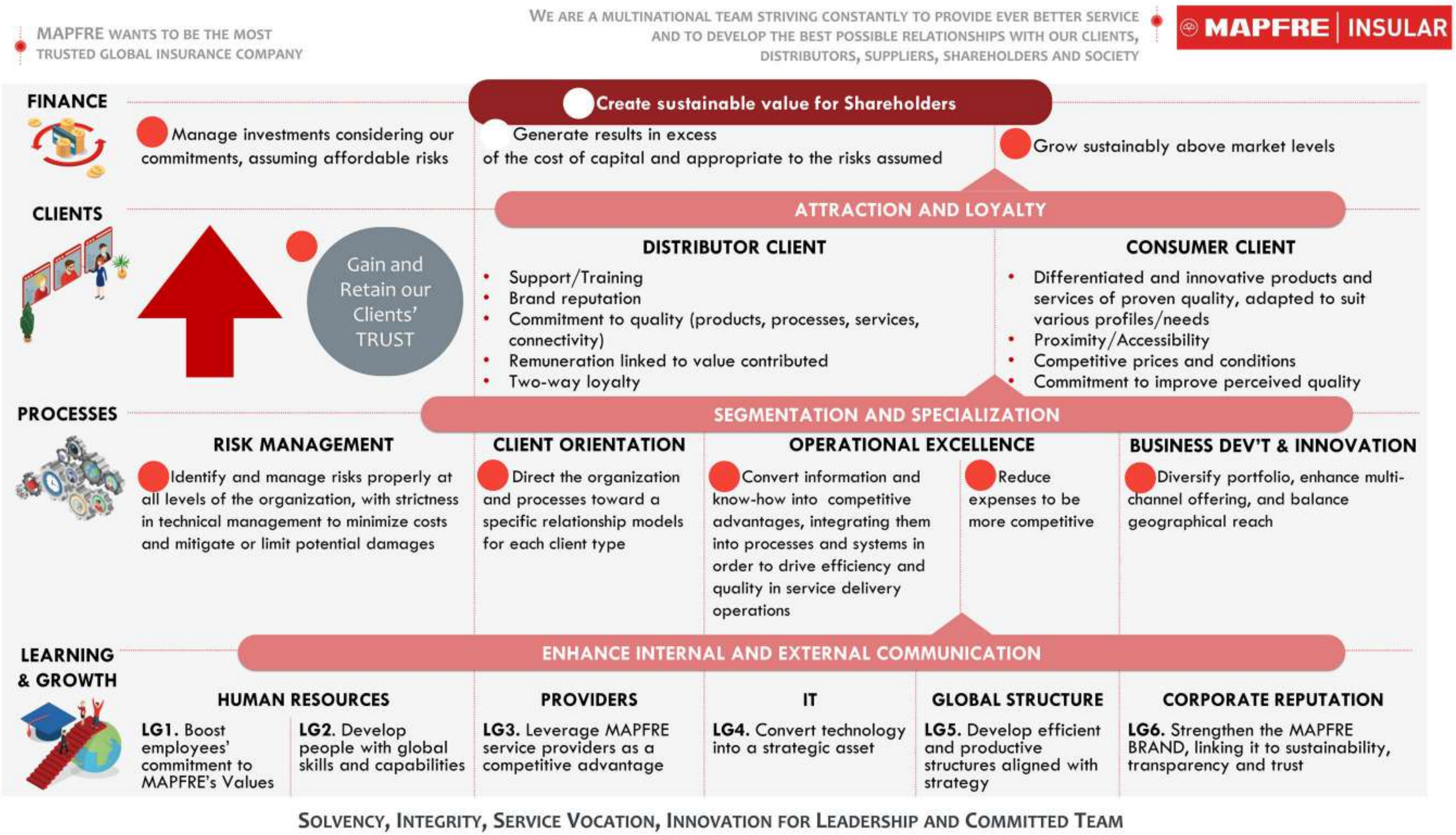
c) Fairness in relationships with board members, senior executives, employees, representatives, agents and collaborators. This requires objectively during the selection and promotion processes, appropriate and reasonable remuneration and collaboration conditions, and non-discrimination on the grounds of race, political ideology, religious beliefs, gender or social status.

d) Commitment to transparency and truthfulness in the offer of products and services, and in the information provided to shareholders, clients and the general public, and the constant pursuit of excellence when providing the services under contract.

e) Development of businesses and activities that are sustainable over time and respect the surroundings, the environment and the interests of the community.

Mutual respect and complete consideration for human rights and values are the keyston of MAPFRE'S relations with and between individuals.

Corporate Objectives



Company Policies

Internal Control Policy

MAPFRE has adopted the following definition of Internal Control "Set of ongoing processes, which are effected by the Governing Bodies and designed to provide reasonable assurance, within the framework of the Institutional, Business and Organizational Principles of the MAPFRE Groupd, regarding the achievement of MAPFRE's objectives in relation to the efficiency and effectiveness of operations reliability of information (financial and non-financial, and both internal and external), as well as compliance with applicable laws and regulations". This policy shall be applicable in MAPFRE both at company and GROUP Levels. All the Managers and employees of the GROUP must know and observe this policy.

Due to its nature, Internal Control involves all people, irrespective of their professional level within the organization, who collectively contribute to providing reasonable assurance on the achievement of the objectives mainly regarding to:

o **Operations objectives:** Effectiveness and efficiency of operations, differentiating the insurance operations (mainly underwriting, claims, reinsurance and investment) as support operations and functions (Human Resources, Administration, Commercial, Legal, IT, etc.)

o **Reporting objectives:** Trustworthiness of information (financial and non-financial, both internal and external) regarding its reliability, timeliness or transparency, among others.

o **Compliance objectives:** Compliance with applicable laws and regulations.

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)

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.

Company Policies

ANTI-BRIBERY and ANTI-CORRUPTION POLICY

Corruption and Bribery arise when the employees make use of unethical practices to obtain some benefit or advantage for the company, for themselves or for third parties.

MAPFRE Insular is against all unethical practices aimed at inappropriately influencing the action and will of other people in order to gain advantages or benefits. Nor does it allow other individuals or companies to engage in these practices with its employees. MAPFRE's anti-corruption policy establishes the basic regulations and the framework to prevent and detect corrupt practices in operations relating to the Group's activities.

Employees may not solicit or accept, or otherwise promise, offer or bestow, directly or indirectly, gifts, payments, invitations, commissions, compensation, favors or advantages of any type to obtain remuneration or to attempt to inappropriately influence their commercial or professional relations with public officials, employees, managers and administrators of public companies or bodies, organizations and political parties, politicians or candidates for public office.

CONFLICT OF INTEREST

Conflict of interest arise when the personal interests of employees or of the people associated to them, either directly or indirectly, contradict or clash with MAPFRE Insular's own interest, interfere in the strict fulfillment of their professional duties and responsibilities, or involve them in a personal capacity in any of the company's transactions or economic operations.

Before any decision is made on the mater in question, any employees who may be affected by a conflict of interest must report this circumstance to the company's management through hierarchical superior, so that the necessary measures may be taken to prevent any compromise to their impartiality. The employee must refrain from taking any action in this regard until he or she has obtained the corresponding response to their query.

RELATED PARTY TRANSACTION

The purpose of this policy for managing conflicts of interest and related party transactions (RPT) is to ensure that RPT transactions are only undertaken on an arm's length basis for the financial, commercial and economic benefit of MAPFRE Insular Insurance Corporation.

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.

Related Party transactions (RPT's) exist and details of which are provided in NOTE 31 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.**

Mostly transactions related to the Mandatory OFW Insurance policy both written by MAPFRE and Insular consist the RPT of the company. Also enhancement and development cost for support system purchased from MAPFRE Tech, S.a was considered as related party transaction.

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 2018 amounted to P1,108,972 million while the non-audit fee is NIL.

Company Policies

DATA PRIVACY PROTECTION

MAPFRE INSULAR Insurance Corporation fully pledge to comply to the mandate of NPC in protecting the fundamental human right of privacy of communication while ensuring free flow of information to promote innovation and growth. MAPFRE INSULAR respects the privacy of all their customers and business partners and is committed to the safe-guarding the personal information provided to the company.

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.

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.

The Board

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.

2018 Annual Remuneration Matrix for the Board of Directors were as follows:

Position	Director Fee	Director Fee
Chairman	$ 60,000.00	$ 60,000.00
Vice Chairman	$ 40,000.00	$ 40,000.00
Board Member (Executive)	$ 40,000.00	$ 40,000.00
Board Member (Non-Executive / Independent)	$ 40,000.00	$ 40,000.00

COMMITTEE ON RELATED PARTY TRANSACTION

The following form part of the obligations and responsibilities of the RPT Committee:

o Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified RPT's are monitored, and subsequent changes in relationships shall be reflected in the relevant reports to the board and regulators/supervisors.

o Evaluate al material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of MAPFRE Insular are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.

o Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to MAPFRE INSULAR RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the apporach to managing material conflicts of interests that are inconsistent with such policies; and conflicts that could arise as a result of MAPFRE Insular's affiliation or transactions with other related parties.

o Report to MAPFRE Insular board or directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.

o Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.

o Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

The Board

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.

2018 BOARD MEETINGS

Regular Board Meetings

Directors	03/09	06/27	09/19	12/10
LEIRE JIMENEZ AYESA	✓			
LUIS C. LAO	✓	✓	✓	✓
TIRSO C. ABAD	✓	✓	✓	✓
AMBROSIO B. MANGILIT, JR.	✓	✓	✓	
MONA LISA B. DELA CRUZ	✓		✓	✓
MAYO JOSE B. ONGSINGCO	✓	✓	✓	✓
SILVERIO BENNY J. TAN	✓	✓	✓	✓
NIKOS ANTIMISSARIS		✓	✓	✓
PEDRO E. ROXAS		✓	✓	
FRANCISCO M. NORIEGA		✓	✓	✓
JONAS-KARL V. PEREZ	✓	✓	✓	✓
PAMELA JOY R. CO	✓	✓	✓	✓

Special Board Meetings

Directors	01/15	02/06	02/27	04/04	05/09	06/07	08/09	08/28	10/22	11/23	12/3
LEIRE JIMENEZ AYESA	✓	✓	✓								
LUIS C. LAO	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓
TIRSO C. ABAD	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
AMBROSIO B. MANGILIT, JR.	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
MONA LISA B. DELA CRUZ				✓	✓	✓			✓	✓	✓
MAYO JOSE B. ONGSINGCO	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
SILVERIO BENNY J. TAN	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
NIKOS ANTIMISSARIS					✓	✓	✓	✓		✓	
PEDRO E. ROXAS					✓	✓	✓	✓		✓	✓
FRANCISCO M. NORIEGA					✓	✓	✓		✓	✓	
JONAS-KARL V. PEREZ				✓					✓		✓
PAMELA JOY R. CO	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓

The Board

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.

2018 COMMITTEES

Executive Committee

Tirso C. Abad
Chairman

Nikos Antimissaris
Member

Luis C. LaO
Member

Pedro E. Roxas
Member

Investment Committee

Mayo Jose B. Ongsingco
Chairman

Mona Lisa B. dela Cruz
Member

Tirso C. Abad
Member

Ambrosio B. Mangilit
Member

Nomination Committee

Mayo Jose B. Ongsingco
Chairman

Mona Lisa B. dela Cruz
Member

Silverio Benny J. Tan
Member

Renumeration Committee

Ambrosio B. Mangilit
Chairman

Mayo Jose B. Ongsingco
Member

Pedro E. Roxas
Member

Audit Committee

Ambrosio B. Mangilit
Chairman

Luis C. LaO
Member

Mayo Jose B. Ongsingco
Member

Mona Lisa B. dela Cruz
Member

Silverio Benny J. Tan
Member

Pedro E. Roxas
Member

2018 Audit Committee Meetings : March 19; June 27; Sept. 19; Dec. 10

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.

