

MAPFRE INSULAR INSURANCE CORPORATION

FINANCIAL STATEMENTS
December 31, 2018 and 2017



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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

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

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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

		December 31	
	Note	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

	Years Ended December 31		
	<i>Note</i>	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

		Years Ended December 31	
	Note	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

	Years Ended December 31		
	<i>Note</i>	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:

<u>Items</u>	<u>Measurement Bases</u>
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.

	<i>Note</i>	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:

	<i>Note</i>	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						Total
	< 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	181 to 360 Days	Over 360 Days	
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						Total
	< 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	181 to 360 Days	Over 360 Days	
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:

	Note	2018				Total
		Premiums Receivable	Due from Brokers	Due from Ceding Companies	Reinsurance Recoverable on Paid Losses	
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

	Note	2017				Total
		Premiums Receivable	Due from Brokers	Due from Ceding Companies	Reinsurance Recoverable on Paid Losses	
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		Total
	Due Within One Year	Due Beyond One Year	
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		Total
	Due Within One Year	Due Beyond One Year	
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:

	<i>Note</i>	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:

	<i>Note</i>	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				Total
	Up to a Year	1 - 3 Years	3 - 5 Years	Over 5 Years	
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				Total
	Up to a Year	1 - 3 Years	3 - 5 Years	Over 5 Years	
Accounts receivable	P107,025,253	P -	P -	P -	P107,025,253
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:

	<i>Note</i>	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:

	For the Year Ended December 31, 2018						Total
	Note	Building and Building Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	
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

	For the Year Ended December 31, 2017						Total
	Note	Building and Building Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	
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:

	<i>Note</i>	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:

	<i>Note</i>	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:

Note	2018			2017		
	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	(690,888,060)	(135,896,324)	(554,991,736)	(1,396,982,173)	(761,303,761)	(635,678,412)
Increase (decrease) in IBNR	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:

Note	2018			2017		
	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	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	(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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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		Terms	Conditions
				Due from a Related Party	Due to Related Party		
MAPFRE Re Compañía de Reaseguros S.A.							
<i>(Entity under Common Control)</i>							
Inward commissions		2018	P35,776,148	P1,444	P -	Due and demandable;	Unsecured;
		2017	61,841,168	1,444	-	noninterest-bearing	no impairment
Reinsurance premium ceded	18	2018	144,296,385	-	57,207,881	Due and demandable;	
		2017	232,752,003	-	129,175,179	noninterest-bearing	Unsecured
RI Recoverable on paid losses	6	2018	72,742,795	72,742,795	-	Due and demandable;	Unsecured;
		2017	112,552,879	19,617,849	-	noninterest-bearing	no impairment
Funds held to reinsurers	18	2018	152,358,354	-	152,358,354	Due and demandable;	
		2017	312,195,415	-	178,250,187	noninterest-bearing	Unsecured
MAPFRE Global Risks S.A.							
<i>(Entity under Common Control)</i>							
Reinsurance premium ceded	18	2018	353,017,460	-	353,017,460	Due and demandable;	Unsecured
		2017	530,398,562	-	-	noninterest-bearing	Unsecured;
Premiums receivable	8	2018	137,384	-	-	Due and demandable;	Unsecured;
		2017	-	-	-	noninterest-bearing	no impairment
MAPFRE Asistencia Compañía Internacional de Seguros Y Reaseguros, S.A.							
<i>(Entity under Common Control)</i>							
Reinsurance premium ceded	6	2018	48,686	20,422	-	Due and demandable;	Unsecured
		2017	10,418,779	-	-	noninterest-bearing	
Funds held to reinsurers	18	2018	5,916,568	-	5,916,568	Due and demandable;	Unsecured
		2017	5,405,901	-	5,405,901	noninterest-bearing	
Insular Life Assurance Company, Ltd. (Insular Life)							
<i>(Entity with Significant Influence)</i>							
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;	Unsecured;
		2017	59,801,247	11,631,189	-	noninterest-bearing	no impairment
Premium receivable	6	2018	18,692,779	706,834	-	Due and demandable;	Unsecured;
		2017	15,852,663	-	-	noninterest-bearing	no impairment
Accounts payable	19, 31b	2018	28,425,687	-	20,756,989	Due and demandable;	Unsecured
		2017	21,655,872	-	26,072,444	noninterest-bearing	
Fundación MAPFRE							
<i>(Ultimate Parent)</i>							
Accounts receivables	8	2018	15,014	15,014	-	Due and demandable;	Unsecured;
		2017	100,931	979,605	-	noninterest-bearing	no impairment
Ibero Asistencia, S.A.							
<i>(Entity under Common Control)</i>							
Service fees	19, 31c, 27	2018	7,805,106	-	581,428	Due and demandable;	Unsecured
		2017	6,571,203	-	9,625,330	noninterest-bearing	
MAPFRE Tech, S.A							
<i>(Entity under Common Control)</i>							
Accounts payable	31d, 19	2018	15,946,096	-	1,077,140	Due and demandable;	Unsecured
		2017	1,810,469	-	-	noninterest-bearing	
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 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as "Deferred acquisition costs" in the 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.

Insurance Contract Liabilities

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.

Fair Value Measurements

Determination of Fair Values

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

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

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

Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

"Day 1" Profit

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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.

Impairment of Financial Assets

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

AFS financial Assets Carried at Fair Value

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

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

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

AFS financial Assets Carried at Cost

If there is an objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar security.

Loans and Receivables

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

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

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

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

The carrying amount of the loans and receivables shall be reduced either directly or through the use of an allowance account. The impairment losses for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of impairment losses is recognized in profit or loss, to the extent that the carrying amount of the loans and receivables does not exceed its amortized cost at the reversal date.

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

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset but transferred control of the asset, the Company continues to recognize the asset to the extent of the Company's continuing involvement. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be acquired to pay.

Financial Liabilities

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

Property and Equipment

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

Intangible Assets

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

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

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

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

Goodwill

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

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

Impairment is determined by assessing the recoverable amount of the 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.

Revenue Recognition

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:

<u>Net Worth</u>	<u>Compliance Date</u>
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	1,694,559,972	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	1,206,581,127	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	374,374,035	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	-	-	-	-	-	-	-	-	482,707,457
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	374,374,035	478,205,318	354,292,570	998,421,922	434,701,601	-	-	-	-	-	434,701,601
Six years later	663,680,104	279,988,658	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				Total
	PRS Aaa	PRS Ba	PRS B	Not Rated	
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				Total
	PRS Aaa	PRS Ba	PRS B	Not Rated	
Cash and cash equivalents:					
Cash in banks	P -	P -	P -	P151,127,296	P151,127,296
Short-term 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.

Note	2018				Past Due and Impaired		Total
	Neither Past-Due nor Impaired			Total	Total	Total	
	Grade A	Grade B	Grade C				
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

Note	2017				Past Due and Impaired		Total
	Neither Past-Due nor Impaired			Total	Total	Total	
	Grade A	Grade B	Grade C				
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				Total
Note	On Demand	1 to 3 Years	4 to 5 Years	More than 5 Years		
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				Total
Note	On Demand	1 to 3 Years	4 to 5 Years	More than 5 Years		
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:

	Range of Interest Rates	2018			Total
		1 - 3 Years	4 - 5 Years	Over 5 Years	
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
	Range of Interest Rates	2017			Total
		1 - 3 Years	4 - 5 Years	Over 5 Years	
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
<i>Statements of Financial Position</i>				
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
<i>Statements of Profit or Loss and Other Comprehensive Income</i>				
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
<hr/>	
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.