# The Mercantile Insurance Co., Inc.

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
The Mercantile Insurance Co., Inc.

## Report on the Audit of the Financial Statements

### Opinion

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

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

### Basis for Opinion

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

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

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 33 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of The Mercantile Insurance Co., Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Djole S. Garcia

Djole S. Garcia
Partner
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SEC Accreditation No. A-832-A (Group A),
March 21, 2019, valid until July 21, 2019
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October 18, 2018, valid until October 17, 2021
PTR No. 7332555, January 3, 2019, Makati City

May 24, 2019

## THE MERCANTILE INSURANCE CO., INC.
## STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **ASSETS** | | |
| Cash and cash equivalents (Notes 6 and 28) | **₱325,411,416** | ₱146,780,216 |
| Short-term investments (Notes 7 and 28) | **93,095,593** | 45,524,529 |
| Insurance receivables - net (Notes 8 and 28) | **722,983,956** | 427,662,157 |
| Financial assets (Notes 9 and 28) | | |
| Held-to-maturity investments | **139,663,931** | 154,648,805 |
| Available-for-sale financial assets | **172,257,643** | 133,937,986 |
| Financial asset at fair value through profit or loss | **105,160,000** | 99,860,000 |
| Loans and receivables - net | **21,148,342** | 21,674,998 |
| Accrued interest income (Note 28) | **10,301,523** | 2,240,088 |
| Reinsurance assets (Notes 10 and 16) | **86,849,252** | 157,213,405 |
| Deferred acquisition costs (Note 11) | **170,300,798** | 125,778,537 |
| Property and equipment - net (Note 12) | **214,212,818** | 204,517,335 |
| Investment properties (Note 13) | **153,197,229** | 148,332,921 |
| Intangible asset (Note 14) | **20,873,601** | 22,369,501 |
| Net pension asset (Note 25) | **5,050,040** | 9,855,009 |
| Asset held for sale | **8,795,000** | 2,134,622 |
| Other assets (Note 15) | **26,572,863** | 14,641,941 |
| | **₱2,275,874,005** | ₱1,717,172,050 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Insurance contract liabilities (Note 16) | **₱1,129,841,014** | ₱809,173,883 |
| Insurance payables (Note 17) | **40,135,489** | 51,917,971 |
| Deferred reinsurance commissions (Note 11) | **6,174,596** | 8,539,407 |
| Accounts payable and accrued expenses (Note 19) | **323,653,950** | 173,788,594 |
| Deferred tax liabilities - net (Note 27) | **61,201,358** | 65,022,585 |
| | **1,561,006,407** | 1,108,442,440 |
| **Equity** | | |
| Capital stock (Note 20) | **331,442,200** | 250,000,000 |
| Contributed surplus | **16,380,940** | 92,500 |
| Revaluation reserve on available-for-sale financial assets (Note 9) | **(2,802,392)** | 13,389,912 |
| Revaluation reserve on property and equipment (Note 12) | **125,990,816** | 122,176,749 |
| Remeasurement gain on defined benefit plan (Note 25) | **7,781,030** | 13,005,055 |
| Retained earnings | **236,075,004** | 210,065,394 |
| | **714,867,598** | 608,729,610 |
| | **₱2,275,874,005** | ₱1,717,172,050 |

*See accompanying Notes to Financial Statements.*

## THE MERCANTILE INSURANCE CO., INC.

## STATEMENTS OF INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **NET INSURANCE PREMIUMS** (Notes 16 and 21) | | |
| Gross earned premiums on insurance contracts | **₱1,209,721,411** | ₱825,080,585 |
| Reinsurers' share of premiums earned on insurance contracts | **(149,749,155)** | (193,398,748) |
| | **1,059,972,256** | 631,681,837 |
| **INVESTMENT AND OTHER INCOME** | | |
| Investment income - net (Note 22) | **47,557,131** | 27,470,443 |
| Commission income (Note 11) | **10,634,161** | 10,937,924 |
| Other underwriting income | **8,319,935** | 7,958,303 |
| Other income | **1,495,292** | 360,774 |
| | **68,006,519** | 46,727,444 |
| **TOTAL INCOME** | **1,127,978,775** | 678,409,281 |
| **NET INSURANCE BENEFITS AND CLAIMS** (Notes 16 and 23) | | |
| Gross insurance benefits and claims paid | **497,453,163** | 358,904,090 |
| Reinsurers' share of insurance benefits and claims paid | **(78,203,096)** | (80,255,405) |
| Gross change in insurance contract liabilities | **74,967,946** | (11,962,588) |
| Reinsurers' share of change in insurance contract liabilities | **60,804,300** | 37,863,840 |
| | **555,022,313** | 304,549,937 |
| **EXPENSES** | | |
| Operating expenses (Note 24) | **234,742,672** | 149,349,645 |
| Commission expense (Note 11) | **303,588,876** | 210,605,346 |
| **TOTAL BENEFITS, CLAIMS AND EXPENSES** | **1,093,353,861** | 664,504,928 |
| **INCOME BEFORE INCOME TAX** | **34,624,914** | 13,904,353 |
| **PROVISION FOR INCOME TAX** (Note 27) | **9,595,570** | 3,846,291 |
| **NET INCOME** | **₱25,029,344** | ₱10,058,062 |

*See accompanying Notes to Financial Statements*

## THE MERCANTILE INSURANCE CO., INC.
## STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **NET INCOME** | **₱25,029,344** | ₱10,058,062 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| *Item that will be reclassified to profit and loss* | | |
| Fair value changes in available-for-sale financial assets (Note 9) | **(16,192,304)** | (17,809,405) |
| *Items that will not be reclassified to profit and loss- net of tax* | | |
| Revaluation increment on property and equipment (Note 12) | **3,814,067** | 5,354,142 |
| Actuarial losses on defined benefit plan (Note 25) | **(5,224,025)** | (112,415) |
| | **(17,602,262)** | (12,567,678) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **₱7,427,082** | (₱2,509,616) |