Shareholder Information

The Company's Shareholders

The Company's Shareholders	Shares held	Amount Paid	% of Ownership	Nationality
MAPFRE INTERNACIONAL S.A	7,493,848	Php374,692,400.00	74.93%	SPANISH
LUIS C. LAÓ	1	Php50.00	nil	FILIPINO
TIRSO C. ABAD	1	Php50.00	nil	SPANISH
LEIRE JIMENEZ AYESA	1	Php50.00	nil	SPANISH
AMBROSIO B. MANGILIT, JR.	1	Php50.00	nil	FILIPINO
INSULAR LIFE ASSURANCE COMPANY, LTD.	2,499,998	Php124,999,900.00	24.99%	FILIPINO
MONA LISA B. DELA CRUZ	1	Php50.00	nil	FILIPINO
MAYO JOSE B. ONGSINGCO	1	Php50.00	nil	FILIPINO
PEDRO E. ROXAS	1	Php50.00	nil	FILIPINO
NIKOS ANTIMISSARIS	1	Php50.00	nil	GREEK
FRANCISCO M. NORIEGA	1	Php50.00	nil	INDONESIAN
SILVERIO BENNY J. TAN	1	Php50.00	nil	FILIPINO
OTHER STOCKHOLDERS	6,144	Php307,350.00	nil	FILIPINO

Company Website

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

Fundacion MAPFRE

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 societ.y"

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 committment to solidary 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

2018 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 PHP 1,875,322. 13

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 2018 - 2019, a total of 1,050 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 2018 - 2019, Fundacion MAPFRE granted ERDCC a total of Php 1,875,322. 13 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.

Fundacion MAPFRE

b. Kalipay Negrense Foundation, Inc. (KNFI) – donation of PHP 1,488,970.95

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 2018, in collaboration with Fundacion MAPFRE, KNFI continued with the "Residential Care Program". The beneficiary of the program involved 101 rescued children under the age of 18 and young people ages 19 – 20. 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.

c KAng Nagkahiusang Kabatan-onan Alang sa Kalamboan (ANAKK) Sta. Cruz

ANAKK Sta. Cruz is a non-profit organization based in Davao del Sur, they promote the rights of disadvantaged youth and provides alternative learning systems, formal education and livelihood skills to children and youth. ANAKK Sta. Cruz is supported by Fundacion Real Madrid and Fundacion MAPFRE.

Coca-Cola FEMSA Philippines has partnered with ANAKK Sta. Cruz and Fundacion Real Madrid for its Social Sports School Program to instill values and believing in the skills and positive habits among children. The program aims to give the out of school youth a socio educational development. Annually, coaches of Real Madrid fly to the Philippines to teach the local instructors and some players the fundamentals of football which they then pass on to the unschooled youth.

3. Outreach programs ran in 2018 and its highlights

MAPFRE INSULAR together with Ibero Asistencia and MAPRE RE joint in re-painting Muntinlupa National High School - Tunasan Annex Branch on October 27th.

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.

- Attended the first Copa Alma Filipinas event of Fundacion Real Madrid to represent MAPFRE with ANAKK Sta. Cruz on May 27th.
- Attended the distribution of benefits ceremony in giving their uniforms and school materials on June 6th.
- Attended and facilitated health and nutrition activities during the Nutrition Month Celebration on July 27th.
- Distributed computer desktop donations on October 25th.
- Collection of donations and deposited to KNFI's bank account for the use of necessities of the kids in the foundation on November 20th.
- Collection and delivery of food donations to families of the children on November 29th.
- Assisted in the distribution of Christmas gifts to the children and their families during the Christmas Party of the center on December 8th

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

None for 2018

Fundacion MAPFRE

6. Photos of the activities

ANAKK Sta. Cruz (first Copa Alma Filipinas, May 27th

ERDCC (Sets of School Materials, June 6th

ERDCC (Nutrition Month, July 27th)

ANAKK Sta. Cruz (first Copa Alma Filipinas, May 27th

School Re-painting (October 27th)

MAPFRE INSULAR INSURANCE CORPORATION

FINANCIAL STATEMENTS
December 31, 2018 and 2017

KPMG

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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, 2018 and 2017, and the statements of profit or loss and other comprehensive loss, changes in equity and 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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). 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 PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

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

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

Report on the Supplementary Information Required Under Revenue Regulations 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 38 to the basic financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Tireso Randy F. Lapidez

TIRESO RANDY F. LAPIDEZ
Partner
CPA License No. 0092183
IC Accreditation No. SP-2017/016-R, Group A, valid until August 26, 2020
SEC Accreditation No. 1472-AR-1, Group A, valid until July 2, 2021
Tax Identification No. 162-411-175
BIR Accreditation No. 08-001987-34-2017
Issued September 4, 2017; valid until September 3, 2020
PTR No. MKT 7333620
Issued January 3, 2019 at Makati City

March 25, 2019
Makati City, Metro Manila

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2018	2017
ASSETS			
Cash and cash equivalents	*4, 35*	**P132,291,300**	P195,348,862
Short-term investments	*5, 35*	**52,841,722**	1,873,167
Insurance receivables - net	*6, 35*	**828,776,909**	1,054,743,942
Available-for-sale financial assets	*7, 35*	**1,056,272,989**	1,347,692,874
Loans and receivables - net	*8, 35*	**94,746,443**	99,079,863
Accrued income	*9, 35*	**12,528,652**	15,429,575
Reinsurance assets	*10, 17*	**1,755,454,101**	1,523,306,416
Deferred acquisition costs	*11*	**174,009,915**	228,062,270
Property and equipment - net	*12*	**210,599,975**	217,367,082
Investment properties - net	*13*	**14,846,499**	15,281,346
Intangible assets - net	*14*	**123,432,608**	117,722,928
Goodwill	*15*	**33,794,284**	33,794,284
Net pension asset	*20*	**15,057,344**	13,781,427
Deferred tax assets - net	*28*	**117,818,286**	170,746,733
Other assets	*16*	**220,117,385**	176,300,158
		P4,842,588,412	P5,210,530,927
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities	*17*	**P2,762,159,978**	P2,885,691,509
Insurance payables	*18, 35*	**654,157,257**	733,970,956
Trade and other liabilities	*19, 35*	**374,425,114**	463,961,913
Deferred reinsurance commission	*11*	**34,255,150**	38,636,577
		3,824,997,499	4,122,260,955
Equity			
Capital stock	*30*	**500,000,000**	500,000,000
Additional paid-in capital	*30*	**200,446,070**	200,446,070
Contributed surplus	*30*	**100,000,000**	100,000,000
Retirement benefit reserve	*20*	**(13,706,832)**	(23,602,900)
Revaluation reserve on available-for-sale financial assets	*7*	**(119,861,572)**	(6,565,525)
Retained earnings		**350,713,247**	317,992,327
	35	**1,017,590,913**	1,088,269,972
		P4,842,588,412	P5,210,530,927

See Notes to the Financial Statements.

MAPFRE INSULAR INSURANCE CORPORATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS

		Years Ended December 31	
	Note	**2018**	2017
UNDERWRITING INCOME			
Gross premiums written		**P1,686,122,464**	P2,213,971,313
Reinsurance premium assumed		**15,343,018**	24,471,262
Gross premium on insurance contracts	*17, 21*	**1,701,465,482**	2,238,442,575
Reinsurance premium ceded	*17, 21*	**(755,789,758)**	(921,271,462)
Premium retained		**945,675,724**	1,317,171,113
Net change in reserve for unearned premiums - net of reinsurance premiums reserve		**221,698,908**	46,252,682
Net premiums earned	*17, 21*	**1,167,374,632**	1,363,423,795
Commission income	*11*	**85,390,986**	84,271,551
Other underwriting income	*22*	**99,489,527**	3,673,083
GROSS UNDERWRITING INCOME		**1,352,255,145**	1,451,368,429
UNDERWRITING EXPENSES			
Gross insurance contract benefits and claims paid	*17, 23*	**690,888,060**	1,396,982,173
Reinsurers' share of gross insurance contract benefits and claims paid	*17, 23*	**(135,896,324)**	(761,303,761)
Gross change in insurance contract liabilities	*23*	**110,793,588**	(1,217,687,553)
Reinsurers' share of gross change in insurance contract liabilities	*23*	**(244,773,896)**	1,192,796,342
Net insurance benefits and claims		**421,011,428**	610,787,201
Commission expense	*11*	**431,680,515**	440,912,406
TOTAL UNDERWRITING EXPENSES		**852,691,943**	1,051,699,607
NET UNDERWRITING INCOME		**499,563,202**	399,668,822
OTHER INCOME - Net			
Investment income	*24*	**69,020,387**	126,201,964
Foreign exchange gain - net		**4,108,707**	7,497,506
Gain (loss) on sale of property and equipment	*12*	**6,119**	(66,649)
Other income	*25*	**33,418,053**	20,107,351
		106,553,266	153,740,172
NET UNDERWRITING AND OTHER INCOME		**606,116,468**	553,408,994
OTHER OPERATING EXPENSES			
General and administrative expenses	*26*	**489,400,365**	477,979,250
Service fees	*27*	**23,965,231**	28,315,874
		513,365,596	506,295,124
INCOME BEFORE TAXES		**92,750,872**	47,113,870
TAXES			
Current tax expense		**-**	3,800,871
Deferred tax expense		**48,687,275**	11,442,901
Final tax		**11,342,677**	12,517,166
	28	**60,029,952**	27,760,938
NET INCOME		**P32,720,920**	P19,352,932

Forward

	Note	Years Ended December 31 2018	2017
OTHER COMPREHENSIVE LOSS			
Items to be reclassified to profit or loss in subsequent periods			
Net change in fair value of available-for-sale financial assets	*7*	**(P110,505,213)**	(P26,341,817)
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	*7, 24*	**(2,790,834)**	(50,098,711)
Tax effect		**-**	224,921
		(113,296,047)	(76,215,607)
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurements of the net pension assets	*20*	**14,137,240**	10,562,004
Tax effect	*20*	**(4,241,172)**	(3,168,601)
		9,896,068	7,393,403
		(103,399,979)	(68,822,204)
TOTAL COMPREHENSIVE LOSS		**(P70,679,059)**	(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 (Note 30)	Contributed Surplus (Note 30)	Retirement Benefit Reserves (Note 20)	Revaluation Reserves on Available-for-Sale Financial Assets (Note 7)	Retained Earnings	Total
Balance at January 1, 2018	**P500,000,000**	**P200,446,070**	**P100,000,000**	**(P23,602,900)**	**(P6,565,525)**	**P317,992,327**	**P1,088,269,972**
Net income for the year	-	-	-	-	-	32,720,920	32,720,920
Other comprehensive income (loss) - net of tax effect	-	-	-	9,896,068	(113,296,047)	-	(103,399,979)
Total comprehensive income (loss) for the year	-	-	-	9,896,068	(113,296,047)	32,720,920	(70,679,059)
Balance at December 31, 2018	**P500,000,000**	**P200,446,070**	**P100,000,000**	**(P13,706,832)**	**(P119,861,572)**	**P350,713,247**	**P1,017,590,913**
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 income (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

See Notes to the Financial Statements.

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before taxes		**P92,750,872**	P47,113,870
Adjustments for:			
Change in:			
Net change in reserve for unearned premiums - net of reinsurance premium reserve		**(221,698,908)**	(46,252,682)
Deferred reinsurance commissions		**(4,381,427)**	7,570,379
Deferred acquisition costs		**54,052,355**	6,270,769
Depreciation and amortization	*12, 13, 14, 26*	**52,881,600**	59,823,207
Retirement expense	*20, 26*	**12,861,323**	14,720,739
Loss (gain) on sale of property and equipment	*12*	**(6,119)**	66,649
Gain on sale of available-for-sale financial assets	*7, 24*	**(2,790,834)**	(50,098,711)
Dividend income	*7, 24*	**(5,418,417)**	(8,252,900)
Foreign exchange gain - net		**(7,826,386)**	(7,498,983)
Reversal of impairment losses	*6, 8, 25*	**(30,404,354)**	(18,233,893)
Interest income	*24*	**(57,998,263)**	(65,230,760)
Operating loss before changes in working capital		**(117,978,558)**	(60,002,316)
Changes in:			
Insurance receivables		**246,385,578**	(466,681,331)
Loans and receivables		**14,319,229**	46,679,272
Reinsurance assets	23	**(244,773,896)**	1,192,796,342
Other assets		**(43,817,227)**	(5,065,362)
Insurance contract liabilities		**110,793,588**	(1,217,687,553)
Insurance payables		**(79,813,699)**	415,287,950
Trade and other liabilities		**(89,536,799)**	7,921,529
Net cash used in operations		**(204,421,784)**	(86,751,469)
Income tax paid		**(11,342,677)**	(16,542,957)
Net used in operating activities		**(215,764,461)**	(103,294,426)

Forward

	Note	Years Ended December 31 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale/maturities of:			
Available-for-sale financial assets		**P239,153,549**	P259,081,092
Property and equipment		**1,750,455**	2,155,992
Short-term investments		**-**	5,466,003
Interest received		**56,872,714**	80,111,174
Dividends received		**8,001,750**	8,252,900
Acquisitions of:			
Property and equipment	*12*	**(25,962,799)**	(13,726,704)
Intangible assets	*14*	**(27,170,863)**	(34,408,639)
Available-for-sale financial assets	*7*	**(56,795,738)**	(155,755,511)
Short-term investments		**(50,968,555)**	-
Contributions to the retirement plan	*20*	**-**	(32,400,329)
Net cash provided by investing activities		**144,880,513**	118,775,978
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(70,883,948)**	15,481,552
EFFECT OF MOVEMENTS IN EXCHANGE RATES ON CASH HELD		**7,826,386**	7,498,983
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**195,348,862**	172,368,327
CASH AND CASH EQUIVALENTS AT END OF YEAR	*4*	**P132,291,300**	P195,348,862

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 nonlife insurance authorized by law. On January 22, 2019, Certificate of Authority was granted to the Company by the Insurance Commission (IC) effective January 1, 2019 to December 31, 2021.

The Company is 74.94% owned by MAPFRE Internacional of Spain (MAPFRE Internacional or the Parent Company) and 25.00% 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 (PAS), and Philippine Interpretations.

The financial statements of the Company as at and for the year ended December 31, 2018 have been reviewed, approved and authorized for issue by the Board of Directors (BOD) of the Company on March 25, 2019.

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	Present value of the defined benefit obligation (DBO) less fair value of plan assets (FVPA)

Functional and Presentation Currency

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

3. 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) Classifying Financial Instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition either as a financial asset, financial liability or an equity in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

(b) 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.

(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.

(d) Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of claims have been developed through consultation and 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. Management has determined that the present obligations with respect to contingent liabilities and claims with respect to contingent assets do not meet the recognition criteria, and therefore has not recorded any such amounts. It is probable, however, that the future results of operations could be materially affected by changes in or in the effectiveness of the strategies relating to these proceedings.

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 within the next financial year are discussed below:

(a) Valuation of Insurance Contract Liabilities

Estimates have to be made for the expected ultimate costs of claims reported and incurred but not yet reported (IBNR) at the end of the reporting period. It can take a significant period of time before the ultimate costs of claims can be established with certainty.

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 per 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.

The primary technique adopted by management in estimating the ultimate loss is using the Incurred Chain Ladder Method and Expected Loss Ratio excluding one-off and large claims to predict the future claims settlement. Both actuarial projection techniques are acceptable as per IC Circular Letter (CL) No. 2018-18, *Valuation Standards for Nonlife Insurance Policy Reserves*.

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.

As at December 31, 2018 and 2017, the Company's provision for claims reported and IBNR amounted to P1.76 billion and P1.65 billion, respectively (see Note 17).

(b) *Liability Adequacy Test*
At each reporting period, management performed liability adequacy test to determine if there is a need to set aside expected claims and expenses which could arise during the unexpired coverage period of the policies after the reporting date which is over and above the reserve for unearned premiums. The Company calculated the best estimate of future claims and expenses for each line of business using actuarial valuation techniques. Expected future claims include policy maintenance and claims handling expenses.

As at December 31, 2018 and 2017, the carrying amount of the reserve for unearned premium, net of deferred acquisition cost amounting to P823.99 million and P1.00 billion, respectively (see Notes 11 and 17) are adequate in light of the latest current estimates and taking into the provisions of PFRS 4 *Insurance Contracts*.

(c) *Estimating 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 collectability 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.

As at December 31, 2018 and 2017, the carrying amount of insurance receivables and loans and receivables amounted to P923.52 million and P1.15 billion, respectively (see Notes 6 and 8).

(d) *Estimating 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 and interest 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 other comprehensive income (OCI).

In 2018 and 2017, the Company assessed that there are no impairment indicators for its AFS financial assets. As at December 31, 2018 and 2017, AFS financial assets amounted to P1.06 billion and P1.35 billion, respectively (see Note 7).

(e) *Fair Value of Financial Assets and Liabilities*
The fair value of financial instruments traded in active markets (such as financial assets at FVPL and AFS financial assets) is based on quoted market prices or quoted prices for similar assets or liabilities at the reporting date. If the financial instrument is not traded in an active market, the fair value is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

As at December 31, 2018 and 2017, the Company's financial instruments carried at fair value are classified as Level 1 and Level 2 in the fair value hierarchy.

(f) *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 cash generating unit (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 2018 and 2017, no impairment loss was recognized for the Company's nonfinancial assets. The table below shows the carrying amount of the Company's nonfinancial assets.

	Note	**2018**	2017
Property and equipment - net	*12*	**P210,599,975**	P217,367,082
Intangible assets - net	*14*	**123,432,608**	117,722,928
Goodwill	*15*	**33,794,284**	33,794,284
Investment properties - net	*13*	**14,846,499**	15,281,346
		P382,673,366	P384,165,640

(g) Recoverability 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. Deferred tax 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 which can be utilized to increase the likelihood that deferred tax assets will be realized.

Deferred tax assets amounted to P174.64 million and P245.19 million as at December 31, 2018 and 2017, respectively (see Note 28).

(h) Present Value of DBO

The determination of DBO is dependent on the selection of certain assumptions used in calculating such amounts and is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increase, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a DBO is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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 DBO.

As at December 31, 2018 and 2017, the Company's net pension asset amounted to P15.06 million and P13.78 million, respectively (see Note 20).

4. Cash and Cash Equivalents

This account consists of:

	Note	**2018**	2017
Cash on hand		**P146,907**	P179,778
Cash in banks		**69,669,409**	151,127,296
Short-term placements		**62,474,984**	44,041,788
	35	**P132,291,300**	P195,348,862

Cash in banks consist of peso and foreign currency-denominated deposits which earn interest at the prevailing bank deposit rates. Short-term placements consist of peso time deposits which are made for varying periods up to three (3) months depending on the immediate cash requirement of the Company, and earn annual interest ranging from 2.00% to 6.75% in 2018 and from 0.75% to 2.50% in 2017.

Interest income earned on cash in banks and cash equivalents amounted to P0.34 million and P0.40 million in 2018 and 2017, respectively (see Note 24).

5. Short-term Investments

Short-term investments amounting to P52.84 million and P1.87 million as at December 31, 2018 and 2017, respectively, represent certificates of deposit with local banks with maturities of more than three (3) months but less than one (1) year and earn interest ranging from 0.01% to 4.86% per annum.

Interest income on short-term investments amounted to P2.26 million and P0.97 million for the years ended December 31, 2018 and 2017, respectively, and presented as part of "Investment income" in the profit or loss (see Note 24).

6. Insurance Receivables

This account consists of:

	Note	**2018**	2017
Premiums receivable:			
Third parties		**P706,020,506**	P846,637,267
Related parties	*31*	**706,834**	-
Due from brokers		**64,409,261**	106,299,385
Due from ceding companies		**8,091,592**	12,001,661
Reinsurance recoverable on paid losses:			
Related parties	*31*	**72,763,217**	19,617,849
Third parties		**27,267,717**	141,088,543
		879,259,127	1,125,644,705
Allowance for impairment losses		**(50,482,218)**	(70,900,763)
		P828,776,909	P1,054,743,942

Premiums receivable and due from brokers pertain to unpaid premiums from agents and brokers, respectively. Normal credit term of these receivables is 30-90 days.

Due from ceding companies are receivables from facultative and treaty reinsurance assumed by the Company from other insurance and reinsurance companies.

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

As at December 31, 2018 and 2017, the aging of insurance receivables are as follows:

	2018						
	< 30 Days	**31 to 60 Days**	**61 to 90 Days**	**91 to 180 Days**	**181 to 360 Days**	**Over 360 Days**	**Total**
Premiums receivable	**P71,180,040**	**P406,443,616**	**P45,530,073**	**P71,928,034**	**P38,866,916**	**P72,778,661**	**P706,727,340**
Due from brokers	**5,654,891**	**2,258,735**	**2,338,516**	**17,929,927**	**11,546,840**	**24,680,352**	**64,409,261**
Due from ceding companies	**-**	**-**	**238,491**	**2,460,566**	**998,730**	**4,393,805**	**8,091,592**
Reinsurance recoverable on paid losses	**76,749,446**	**99,349**	**1,320,238**	**271,868**	**5,539,534**	**16,050,499**	**100,030,934**
	P153,584,377	**P408,801,700**	**P49,427,318**	**P92,590,395**	**P56,952,020**	**P117,903,317**	**P879,259,127**

	2017						
	< 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	181 to 360 Days	Over 360 Days	Total
Premiums receivable	P636,385,497	P35,832,947	P20,336,792	P36,288,554	P41,103,950	P76,689,527	P846,637,267
Due from brokers	25,313,682	8,273,046	5,815,087	18,838,383	16,440,635	31,618,552	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	4,324,305	1,761,598	913,651	13,232,204	160,706,392
	P800,054,849	P48,663,394	P30,750,291	P58,178,126	P59,916,184	P128,081,861	P1,125,644,705

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

		2018				
	Note	Premiums Receivable	Due from Brokers	Due from Ceding Companies	Reinsurance Recoverable on Paid Losses	Total
January 1, 2018		P52,155,970	P4,964,194	P3,576,790	P10,203,809	P70,900,763
Provision for (reversal of) impairment losses for the year	25	(19,206,219)	(1,212,326)	(338,484)	338,484	(20,418,545)
December 31, 2018		P32,949,751	P3,751,868	P3,238,306	P10,542,293	P50,482,218
Individually impaired		P13,432,648	P1,412,025	P3,238,306	P10,542,293	P28,625,272
Collectively impaired		19,517,103	2,339,843	-	-	21,856,946
		P32,949,751	P3,751,868	P3,238,306	P10,542,293	P50,482,218

		2017				
	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	25	(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		P8,315,678	P2,483,111	P3,576,790	P10,203,809	P24,579,388
Collectively impaired		43,840,292	2,481,083	-	-	46,321,375
		P52,155,970	P4,964,194	P3,576,790	P10,203,809	P70,900,763

7. Available-for-Sale Financial Assets

This account consists of:

	2018	2017
Securities at Fair Value		
Equity securities:		
Listed	**P60,044,044**	P147,966,156
Unlisted	**10,422,000**	11,548,000
	70,466,044	159,514,156
Government debt securities	**549,212,027**	602,068,816
Corporate debt securities	**436,594,918**	586,109,902
	985,806,945	1,188,178,718
	P1,056,272,989	P1,347,692,874

The breakdown of investments in bonds, government and other securities by contractual maturity dates as at December 31, 2018 and 2017, classified under AFS financial assets is as follows:

	2018		
	Due Within One Year	Due Beyond One Year	Total
Government debt securities	P -	P549,212,027	P549,212,027
Corporate debt securities	46,616,217	389,978,701	436,594,918
	P46,616,217	P939,190,728	P985,806,945

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

In 2018 and 2017, the Company recognized interest income amounting to P53.44 million and P60.36 million, respectively, with annual interest rates ranging from 3.38% to 11.25% (see Note 24).

As at December 31, 2018 and 2017, 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	**2018**	2017
Balance at beginning of year		**P1,347,692,874**	P1,477,135,351
Additions		**56,795,738**	155,755,511
Disposals and maturities		**(234,919,576)**	(208,757,460)
Net change in fair value:			
Recognized in OCI		**(110,505,213)**	(26,341,817)
Reclassified to profit or loss	*24*	**(2,790,834)**	(50,098,711)
Balance at end of year		**P1,056,272,989**	P1,347,692,874

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

	Note	**2018**	2017
Balance at beginning of year		**(P6,565,525)**	P69,650,082
Net change in fair value:			
Recognized in OCI		**(110,505,213)**	(26,341,817)
Reclassified to profit or loss	*24*	**(2,790,834)**	(50,098,711)
Tax effect		**-**	224,921
		(113,296,047)	(76,215,607)
Balance at end of year		**(P119,861,572)**	(P6,565,525)

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 2018 and 2017, the Company's realized gain on sale of equity securities amounted to P2.79 million and P50.10 million, respectively (see Note 24).

Dividend income earned from these equity securities amounted to P5.42 million and P8.25 million in 2018 and 2017, respectively (see Note 24).

8. Loans and Receivables

This account consists of:

	Note	2018	2017
Accounts receivable:			
Third parties		**P65,296,013**	P90,741,376
Related parties	*31*	**31,132,363**	16,283,877
Car financing loans		**6,648,025**	9,168,207
Mortgage loans		**2,193,419**	3,395,589
		105,269,820	119,589,049
Allowance for impairment losses		**10,523,377**	20,509,186
		P94,746,443	P99,079,863

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

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 nonpayment, the Company may have a secured claim.

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

	Note	2018	2017
Balance at beginning of year		**P20,509,186**	P25,089,510
Reversals of impairment losses for the year	*25*	**(9,985,809)**	(4,580,324)
Balance at end of year		**P10,523,377**	P20,509,186

The breakdown of loans and receivables by contractual maturity dates as at December 31, 2018 and 2017 is as follows:

			2018		
	Up to a Year	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Accounts receivable	P96,428,376	P -	P -	P -	P96,428,376
Car financing loans	349,040	5,575,100	723,885	-	6,648,025
Mortgage loans	-	710,137	-	1,483,282	2,193,419
	P96,777,416	P6,285,237	P723,885	P1,483,282	P105,269,820

			2017		
	Up to a Year	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Accounts receivable	P107,025,253	P -	P -	P -	P107,025,253
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
	P109,358,951	P6,104,837	P2,525,506	P1,599,755	P119,589,049

Interest income earned from loans and receivables amounted to P1.60 million and P2.83 million in 2018 and 2017, respectively (see Note 24).

9. Accrued Income

This account consists of:

	2018	2017
Accrued interest income	**P12,199,542**	P12,517,132
Accrued rent	**329,110**	329,110
Accrued dividends	**-**	2,583,333
	P12,528,652	P15,429,575

Accrued interest income pertains mainly to interest accrued arising from short-term investments and debt securities classified as AFS financial assets.

Accrued dividends pertain to dividends accruing from its investments in preferred shares classified under "AFS financial assets" account in the statement of financial position. The preferred shares earned dividends of 8.00% in 2018 and 2017.

10. Reinsurance Assets

This account consists of:

	Note	2018	2017
Reinsurance recoverable on unpaid losses		**P1,319,413,673**	P1,074,639,777
Reinsurance premiums reserve		**436,040,428**	448,666,639
	17	**P1,755,454,101**	P1,523,306,416

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.

Reinsurance premium reserves represents the unearned portion of premiums ceded to reinsurers from policies in force as at report date.

11. Deferred Acquisition Costs and Deferred Reinsurance Commissions

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

	2018	2017
Balance at beginning of year	**P228,062,270**	P234,333,039
Commission deferred during the year	**377,628,160**	434,641,637
Commission amortized during the year	**(431,680,515)**	(440,912,406)
Balance at end of year	**P174,009,915**	P228,062,270

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

	2018	2017
Balance at beginning of year	**P38,636,577**	P31,066,198
Reinsurance commission deferred during the year	**81,009,559**	91,841,930
Reinsurance commission earned for the year	**(85,390,986)**	(84,271,551)
Balance at end of year	**P34,255,150**	P38,636,577

12. Property and Equipment

The movements in this account are as follows:

	Note	For the Year Ended December 31, 2018 Building and Building Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Balance at beginning of year		P223,204,444	P106,901,288	P35,403,356	P49,695,190	P -	P415,204,278
Additions		-	12,038,254	7,758,655	675,714	5,490,176	25,962,799
Disposals		-	-	(5,275,230)	-	-	(5,275,230)
Balance at end of year		223,204,444	118,939,542	37,886,781	50,370,904	5,490,176	435,891,847
Accumulated Depreciation and Amortization							
Balance at beginning of year		54,312,020	81,092,477	18,909,172	43,523,527	-	197,837,196
Depreciation and amortization	26	9,444,089	11,422,503	6,765,120	3,353,858	-	30,985,570
Disposals		-	-	(3,530,894)	-	-	(3,530,894)
Balance at end of year		63,756,109	92,514,980	22,143,398	46,877,385	-	225,291,872
Carrying Amount		P159,448,335	P26,424,562	P15,743,383	P3,493,519	P5,490,176	P210,599,975

	Note	For the Year Ended December 31, 2017 Building and Building Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Balance at beginning of year		P223,204,444	P100,491,033	P32,020,188	P48,873,351	P -	P404,589,016
Additions		-	6,487,230	6,417,635	821,839	-	13,726,704
Disposals		-	(76,975)	(3,034,467)	-	-	(3,111,442)
Balance at end of year		223,204,444	106,901,288	35,403,356	49,695,190	-	415,204,278
Accumulated Depreciation and Amortization							
Balance at beginning of year		43,681,675	65,723,149	13,279,335	35,399,113	-	158,083,272
Depreciation and amortization	26	10,630,345	15,434,704	6,453,262	8,124,414	-	40,642,725
Disposals		-	(65,376)	(823,425)	-	-	(888,801)
Balance at end of year		54,312,020	81,092,477	18,909,172	43,523,527	-	197,837,196
Carrying Amount		P168,892,424	P25,808,811	P16,494,184	P6,171,663	P -	P217,367,082

In 2018 and 2017, the Company disposed property and equipment with carrying amount of P1.74 million and P2.22 million which resulted to P6,119 net gain and P66,649 net loss, respectively.

13. Investment Properties

The movements in this account are as follows:

	Note	2018	2017
Cost		**P21,742,307**	P21,742,307
Accumulated Depreciation			
Balance at beginning of year		**6,460,961**	6,026,115
Depreciation for the year	*26*	**434,847**	434,846
Balance at end of year		**6,895,808**	6,460,961
Carrying Amount		**P14,846,499**	P15,281,346

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

As at December 31, 2018 and 2017, the fair value of investment properties amounted to P19.07 million and P17.77 million, respectively, based on the latest appraisal report determined by an independent qualified appraisers dated April 5, 2018 and January 12, 2017, respectively (see Note 36).

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 features or amenities, bargaining allowance and others.

Rental income earned from investment properties amounted to P2.81 million and P2.62 million in 2018 and 2017, respectively (see Notes 24 and 32).

Related direct operating expenses amounted to P0.43 million in 2018 and 2017 (see Note 26).

14. Intangible Assets

The movements in this account are as follows:

	Note	**2018**	2017
Cost			
Balance at beginning of year		**P167,015,970**	P132,607,331
Additions		**27,170,863**	34,408,639
Balance at end of year		**194,186,833**	167,015,970
Accumulated Amortization			
Balance at beginning of year		**49,293,042**	30,547,406
Amortization	26	**21,461,183**	18,745,636
Balance at end of year		**70,754,225**	49,293,042
Carrying Amount		**P123,432,608**	P117,722,928

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

There was no disposal of intangible assets in 2018 and 2017.

15. 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.

As at December 31, 2018 and 2017, 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 loss is recognized in 2018 and 2017.

16. Other Assets

This account consists of:

	Note	**2018**	2017
Input value-added tax (VAT)		**P93,184,779**	P80,641,622
Creditable withholding taxes (CWT)		**72,877,221**	61,408,878
Prepaid assets		**21,037,586**	14,071,096
Documentary stamp taxes (DST)		**16,433,747**	3,229,085
Security deposits	*32, 35*	**10,375,009**	9,569,551
Others		**6,209,043**	7,379,926
		P220,117,385	P176,300,158

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

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

Prepaid assets pertain to advanced payments to various suppliers and service providers.

Significant portion of the Company's DST pertain to advanced payment of DST on premiums.

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

17. Insurance Contract Liabilities

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

	2018			2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 10)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 10)	Net
Provision for claims reported	P1,628,682,384	P1,192,108,732	P436,573,652	P1,537,425,338	P981,871,913	P555,553,425
Provision for IBNR claims	135,479,848	127,304,941	8,174,907	115,943,306	92,767,864	23,175,442
Provision for claims reported and IBNR claims	1,764,162,232	1,319,413,673	444,748,559	1,653,368,644	1,074,639,777	578,728,867
Reserve for unearned premiums	997,997,746	436,040,428	561,957,318	1,232,322,865	448,666,639	783,656,226
	P2,762,159,978	P1,755,454,101	P1,006,705,877	P2,885,691,509	P1,523,306,416	P1,362,385,093

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

The movements of provisions for claims reported and IBNR claims are as follows:

		2018			2017		
	Note	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 10)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 10)	Net
Balance at beginning of year		P1,653,368,644	P1,074,639,777	P578,728,867	P2,871,056,197	P2,267,436,119	P603,620,078
Claims incurred during the year		782,145,106	346,133,143	436,011,963	1,323,945,235	684,734,758	639,210,477
Claims paid - net of recoveries	*23*	(690,888,060)	(135,896,324)	(554,991,736)	(1,396,982,173)	(761,303,761)	(635,678,412)
Increase (decrease) in IBNR	*23*	19,536,542	34,537,077	(15,000,535)	(1,144,650,615)	(1,116,227,339)	(28,423,276)
Balance at end of year		P1,764,162,232	P1,319,413,673	P444,748,559	P1,653,368,644	P1,074,639,777	P578,728,867

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

		2018			2017		
	Note	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 10)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 10)	Net
Balance at beginning of year		P1,232,322,865	P448,666,639	P783,656,226	P958,577,841	P128,668,933	P829,908,908
New policies written during the year	*21*	1,701,465,482	755,789,758	945,675,724	2,238,442,575	921,271,462	1,317,171,113
Premiums earned during the year	*21*	(1,935,790,601)	(768,415,969)	(1,167,374,632)	(1,964,697,551)	(601,273,756)	(1,363,423,795)
Balance at end of year		P997,997,746	P436,040,428	P561,957,318	P1,232,322,865	P448,666,639	P783,656,226

18. Insurance Payables

This account consists of:

	Note	2018	2017
Due to reinsurers:			
Third parties		**P85,656,994**	P421,069,898
Related parties	*31*	**410,225,341**	129,175,179
Funds held for reinsurers:			
Related parties	*31*	**158,274,922**	183,656,088
Third parties		**-**	69,791
		P654,157,257	P733,970,956

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 movements in this account are as follows:

	2018		
	Due to Reinsurers	**Funds Held for Reinsurers**	**Total**
Balance at beginning of year	**P550,245,077**	**P183,725,879**	**P733,970,956**
Arising during the year	**542,475,300**	**158,274,922**	**700,750,222**
Utilized	**(596,838,042)**	**(183,725,879)**	**(780,563,921)**
Balance at end of year	**P495,882,335**	**P158,274,922**	**P654,157,257**

	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

In 2018 and 2017, interest expenses on the funds held for the reinsurers amounted to P2.22 million and P2.50 million, respectively, is recognized in profit or loss.

19. Trade and Other Liabilities

This account consists of:

	Note	**2018**	2017
Accounts payable:			
Related parties	*31*	**P22,415,557**	P35,697,774
Third parties		**138,848,970**	140,896,098
Commission payable		**133,504,223**	168,365,099
Payable to regulatory agencies:			
Accrued VAT		**36,226,108**	35,360,758
Other taxes payable		**24,943,746**	43,964,639
Output VAT		**16,439,535**	37,536,448
Contributions		**940,705**	1,034,755
Accrued expenses		**622,194**	622,194
Dividends payable	*30*	**484,076**	484,148
		P374,425,114	P463,961,913

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

Commission payable are unpaid commission on the Company's direct and assumed business payable to agents and brokers upon fully collection of the related premium receivables.

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 to Social Security System, Philippine Health Insurance Corporation and Home Development Mutual Fund.

Accrued expenses mainly include accrued employee benefits and rentals.

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

20. Net Pension Asset

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, 2018. Valuation is obtained on an annual basis.

The Retirement Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act No. 4917, As Amended.

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

The reconciliation of the net pension asset and its components is as follows:

	Present Value of DBO		FVPA		Net Pension Asset	
	2018	2017	**2018**	2017*	**2018**	2017
Balance at beginning of year	**P99,731,060**	P103,272,529	**P113,512,487**	P88,812,362	**(P13,781,427)**	P14,460,167
Recognized in profit or loss						
Current service cost	**13,638,595**	13,970,257	**-**	-	**13,638,595**	13,970,257
Interest expense	**5,624,832**	5,359,844	**-**	-	**5,624,832**	5,359,844
Interest income	**-**	-	**6,402,104**	4,609,362	**(6,402,104)**	(4,609,362)
	19,263,427	19,330,101	**6,402,104**	4,609,362	**12,861,323**	14,720,739
Recognized in OCI						
Remeasurements:						
Actuarial loss arising from:						
Changes in financial assumptions	**(13,934,563)**	(570,689)	**-**	-	**(13,934,563)**	(570,689)
Experience adjustments	**(13,691,512)**	(10,617,942)	**-**	-	**(13,691,512)**	(10,617,942)
Return on assets (excluding amount included in net interest cost)	**-**	-	**(13,488,835)**	(626,627)	**13,488,835**	626,627
	(27,626,075)	(11,188,631)	**(13,488,835)**	(626,627)	**(14,137,240)**	(10,562,004)
Others						
Contributions to the fund	**-**	-	**-**	32,400,329	**-**	(32,400,329)
Benefits paid	**(24,948,349)**	(11,682,939)	**(24,948,349)**	(11,682,939)	**-**	-
	(24,948,349)	(11,682,939)	**(24,948,349)**	20,717,390	**-**	(32,400,329)
Balance at end of year	**P66,420,063**	P99,731,060	**P81,477,407**	P113,512,487	**(P15,057,344)**	(P13,781,427)

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

The rollforward of retirement benefits reserves is as follows:

	2018	2017
Balance at beginning of year	**P23,602,900**	P30,996,303
Actuarial loss on DBO	**(27,626,075)**	(11,188,631)
Return on assets (excluding amount included in net interest cost)	**13,488,835**	626,627
Income tax effect	**4,241,172**	3,168,601
Balance at end of year	**P13,706,832**	P23,602,900

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 P25.28 million to its plan assets in 2019.

The distribution of the plan assets as at December 31, 2018 and 2017 is as follows:

	2018	2017*
Assets		
Cash	**P8,016**	P203
Investments:		
Government securities	**79,235,539**	90,693,218
Mutual funds	**17,798,338**	22,939,581
Unit investment trust funds	**5,918,891**	7,616,258
Receivables	**1,269,932**	3,543,216
	104,230,716	124,792,476
Liability		
Trust fee payable	**176,839**	157,600
Liability to the Company	**22,576,470**	11,682,939
	22,753,309	11,840,539
	P81,477,407	P112,951,937

**Fund value as at December 31, 2018*

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:

	2018	2017
Discount rate	**7.41%**	5.64%
Rate of salary increase	**4.50%**	4.50%

The discount rate was based on weighted average present value approach using bootstrapped-derived zero rates from Bloomberg Valuation Reference Rates for government securities.

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 weighted-average duration of the DBO at the end of the reporting period is 25 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	2018	2017
Discount rate	+0.5%	(P1,774,857)	(P5,992,085)
	-0.5%	2,428,913	7,334,087
Salary increase rate	+1.00%	5,889,814	15,965,516
	-1.00%	(2,993,516)	(10,529,210)

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

	2018	2017
Less than one (1) year	P -	P -
More than one (1) year to five (5) years	4,551,650	4,573,394
More than five (5) years to 10 years	3,258,269	3,242,265
More than 10 years to 15 years	55,651,117	33,098,489
More than 15 years to 20 years	215,824,248	180,006,434
More than 20 years	2,706,019,946	2,786,028,615
	P2,985,305,230	P3,006,949,197

21. Premiums Earned

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

	Note	2018	2017
Gross premium on insurance contracts			
Insurance contract premiums revenue:			
Gross premium written		**P1,686,122,464**	P2,213,971,313
Reinsurance premium assumed		**15,343,018**	24,471,262
	17	**1,701,465,482**	2,238,442,575
Gross change in reserve for unearned premiums		**234,325,119**	(273,745,024)
	17	**1,935,790,601**	1,964,697,551
Reinsurers' share of gross premiums on insurance contracts			
Reinsurers' share of:			
Gross premium written		**746,031,298**	908,520,359
Reinsurance premiums assumed		**9,758,460**	12,751,103
	17	**755,789,758**	921,271,462
Gross change in reinsurance premiums reserves		**12,626,211**	(319,997,706)
	17	**768,415,969**	601,273,756
		P1,167,374,632	P1,363,423,795

22. Other Underwriting Income

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 or 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" in the statement of financial position.

In 2018 and 2017, other underwriting income amounting to P99.49 million and P3.67 million, respectively (see Note 31).

23. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid are as follows:

	Note	**2018**	2017
Direct insurance		**P685,539,400**	P1,378,546,914
Assumed reinsurance		**5,348,660**	18,435,259
Total insurance contract benefits and claims paid	*17*	**P690,888,060**	P1,396,982,173

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

	Note	**2018**	2017
Direct insurance		**(P132,283,778)**	(P749,360,616)
Assumed reinsurance		**(3,612,546)**	(11,943,145)
Total reinsurers' share of insurance contract benefits and claims paid	*17*	**(P135,896,324)**	(P761,303,761)

Gross change in insurance contract liabilities are as follows:

	Note	**2018**	2017
Direct insurance		**P109,259,430**	(P43,455,859)
Assumed reinsurance		**(18,002,384)**	(29,581,079)
Change in provision for IBNR claims	*17*	**19,536,542**	(1,144,650,615)
Total gross change in insurance contract liabilities		**P110,793,588**	(P1,217,687,553)

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

	Note	**2018**	2017
Direct insurance		**P226,242,761**	(P61,007,393)
Assumed reinsurance		**(16,005,942)**	(15,561,610)
Change in provision for IBNR claims	*17*	**34,537,077**	(1,116,227,339)
Total reinsurers' share of gross change in insurance contract liabilities		**P244,773,896**	(P1,192,796,342)

24. Investment Income

This account consists of:

	Note	2018	2017
Interest income on:			
AFS financial assets	*7*	**P53,441,778**	P60,361,680
Short-term investments	*5*	**2,257,370**	974,287
Loans and receivables	*8*	**1,596,049**	2,825,741
Funds held by ceding companies		**362,535**	667,151
Cash in banks and cash equivalents	*4*	**340,531**	401,901
		57,998,263	65,230,760
Gain on sale of AFS financial assets	*7*	**2,790,834**	50,098,711
Dividend income	*7*	**5,418,417**	8,252,900
Rental income	*13, 32*	**2,812,873**	2,619,593
		P69,020,387	P126,201,964

25. Other Income

This account consists of:

	Note	2018	2017
Reversals of impairment losses on:			
Insurance receivables	*6*	**P20,418,545**	P13,653,569
Loans and receivables	*8*	**9,985,809**	4,580,324
Miscellaneous income		**3,013,699**	1,873,458
		P33,418,053	P20,107,351

26. General and Administrative Expenses

This account consists of:

	Note	2018	2017
Salaries and benefits		**P247,006,104**	P262,769,892
Depreciation and amortization:			
Property and equipment	*12*	**30,985,570**	40,642,725
Intangible assets	*14*	**21,461,183**	18,745,636
Investment properties	*13*	**434,847**	434,846
Professional and other fees		**51,262,903**	31,139,771
Repairs and maintenance		**36,281,750**	21,493,071
Communications		**20,478,273**	20,309,698
Rent	*32*	**16,727,183**	16,725,302
Retirement benefits expense	*20*	**12,861,323**	14,720,739
Transportation and travel		**10,789,713**	13,057,059
Taxes and licenses		**7,755,976**	4,098,923
Light and water		**7,687,842**	6,829,411
Stationery and supplies		**6,653,436**	8,459,936
Scholarship and training		**5,428,383**	4,658,825
Advertising and promotions		**5,307,633**	6,197,912
Insurance		**2,670,358**	2,704,612
Bank charges		**2,583,775**	2,889,315
Donations		**1,721,064**	-
Entertainment, amusement and recreation		**1,174,286**	1,977,754
Books and periodicals		**128,763**	123,823
		P489,400,365	P477,979,250

Salaries and benefits consists of:

	2018	2017
Salaries and wages	**P223,866,365**	P238,061,729
Other benefits and allowances	**23,139,739**	24,708,163
	P247,006,104	P262,769,892

27. Service Fees

This account consists of:

	Note	2018	2017
Road assistance service fees	*31*	**P7,805,106**	P6,571,203
Sales incentive fees		**6,418,909**	7,839,508
Agent convention fees		**5,407,381**	7,345,801
Certificate of cover authentication fees		**3,448,867**	4,398,964
Others		**884,968**	2,160,398
		P23,965,231	P28,315,874

28. Income Tax

The components of the Company's tax expense in profit or loss are as follows:

	2018	2017
Current tax expense	P -	P3,800,871
Deferred tax expense	48,687,275	11,442,901
Final tax expense	11,342,677	12,517,166
	P60,029,952	P27,760,938

The reconciliation of the income tax expense computed at statutory tax rate to the income tax shown in profit or loss is as follows:

	2018	2017
Income before taxes	P92,750,872	P47,113,870
Income tax at statutory rate of 30%	P27,825,262	P14,134,161
Expired recognized NOLCO	45,515,803	30,795,122
Expired excess MCIT over RCIT	3,199,466	6,083,452
Unamortized past service cost	3,052,670	-
Dividend income	(1,625,525)	(2,475,870)
Income already subjected to final tax	(5,469,226)	(5,746,313)
Nontaxable income	(12,468,498)	(15,029,614)
Income tax expense computed using effective income tax rate	P60,029,952	P27,760,938

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

December 31, 2018	Balance January 1, 2018	Recognized in Profit or Loss	Recognized in OCI	Balance December 31, 2018
Deferred tax assets:				
NOLCO	P174,406,364	(P60,041,845)	P -	P114,364,519
Allowance for impairment losses	27,422,985	(9,121,306)	-	18,301,679
Excess MCIT over RCIT	12,188,807	7,481,159	-	19,669,966
Unamortized past service cost	12,024,035	(3,052,670)	-	8,971,365
Deferred reinsurance commission	11,590,973	(1,314,428)	-	10,276,545
Provision for IBNR claims - net	6,952,633	(4,500,161)	-	2,452,472
Changes in fair value of AFS	413,992	-	-	413,992
Accrued rent expense	186,658	-	-	186,658
	245,186,447	(70,549,251)	-	174,637,196
Deferred tax liabilities:				
Deferred acquisition costs	(68,418,681)	16,215,707	-	(52,202,974)
Net pension assets	(4,134,428)	3,858,397	(4,241,172)	(4,517,203)
Excess of unearned premiums per tax over book basis	(1,787,872)	1,787,872	-	-
Accrued rent income	(98,733)	-	-	(98,733)
	(74,439,714)	21,861,976	(4,241,172)	(56,818,910)
	P170,746,733	(P48,687,275)	(P4,241,172)	P117,818,286

December 31, 2017	Balance January 1, 2017	Recognized in Profit or Loss	Recognized in OCI	Balance December 31, 2017
Deferred tax assets:				
NOLCO	P174,406,364	P -	P -	P174,406,364
Allowance for impairment losses	32,893,153	(5,470,168)	-	27,422,985
Excess MCIT over RCIT	14,471,388	(2,282,581)	-	12,188,807
Unamortized past service cost	8,597,023	3,427,012	-	12,024,035
Deferred reinsurance commission	9,319,859	2,271,114	-	11,590,973
Provision for IBNR claims - net	15,479,615	(8,526,982)	-	6,952,633
Changes in fair value of AFS	189,071	-	224,921	413,992
Accrued rent expense	186,658	-	-	186,658
Net pension obligation	4,338,050	(4,338,050)	-	-
	259,881,181	(14,919,655)	224,921	245,186,447
Deferred tax liabilities:				
Deferred acquisition costs	(70,299,912)	1,881,231	-	(68,418,681)
Net pension assets	-	(965,827)	(3,168,601)	(4,134,428)
Excess of unearned premiums per tax over book basis	(4,349,222)	2,561,350	-	(1,787,872)
Accrued rent income	(98,733)	-	-	(98,733)
	(74,747,867)	3,476,754	(3,168,601)	(74,439,714)
	P185,133,314	(P11,442,901)	(P2,943,680)	P170,746,733

The details of the Company's MCIT available for offsetting against future current tax liabilities are as follows:

Year Incurred	Year of Expiry	Amount	Write-off/ Application	Excess MCIT
2015	2018	P3,199,466	P3,199,466	P -
2016	2019	5,188,470	-	5,188,470
2017	2020	3,800,871	-	3,800,871
2018	2021	10,680,625	-	10,680,625
		P22,869,432	P3,199,466	P19,669,966

The carryforward benefits of NOLCO which are available for offsetting against future taxable income are as follows:

Year Incurred	Year of Expiry	Amount Charged to Profit or Loss	Write-off/ Application	NOLCO
2015	2018	P200,139,484	P200,139,484	P -
2016	2019	278,564,654	-	278,564,654
2017	2020	102,650,407	-	102,650,407

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

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

	2018	2017
Net income under PFRS	**P32,720,920**	P19,352,932
Add (deduct):		
Provision for IBNR	**4,500,161**	9,514,650
Difference in change in reserve for unearned premiums - net of reinsurance premium reserves	**-**	8,537,837
Tax effects of PFRS differences	**(1,350,048)**	(5,415,745)
	P35,871,033	P31,989,674

30. Equity

The details of this account are as follows:

	Note	2018	2017
Authorized			
Par value per share		**P50**	P50
Number of shares		**10,000,000**	10,000,000
Issued and Outstanding			
Number of shares		**10,000,000**	10,000,000
Capital stock	*35*	**P500,000,000**	P500,000,000
Additional paid-in capital (APIC)	*35*	**200,446,070**	200,446,070
Contributed surplus	*35*	**100,000,000**	100,000,000
		P800,446,070	P800,446,070

Dividends payable as at December 31, 2018 and 2017 amounted to P0.48 million (see Note 19). No dividends have been declared in 2018 and 2017.

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:

	2018	2017
Salaries and other short-term employee benefits	**P101,348,238**	P152,145,623
Pension and other post-employment benefits	**14,790,862**	21,849,584
	P116,139,100	P173,995,207

b. Significant related party transactions consist mainly of the following activities:

Category/Transaction	Note	Year	Amount of the Transaction	Outstanding Balances: Due from a Related Party	Outstanding Balances: Due to Related Party	Terms	Conditions
MAPFRE Re Compañia de Reaseguros S.A.							
(Entity under Common Control)							
Inward commissions		2018	P35,776,148	P1,444	P -	Due and demandable; noninterest-bearing	Unsecured; no impairment
		2017	61,841,168	1,444	-		
Reinsurance premium ceded	18	2018	144,296,385	-	57,207,881	Due and demandable; noninterest-bearing	Unsecured
		2017	232,752,003	-	129,175,179		
RI Recoverable on paid losses	6	2018	72,742,795	72,742,795	-	Due and demandable; noninterest-bearing	Unsecured; no impairment
		2017	112,552,879	19,617,849	-		
Funds held to reinsurers	18	2018	152,358,354	-	152,358,354	Due and demandable; noninterest-bearing	Unsecured
		2017	312,195,415	-	178,250,187		
MAPFRE Global Risks S.A.							
(Entity under Common Control)							
Reinsurance premium ceded	18	2018	353,017,460	-	353,017,460	Due and demandable; noninterest-bearing	Unsecured
		2017	530,398,562	-	-		
Premiums receivable	8	2018	137,384	-	-	Due and demandable; noninterest-bearing	Unsecured; no impairment
		2017	-	-	-		
MAPFRE Asistencia Compañia Internacional de Seguros Y Reaseguros, S.A.							
(Entity under Common Control)							
Reinsurance premium ceded	6	2018	48,686	20,422	-	Due and demandable; noninterest-bearing	Unsecured
		2017	10,418,779	-	-		
Funds held to reinsurers	18	2018	5,916,568	-	5,916,568	Due and demandable; noninterest-bearing	Unsecured
		2017	5,405,901	-	5,405,901		
Insular Life Assurance Company, Ltd. (Insular Life)							
(Entity with Significant Influence)							
Other underwriting income	22	2018	99,489,527	13,988,240	-		
		2017	3,673,083	3,673,083	-		
Accounts receivables	31a, 8	2018	17,129,109	17,129,109	-	Due and demandable; noninterest-bearing	Unsecured; no impairment
		2017	59,601,247	11,631,189	-		
Premium receivable	6	2018	18,692,779	706,834	-	Due and demandable; noninterest-bearing	Unsecured; no impairment
		2017	15,852,663	-	-		
Accounts payable	19, 31b	2018	28,425,687	-	20,756,989	Due and demandable; noninterest-bearing	Unsecured
		2017	21,655,872	-	26,072,444		
Fundación MAPFRE							
(Ultimate Parent)							
Accounts receivables	8	2018	15,014	15,014	-	Due and demandable; noninterest-bearing	Unsecured; no impairment
		2017	100,931	979,605	-		
Ibero Asistencia, S.A.							
(Entity under Common Control)							
Service fees	19, 31c, 27	2018	7,805,106	-	581,428	Due and demandable; noninterest-bearing	Unsecured
		2017	6,571,203	-	9,625,330		
MAPFRE Tech, S.A							
(Entity under Common Control)							
Accounts payable	31d, 19	2018	15,946,096	-	1,077,140	Due and demandable; noninterest-bearing	Unsecured
		2017	1,810,469	-	-		
Total		2018		P104,603,858	P590,915,820		
Total		2017		P35,903,170	P348,529,041		

The following are the nature of the related party transactions:

31a. This pertains to the amount reimbursable from Insular Life arising from the claims and commissions paid by the Company for the life insurance coverage portion of the issued policies to migrant workers.

31b. This pertains to the amount of premiums collected by the Company for life policies issued for migrant workers which is to be remitted to Insular Life in accordance with the terms of the MOA.

31c. Under a service agreement with Ibero Asistencia, S.A., the latter shall make arrangements for the repatriations of the insured OFW's remain and render any necessary travel assistance. In return, the Company will pay Ibero Asistencia the actual cost of this repatriation including travel expenses. As at December 31, 2018 and 2017, the total amount payable to Ibero Asistencia is P0.58 million and P9.63 million.

31d. This amount pertains to the development cost on the enhancement, customization and purchase of support system for the insurance monitoring system of the Company which are provided by and acquired from MAPFRE Tech, S.A. in 2018. Amount outstanding and due to MAPFRE Tech as of December 31, 2018 is P1.08 million.

32. Lease Commitments

The Company as Lessee

The Company has entered into noncancelable 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 the noncancelable operating leases as at December 31, 2018 and 2017 follow:

	2018	2017
Within one year	**P6,945,927**	P9,543,352
After one year but not more than five (5) years	**6,689,455**	10,799,170
	P13,635,382	P20,342,522

In 2018 and 2017, rent expense included in profit or loss amounted to P16.73 million (see Note 26).

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 noncancelable 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 P10.38 million and P9.57 million as at December 31, 2018 and 2017, respectively (see Note 16).

Future minimum rentals receivable under non-cancelable operating leases as at December 31, 2018 and 2017 follow:

	2018	2017
Within one year	**P2,713,778**	P2,713,778
After one year but not more than five (5) years	**1,356,889**	4,070,667
	P4,070,667	P6,784,445

Rent income amounted to P2.81 million and P2.62 million in 2018 and 2017, respectively (see Notes 13 and 24).

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. 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.

Certain comparative accounts in the statements of profit or loss and other comprehensive loss have been reclassified or re-presented as a result of changes in the presentation and classification of certain items (see Note 37).

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

The Company has adopted the following new and amendments to standards and interpretation starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new and amendments to standards and interpretation did not have any significant impact on the Company's financial statements.

- 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 *Financial Instruments: Recognition and Measurement* 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 OCI 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 (FVPL) 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.

As permitted by the standard, the Company availed of the temporary exemption and deferred the application of PFRS 9.

- PFRS 15 *Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-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.

  PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price. 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 PFRS. 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 adoption of PFRS 15 did not result to any changes in the performance obligation and the timing of revenue recognition of the Company's non-insurance revenue streams. Thus, the impact of the adoption to the financial statement of the Company is immaterial.

- 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.

- 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.

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 coverage period provided in the insurance contracts entered during the accounting period and are recognized on the inception date of the policy. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Commission Expense and Deferred Acquisition Costs
Commissions are recognized as expense over the period of the contracts using the 24^{th} 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 statement of financial position. The net changes in deferred acquisition costs at the end of each reporting period is recognized as "Commission expense" in profit or loss.

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 insurance arrangements do not relieve the Company from its obligation to the policyholders. Premiums payable for reinsurance contracts are recognized as a contra-income account upon recognition of related premiums and presented as "Reinsurance premium ceded" in profit or loss.

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 statement of financial position. The net changes in reinsurance premiums reserve between each end of reporting period are recognized as part of "Net change in reserve for unearned premium" account in profit or loss.

Reinsurance assets represents balances due from reinsurance companies for its share on the unpaid losses incurred by the Company. Recoverable amounts are estimated in the manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Reinsurance recoverable on paid losses are included as part of "Insurance receivable - net" in the statement of financial position.

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 statement 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 statement of financial position at transaction price. Reinsurance premium ceded out will be withheld at 25% for marine and 40% for nonmarine policies and recognized as funds held for reinsurers under "Insurance payables" account in the statement of financial position. The amount withheld is generally released after a year.

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 premiums are presented as "Reinsurance premium assumed". The reinsurers' share in claims paid by the Company and unpaid including IBNR are presented as "Reinsurer's share of gross insurance contract benefits and claims paid" and "Reinsurer's share of gross change in insurance contract liabilities", respectively, in profit or loss.

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

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 profit or loss. 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 statement of financial position. The net changes in deferred reinsurance commissions between each end of reporting period are recognized as "Commission income" in the profit or loss.

<u>Insurance Contract Liabilities</u>
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Provision for Claims Reported and IBNR Claims
These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. 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. Insurance liabilities are composed of provisions for claims reported and IBNR claims.

Provisions for claims reported refers to those claims that are known to the Company as of reporting date. Claims that are subsequently paid are presented as part of "Gross insurance contract benefits and claims paid" in profit or loss.

IBNR claims are based on the estimated cost of all claims incurred but not reported at the end of the reporting period. The IBNR shall be calculated based on the standard actuarial projection techniques or combination of such techniques, such as but not limited to chain ladder method and expected loss ratio approach. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are charged to "Gross change in insurance contract liabilities" in profit or loss.

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 statement 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 profit or loss in order that revenue is recognized over the period of risk.

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.

The Company's insurance contract liabilities are composed of premium liabilities and claims liabilities. Premium liabilities are calculated as the higher of reserve for unearned premiums and the unexpired risk reserve. Unexpired risk reserve (URR) is an estimate of future claims and expenses, at a designated level of confidence, in respect of the risk during the unexpired period after the valuation date of the policies written prior to that date including maintenance and claims handling expense. If the unexpired risk reserve is higher than the reserve for unearned premiums, the excess is set up as an additional insurance reserves on top of reserve for unearned premiums. The estimation of URR is made for each class of business line.

While claims liabilities are composed of provision for claims reported and IBNR. The related significant accounting policies are disclosed in the preceding section of the notes to the financial statements.

Financial Instruments

Date of Recognition
Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. 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 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 other financial liabilities. 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, 2018 and 2017, 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, 2018 and 2017, financial instruments issued by the Company are classified as equity.

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, short-term investments; insurance receivables, loans and receivables, accrued income and security deposits presented under "Other assets" account in the statement of financial position.

Cash includes cash on hand and 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.

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. Cumulative change in the fair value is presented as "Revaluation reserve on AFS financial assets". 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.

Other Financial Liabilities
Issued financial instruments or their components, which are not classified as FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial 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 provision for claims reported under "Insurance contract liabilities", insurance payables, and trade and other liabilities excluding payable to government agencies.

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.

<u>Fair Value Measurements</u>
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.

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

<u>Impairment of Financial Assets</u>
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 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 appraisers 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, 2018 and 2017, no impairment loss has been recognized on the Company's property and equipment, investment properties, intangible assets and goodwill.

Equity

Capital Stock

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

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 profit or loss 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.

<u>Revenue Recognition</u>
The Company recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The Company's revenue streams arising from insurance contracts falls under PFRS 4 while, interest income falls under other income under PFRS 15.

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.

Other Underwriting Income
This pertains to the Company's share in net income on its MOA with Insular Life related to the migrant workers insurance policies issued. Other underwriting income is recognized in the period when benefits are earned.

Investment Income
Interest 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
Other income is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgment.

Expense Recognition

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 Benefits

Short-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. The cumulative amount of remeasurement of the net pension obligation is recognized in "Retirement benefit reserves" in the statement of financial position.

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 Lease

Company 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.

Nonmonetary 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. Nonmonetary 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 and deferred 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.

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

Deferred tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carryforward tax benefits of the net operating loss carryover (NOLCO) and excess of the minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at each reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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 assets 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 all or part of the deferred tax assets to be recovered.

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

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 profit or loss.

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 assets" account in the statement 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 statement of financial position.

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

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 statement 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

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

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 and interpretations are effective for annual periods beginning after January 1, 2018. However, the Company has not applied the following new or amended standards in preparing these financial statements. The Company is assessing the potential impact of these on its financial statements, and has yet to reasonably estimate the impacts, unless otherwise stated.

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. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

  Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019 with several transition approaches and individual options and practical expedients that can be elected independently of each other. Earlier application is permitted for entities that apply PFRS 15 Revenue from Contracts with Customers at or before the date of initial 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 judgments 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. The interpretation can be initially applied retrospectively applying PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in OCI.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

- Annual Improvements to PFRSs 2015 - 2017 Cycle. This cycle of improvements contains amendments includes:

  - Income tax consequences of payments on financial instruments classified as equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, OCI or equity.

    The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

  - Borrowing costs eligible for capitalization (Amendments to PAS 23 *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool.

    The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The amendments are applied to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies the amendments.

Effective January 1, 2020

- Amendments to References to Conceptual Framework in PFRS Standards sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- Definition of a Business (Amendments to PFRS 3 *Business Combinations*). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments:

  - confirmed that a business must include inputs and a process, and clarified that:

    - the process must be substantive; and
    - the inputs and process must together significantly contribute to creating outputs;

  - narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and

  - added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

  The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

- Definition of Material (Amendments to PAS 1 *Presentation of Financial Statements* and PAS 8). The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';

  (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;

  (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;

(d) clarifying the explanatory paragraphs accompanying the definition; and

(e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

Effective January 1, 2022

- *PFRS 9 (2014).* PFRS 9 (2014) replaces PAS 39 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.

Effective January 1, 2023

- PFRS 17 *Insurance Contracts.* The replaces the interim standard, PFRS 4 *Insurance Contracts*. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:

  (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;

  (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and

  (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in OCI.

  Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

  Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2023. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15 on or before the date of initial application of PFRS 17.

35. 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 such as 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, 2018 and 2017, 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.

The Parent Company and Insular Life will infuse capital in 2019 for the Company to meet the required net worth requirement as at December 31, 2019.

RBC2 Requirements
IC CL No. 2016-68, *Amended RBC2 Framework*, provides for the RBC2 framework for the nonlife 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, 2018 and 2017, 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 the 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	2018	2017
Capital stock	*30*	**P500,000,000**	P500,000,000
APIC	*30*	**200,446,070**	200,446,070
Contributed surplus	*30*	**100,000,000**	100,000,000
Retirement benefit reserve	*20*	**(13,706,832)**	(23,602,900)
Revaluation reserve on AFS financial assets	*7*	**(119,861,572)**	(6,565,525)
Retained earnings		**350,713,247**	317,992,327
		P1,017,590,913	P1,088,269,972

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:

	2018		
	Gross Claims Liabilities	**Reinsurers' Share of Claims Liabilities**	**Net Claims Liabilities**
Fire	**P1,217,708,309**	**P1,167,856,987**	**P49,851,322**
Motorcar	**310,888,729**	**562,874**	**310,325,855**
Surety	**162,661,462**	**111,677,544**	**50,983,918**
Accident	**22,885,648**	**234,883**	**22,650,765**
Casualty	**25,072,297**	**16,973,610**	**8,098,687**
Marine	**18,475,012**	**15,973,763**	**2,501,249**
Engineering	**5,846,626**	**5,509,863**	**336,763**
Aviation	**624,149**	**624,149**	**-**
	P1,764,162,232	**P1,319,413,673**	**P444,748,559**

	2017		
	Gross Claims Liabilities	Reinsurers' 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

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 statement 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.

	2018		
	Change in Assumption	**Impact on Insurance Contract Liabilities (Net of Reinsurance Assets)**	**Impact on Income before Income Tax**
Average claim costs	**34.76%**	**P129,233,364**	**(P129,233,364)**
Average number of claims	**(6.89%)**	**(25,602,282)**	**25,602,282**
Period of settlement	**Within 12 months**	**-**	**-**

	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	-	-

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 - 2018

Accident Year	2006 and Prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of Ultimate Costs of Claims														
At the end of accident year	P1,490,404,975	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	P1,213,933,438	P1,213,933,438
One year later	1,803,109,199	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	820,607,752	740,828,631	-	740,828,631
Two years later	1,767,437,974	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	758,675,623	-	-	758,675,623
Three years later	1,731,335,216	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	1,492,865,197	-	-	-	1,492,865,197
Four years later	1,706,371,663	422,926,881	526,885,869	1,143,511,740	1,797,587,290	1,208,954,539	658,129,426	5,371,057,929	685,039,213	-	-	-	-	685,039,213
Five years later	1,704,841,846	421,168,354	527,652,988	735,052,347	1,794,562,722	1,210,105,176	655,598,498	5,423,429,484	-	-	-	-	-	5,423,429,484
Six years later	1,695,172,614	421,283,185	514,874,333	1,156,468,018	1,801,674,067	1,209,776,694	654,897,779	-	-	-	-	-	-	654,897,779
Seven years later	1,694,428,092	421,158,686	588,031,847	1,161,370,810	1,801,136,995	1,206,986,254	-	-	-	-	-	-	-	1,206,986,254
Eight years later	1,694,527,880	422,047,278	587,759,402	1,158,247,586	1,800,285,574	-	-	-	-	-	-	-	-	1,800,285,574
Nine years later	1,690,901,557	420,559,647	577,423,580	1,226,678,084	-	-	-	-	-	-	-	-	-	1,226,678,084
Ten years later	1,695,670,341	420,383,092	576,770,966	-	-	-	-	-	-	-	-	-	-	576,770,966
Eleven years later	1,694,559,972	420,383,092	-	-	-	-	-	-	-	-	-	-	-	420,383,092
Twelve years later	1,705,200,553	-	-	-	-	-	-	-	-	-	-	-	-	1,705,200,553
Current estimate of cumulative claims	1,705,200,553	420,383,092	576,770,966	1,226,678,084	1,800,285,574	1,206,986,254	654,897,779	5,423,429,484	685,039,213	1,492,865,197	758,675,623	740,828,631	1,213,933,438	17,905,973,888
Cumulative payments to date	1,695,747,338	420,383,092	445,610,305	733,605,019	1,753,462,606	1,206,951,254	653,851,718	5,315,587,174	684,372,455	1,487,445,173	745,319,479	637,016,210	362,459,833	16,141,811,656
Gross Claims Liability in the Statement of Financial Position	P9,453,215	P -	P131,160,661	P493,073,065	P46,822,968	P35,000	P1,046,061	P107,842,310	P666,758	P5,420,024	P13,356,144	P103,812,421	P851,473,606	P1,764,162,232

At Gross - 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	P807,868,919	P682,536,056	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	1,156,005,607	647,103,592	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	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	5,371,057,929	-	-	-	-	5,371,057,929
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	1,156,468,018	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	1,206,561,127	652,890,177	5,308,477,919	683,429,985	1,479,578,160	701,573,996	373,050,625	15,450,923,596
Gross Claims Liability in the Statement of Financial Position	P1,807,141	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	P119,033,756	P819,147,597	P1,653,368,644

At Net - 2018

Accident Year	2006 and Prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of Ultimate Costs of Claims														
At the end of accident year	P877,272,187	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	P603,821,928	P603,821,928
One year later	953,479,197	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	626,592,794	-	626,592,794
Two years later	954,982,454	332,700,341	363,501,880	485,845,050	353,518,766	990,902,331	440,452,474	627,522,762	778,560,811	260,287,975	673,223,690	-	-	673,223,690
Three years later	956,299,998	337,642,087	373,730,900	491,791,878	353,776,795	995,202,360	443,533,927	631,721,673	765,416,972	252,404,065	-	-	-	252,404,065
Four years later	952,365,278	338,856,291	373,853,997	487,467,157	354,021,083	996,346,727	436,967,035	629,886,528	761,469,239	-	-	-	-	761,469,239
Five years later	953,220,168	338,313,036	374,761,255	478,205,318	354,292,570	998,421,922	434,701,601	633,304,826	-	-	-	-	-	633,304,826
Six years later	943,678,762	338,356,287	374,374,830	478,557,055	361,969,215	998,837,559	434,500,191	-	-	-	-	-	-	434,500,191
Seven years later	943,669,192	337,964,645	374,415,690	483,092,407	361,997,573	998,797,830	-	-	-	-	-	-	-	998,797,830
Eight years later	943,942,435	338,008,039	374,138,554	482,707,457	361,152,105	-	-	-	-	-	-	-	-	361,152,105
Nine years later	944,002,392	337,338,428	365,196,836	483,811,384	-	-	-	-	-	-	-	-	-	483,811,384
Ten years later	943,172,977	337,303,378	364,840,570	-	-	-	-	-	-	-	-	-	-	364,840,570
Eleven years later	942,320,996	337,303,378	-	-	-	-	-	-	-	-	-	-	-	337,303,378
Twelve years later	948,907,924	-	-	-	-	-	-	-	-	-	-	-	-	948,907,924
Current estimate of cumulative claims	948,907,924	337,303,378	364,840,570	483,811,384	361,152,105	998,797,830	434,500,191	633,304,826	761,469,239	252,404,065	673,223,690	626,592,794	603,821,928	7,480,129,924
Cumulative payments to date	947,263,621	337,303,378	340,983,068	471,533,193	353,029,137	998,790,909	434,340,924	630,838,493	761,252,256	249,639,397	664,087,561	563,068,090	283,251,338	7,035,381,365
Net Claims Liability in the Statement of Financial Position	P1,644,303	P -	P23,857,502	P12,278,191	P8,122,968	P6,921	P159,267	P2,466,333	P216,983	P2,764,668	P9,136,129	P63,524,704	P320,570,590	P444,748,559

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	485,845,050	353,518,766	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	280,021,683	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	374,138,554	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	353,753,661	998,417,881	433,336,152	626,651,522	761,153,956	242,751,894	627,735,790	339,762,023	6,480,389,629
Net Claims Liability in the Statement 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

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.

There has been no change to the Company's exposure to financial risk or the manner in which it manages and measure risk since the prior financial year.

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 statement of financial position and items such as future commitments. The maximum exposure is shown net of allowance for impairment losses, before deducting collaterals.

	Note	2018	2017
Cash and cash equivalents*	*4*	**P132,144,393**	P195,169,084
Short-term investments	*5*	**52,841,722**	1,873,167
Insurance receivables	*6*	**828,776,909**	1,054,743,942
AFS financial assets**	*7*	**985,806,945**	1,188,178,718
Loans and receivables	*8*	**94,746,443**	99,079,863
Accrued income	*9*	**12,528,652**	15,429,575
Security deposits***	*16*	**10,375,009**	9,569,551
		P2,117,220,073	P2,564,043,900

* *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, Short-term Investments 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, 2018 and 2017.

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.

	2018				
	PRS Aaa	PRS Ba	PRS B	Not Rated	Total
Cash and cash equivalents:					
Cash in banks	P -	P -	P -	P69,669,409	P69,669,409
Short-term deposits	-	-	-	62,474,984	62,474,984
Short-term investments	-	-	-	52,841,722	52,841,722
AFS financial assets:					
Government debt securities:					
Local currency	-	549,212,027*	-	-	549,212,027
Corporate debt securities:					
Local currency	342,110,304	-	-	94,484,615	436,594,919
Total Credit Risk Exposure	P342,110,304	P549,212,027	P -	P279,470,730	P1,170,793,061

**The credit ratings are the equivalent to Moody's specific issue credit rating for the same debt securities as at December 31, 2018.*

	2017				
	PRS Aaa	PRS Ba	PRS B	Not Rated	Total
Cash and cash equivalents:					
Cash in banks	P -	P -	P -	P151,127,296	P151,127,296
Short-term placements	-	-	-	44,041,788	44,041,788
Short-term investments				1,873,167	1,873,167
AFS financial assets:					
Government debt securities:					
Local currency	-	602,068,816*	-	-	602,068,816
Corporate debt securities:					
Local currency	487,028,282	-	-	99,081,620	586,109,902
Total Credit Risk Exposure	P487,028,282	P602,068,816	P -	P296,123,871	P1,385,220,969

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

The Company's cash in banks, short-term placements and short-term investments 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.

Corporate debt securities 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.

		2018					
		Neither Past-Due nor Impaired				Past Due and Impaired	
	Note	Grade A	Grade B	Grade C	Total		Total
Cash and cash equivalents	4						
Cash in banks		P69,669,409	P -	P -	P69,669,409	P -	P69,669,409
Short term placements		62,474,984	-	-	62,474,984	-	62,474,984
Short-term investments	5	52,841,722	-	-	52,841,722	-	52,841,722
Insurance receivables:	6						
Premiums receivable		-	-	673,777,589	673,777,589	32,949,751	706,727,340
Due from brokers		-	-	60,657,393	60,657,393	3,751,868	64,409,261
Due from ceding companies		-	-	4,853,286	4,853,286	3,238,306	8,091,592
Reinsurance recoverable on paid losses		-	-	89,488,641	89,488,641	10,542,293	100,030,934
Loans and receivables:	8						
Accounts receivable		-	85,904,999	-	85,904,999	10,523,377	96,428,376
Car financing loans		6,648,025	-	-	6,648,025	-	6,648,025
Mortgage loans		2,193,419	-	-	2,193,419	-	2,193,419
Accrued income:	9						
Accrued interest income		-	12,199,542	-	12,199,542	-	12,199,542
Accrued dividend income		-	-	-	-	-	-
Accrued rent		-	-	329,110	329,110	-	329,110
Security deposits*	16	-	-	10,375,009	10,375,009	-	10,375,009
		P193,827,559	P98,104,541	P839,481,028	P1,131,413,128	P61,005,595	P1,192,418,723

Presented under "Other assets" account

		2017					
		Neither Past-Due nor Impaired				Past Due and Impaired	
	Note	Grade A	Grade B	Grade C	Total		Total
Cash and cash equivalents	4						
Cash in banks		P151,127,296	P -	P -	P151,127,296	P -	P151,127,296
Short term placements		44,041,788	-	-	44,041,788	-	44,041,788
Short-term investments	5	1,873,167	-	-	1,873,167	-	1,873,167
Insurance receivables:	6						
Premiums receivable		-	-	794,481,297	794,481,297	52,155,970	846,637,267
Due from brokers		-	-	101,335,191	101,335,191	4,964,194	106,299,385
Due from ceding companies		-	-	8,424,871	8,424,871	3,576,790	12,001,661
Reinsurance recoverable on paid losses		-	-	150,502,583	150,502,583	10,203,809	160,706,392
Loans and receivables:	8						
Accounts receivable		-	86,516,067	-	86,516,067	20,509,186	107,025,253
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:	9						
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*	16	-	-	9,569,551	9,569,551	-	9,569,551
		P209,606,047	P101,616,532	P1,064,642,603	P1,375,865,182	P91,409,949	P1,467,275,131

Presented under "Other assets" account

The Company's concentration of credit risk arises from its insurance receivables and investments in government securities classified as AFS financial assets since the said financial assets amounted to P1.81 billion (85.70%) and P2.56 billion (87.48%) of the Company's total financial assets as at December 31, 2018 and 2017, respectively (see Notes 6 and 7).

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 September 28, 2018, the BOD authorized and approved the 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:

		2018				
	Note	On Demand	1 to 3 Years	4 to 5 Years	More than 5 Years	Total
Financial Assets						
Cash and cash equivalents	*4*	P132,291,300	P -	P -	P -	P132,291,300
Short-term investment	*5*	52,841,722	-	-	-	52,841,722
Insurance receivables - net	*6*	828,776,909	-	-	-	828,776,909
AFS financial assets	*7*	117,082,261	249,664,424	118,009,590	571,516,714	1,056,272,989
Loans and receivables - net	*8*	86,051,695	6,487,580	723,886	1,483,282	94,746,443
Accrued income	*9*	12,528,652	-	-	-	12,528,652
Security deposits*	*16*	10,375,009	-	-	-	10,375,009
		1,239,947,548	256,152,004	118,733,476	572,999,996	2,187,833,024
Financial Liabilities						
Provision for claims reported	*17*	1,628,682,384	-	-	-	1,628,682,384
Insurance payables	*18*	654,157,257	-	-	-	654,157,257
Trade and other liabilities**	*19*	295,875,020	-	-	-	295,875,020
		2,578,714,661	-	-	-	2,578,714,661
Net Liquidity		(P1,338,767,113)	P256,152,004	P118,733,476	P572,999,996	(P390,881,637)

**Presented under "Other assets" account*
***Excluding payable to regulatory agencies*

		2017				
	Note	On Demand	1 to 3 Years	4 to 5 Years	More than 5 Years	Total
Financial Assets						
Cash and cash equivalents	*4*	P195,348,862	P -	P -	P -	P195,348,862
Short-term investment	*5*	1,873,167	-	-	-	1,873,167
Insurance receivables - net	*6*	1,054,743,942	-	-	-	1,054,743,942
AFS financial assets	*7*	207,675,129	111,555,669	206,166,466	822,295,610	1,347,692,874
Loans and receivables - net	*8*	88,849,765	6,104,837	2,525,506	1,599,755	99,079,863
Accrued income	*9*	15,429,575	-	-	-	15,429,575
Security deposits*	*16*	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	*17*	1,537,425,338	-	-	-	1,537,425,338
Insurance payables	*18*	733,970,956	-	-	-	733,970,956
Trade and other liabilities**	*19*	346,065,313	-	-	-	346,065,313
		2,617,461,607	-	-	-	2,617,461,607
Net Liquidity		(1,043,971,616)	P117,660,506	P208,691,972	P823,895,365	P106,276,227

**Presented under "Other assets" account*
***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:

	2018	
	USD	**PHP**
Cash and cash equivalents	**$88,308**	**P4,643,254**
Accounts payable	**(394,770)**	**(20,756,989)**
	($306,462)	**(P16,113,735)**

	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

The table below lists down the exchange rates per P1.00 from Banker's Association of the Philippines and Philippine Dealing and Exchange Corporation (PDEX) in translating foreign currency-denominated financial assets into USD amounts as at December 31, 2018 and 2017, respectively. Translation differences are due to rounding off of foreign exchange rates used.

	2018	2017
USD to PHP	**P52.58**	P49.98

As at December 31, 2018 and 2017, 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
2018	**+5.00%**	**P805,687**	**P563,981**
	-5.00%	**(805,687)**	**(563,981)**
2017	+5.00%	1,222,457	855,720
	-5.00%	(1,222,457)	(855,720)

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:

	2018				
	Range of Interest Rates	1 - 3 Years	4 - 5 Years	Over 5 Years	Total
AFS Debt Securities					
Government debt securities	3.38% - 11.25%	P57,402,418	P36,748,297	P455,061,312	P549,212,027
Corporate debt securities	3.92% - 6.94%	103,909,570	169,613,730	163,071,618	436,594,918
		P161,311,988	P206,362,027	P618,132,930	P985,806,945

	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%	P58,931,358	P24,579,549	P518,557,909	P602,068,816
Corporate debt securities	3.92% - 6.94%	100,785,284	181,586,918	303,737,700	586,109,902
		P159,716,642	P206,166,467	P822,295,609	P1,188,178,718

Any increase by 100 basis points (1%) in interest rates, with all other variables held constant, will increase income before income tax by P9.86 million and P11.88 million for the years ended December 31, 2018 and 2017, respectively. The decrease in same basis points will reduce the income before income tax by the same amount.

In 2018 and 2017, 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, 2018 and 2017.

	Change in Equity Prices	Effect in Equity
2018	**+5.00%**	**P3,002,202**
	-5.00%	**(3,002,202)**
2017	+5.00%	7,398,308
	-5.00%	(7,398,308)

On the assumption that an increase of 5% on the price of the investments in 2017 and in 2016, equity would increase by P3.00 million and P7.40 million, respectively. A 5% decrease in price in 2018 and 2017, 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.

36. Fair Value Measurement

Financial Instruments
The carrying amount of the Company's financial instruments such as cash and cash equivalents (excluding cash on hand), short-term investments, 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 securities were determined by reference to quoted market prices published by Philippine Stock Exchange (PSE).

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 PHP Bloomberg Valuation Services (BVAL) and PDEX in 2018 and 2017, respectively.

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.

Fair Value Hierarchy
Financial assets and financial liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy. This hierarchy group's financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

Financial Assets
As at December 31, AFS financial asset is the only financial asset measured at fair value in the statement of financial position. The fair value hierarchy of the Company's AFS financial asset is as follows:

		2018			
	Note	Level 1	Level 2	Level 3	Total Fair Value
AFS financial assets:	7				
Equity securities		P60,031,044	P9,950,000	P -	P69,981,044
Debt instruments		937,938,547	47,868,398	-	985,806,945
		P997,969,591	P57,818,398	P -	P1,055,787,989

		2017			
	Note	Level 1	Level 2	Level 3	Total Fair Value
AFS financial assets:	7				
Equity securities		P147,966,156	P10,926,000	P -	P158,892,156
Debt instruments		1,137,258,072	50,920,646	-	1,188,178,718
		P1,285,224,228	P61,846,646	P -	P1,347,070,874

During the years ended December 31, 2018 and 2017, there were no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

Unquoted equity investments amounted to P0.49 million and P0.62 million as at December 31, 2018 and 2017, respectively.

Nonfinancial Assets
As at December 31, 2018 and 2017, the fair value of the Company's investment properties amounted to P19.07 million and P17.77 million, respectively, using level 2 inputs. During the year, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The recurring fair value of nonfinancial assets under level 2 are determined using market data approach (see Note 13).

37. Reclassification of Accounts

The Company reclassified certain accounts in the 2017 statement of financial position and statements of profit or loss and other comprehensive loss to conform to the current year's presentation. Management believes that the reclassification is necessary to present comparative, relevant and understandable information.

	Note	Before Reclassification	Reclassification	After Reclassification
Statements of Financial Position				
Short-term investments	5	P -	P1,873,167	P1,873,167
Loans and receivables - net	8	100,953,030	(1,873,167)	99,079,863
Statements of Profit or Loss and Other Comprehensive Income				
Other underwriting income	22	-	3,673,083	3,673,083
Other income	25	5,546,541	14,560,810	20,107,351
General and administrative expense	26	(459,745,357)	(18,233,893)	(477,979,250)
		(P353,245,786)	P -	(P353,245,786)

The reclassification pertains to the short-term investments amounting to P1.87 million which was previously presented as part of "Loans and receivables - net" in the statement of financial position. Moreover, other underwriting income pertaining to the profit share of the Company to its MOA with Insular Life and certain other income items were reclassified out of "General and administrative expenses" in profit or loss.

The above reclassifications have no significant impact on the statement of financial position and statement profit or loss and other comprehensive income. Accordingly, the management did not present statement of financial position at the beginning of the earlier comparative period.

38. Supplementary Information Required under Revenue Regulation No. 15-2010 of the 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, 2018:

A. Value Added Tax (VAT)

1. Output VAT	**P170,806,603**
Basis of the Output VAT: Sales subject to VAT	**P1,423,388,356**

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 P18,419,913 in 2018.

2. Input VAT	
Balance at beginning of year	**P80,641,622**
Current year's domestic purchases:	
a. Goods for resale/manufacture or further processing	
b. Goods other than for resale or manufacture	**21,040,994**
c. Capital goods subject to amortization	**2,293,327**
d. Capital goods not subject to amortization	**1,954,483**
e. Services lodged under cost of goods sold	
f. Services lodged under other accounts	**65,852,291**
Claims for tax credit/refund and other adjustments	**8,597,938**
Balance at end of the year	**P180,380,655**

B. Documentary Stamp Tax

The Company paid documentary stamp tax on premiums amounting to P217.50 million in 2018.

C. Withholding Taxes

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

Expanded withholding taxes	**P64,462,953**
Withholding taxes on compensation and benefits	**41,435,198**
Final withholding taxes	**726,314**
	P106,624,465

D. Fringe Benefit Tax

Fringe benefits tax paid by the Company in 2018 amounted to P2.69 million and is recorded under "Salaries and benefits" account in profit or loss.

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

Other taxes and licenses paid during the year under "Taxes and licenses" account in the profit or loss are as follows:

License and permit fees	**P2,198,049**
Real estate taxes	**322,221**
Documentary stamp taxes	**45,806**
Penalties and surcharges	**5,000,000**
Others	**189,900**
	P7,755,976

F. Tax Assessments and Deficiencies

As at December 31, 2018, the Company has no pending deficiency tax assessment and/or tax cases.