*See accompanying Notes to Financial Statements*

# THE MERCANTILE INSURANCE CO., INC.
## STATEMENTS OF CHANGES IN EQUITY

| | | | Other comprehensive income | | | | |
|---|---|---|---|---|---|---|---|
| | **Capital Stock** (Note 20) | **Contributed Surplus** (Note 20) | **Revaluation Reserve on Available-for-sale Financial Assets** (Note 9) | **Revaluation Reserve on Property and Equipment** (Note 12) | **Remeasurement Gain (Loss) on Defined Benefit Plan** (Note 25) | **Retained Earnings** | **Total** |
| **Balance as at January 1, 2018** | **₱250,000,000** | **₱92,500** | **₱13,389,912** | **₱122,176,749** | **₱13,005,055** | **₱210,065,394** | **₱608,729,610** |
| **Issued capital** (Note 20) | **81,442,200** | **16,288,440** | **–** | **–** | **–** | **–** | **97,730,640** |
| **Net income for the year** | **–** | **–** | **–** | **–** | **–** | **25,029,344** | **25,029,344** |
| **Other comprehensive income (loss)** | **–** | **–** | **(16,192,304)** | **3,814,067** | **(5,224,025)** | **–** | **(17,602,262)** |
| **Transfer of depreciation on revaluation increment** (Note 12) | **–** | **–** | **–** | **–** | **–** | **980,266** | **980,266** |
| **Total comprehensive income (loss)** | **–** | **–** | **(16,192,304)** | **3,814,067** | **(5,224,025)** | **26,009,610** | **8,407,348** |
| **Balance as at December 31, 2018** | **₱331,442,200** | **₱16,380,940** | **(₱2,802,392)** | **₱125,990,816** | **₱7,781,030** | **₱236,075,004** | **₱714,867,598** |
| Balance as at January 1, 2017 | ₱250,000,000 | ₱92,500 | ₱31,199,317 | ₱116,822,607 | ₱13,117,470 | ₱199,049,706 | ₱610,281,600 |
| Net income for the year | – | – | – | – | – | 10,058,062 | 10,058,062 |
| Other comprehensive income (loss) | – | – | (17,809,405) | 5,354,142 | (112,415) | – | (12,567,678) |
| Transfer of depreciation on revaluation increment (Note 12) | – | – | – | – | – | 957,626 | 957,626 |
| Total comprehensive income (loss) | – | – | (17,809,405) | 5,354,142 | (112,415) | 11,015,688 | (1,551,990) |
| Balance as at December 31, 2017 | ₱250,000,000 | ₱92,500 | ₱13,389,912 | ₱122,176,749 | ₱13,005,055 | ₱210,065,394 | ₱608,729,610 |

*See accompanying Notes to Financial Statements.*

**THE MERCANTILE INSURANCE CO., INC.**

**STATEMENTS OF CASH FLOWS**

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱34,624,914** | ₱13,904,353 |
| Adjustments for: | | |
| Depreciation and amortization (Notes 12, 14 and 24) | **13,579,955** | 9,892,752 |
| Interest income (Note 22) | **(15,006,395)** | (12,214,231) |
| Dividend income (Note 22) | **(6,433,939)** | (14,629) |
| Gain on foreign exchange (Note 22) | **(5,101,491)** | (178,643) |
| Fair value losses on investment properties (Note 13 and 22) | **(4,864,308)** | 943,798 |
| Gain on sale of available-for-sale (AFS) financial assets (Note 22) | **(3,349,033)** | (3,226,688) |
| Pension expense (Note 25) | **(2,657,924)** | 4,099,652 |
| Provision for impairment losses (Notes 8 and 24) | **9,279,182** | 2,747,747 |
| Gain on sale of property and equipment | **–** | (102,054) |
| Operating income before changes in working capital | **20,070,961** | 15,852,057 |
| Decrease (increase) in: | | |
| Insurance receivables | **(304,600,981)** | (105,306,928) |
| Reinsurance assets | **70,364,153** | 22,669,047 |
| Deferred acquisition costs | **(44,522,261)** | (47,368,552) |
| Asset held for sale | **(6,660,378)** | (2,134,622) |
| Loans and receivables | **526,656** | (3,988,510) |
| Other assets | **(63,016)** | (1,426,840) |
| Increase (decrease) in: | | |
| Insurance contract liabilities | **320,667,131** | 153,687,094 |
| Accounts payable and accrued expenses | **149,865,356** | 103,693,386 |
| Insurance payables | **(11,782,482)** | (11,073,736) |
| Deferred reinsurance commissions | **(2,364,811)** | 3,628,817 |
| Net cash flows from operations | **191,500,328** | 128,231,213 |
| Interest received | **13,002,950** | 11,038,626 |
| Income taxes paid | **(25,100,548)** | (14,280,055) |
| Net cash flows from operating activities | **179,402,730** | 124,989,784 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from maturities and disposals of: | | |
| Short-term investments (Note 7) | **40,928,936** | 35,461,829 |
| Held-to-maturity investments (Note 9) | **15,000,000** | 143,063 |
| Available-for-sale financial assets (Note 9) | **13,986,321** | 3,992,589 |
| Property and equipment (Note 12) | **–** | 1,239,229 |

(Forward)

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Acquisitions of: | | |
| Short-term investments (Note 7) | **(₱88,500,000)** | (₱20,400,000) |
| Available-for-sale financial assets (Note 9) | **(64,788,426)** | (118,585,785) |
| Property and equipment (Note 12) | **(13,838,046)** | (17,389,550) |
| Intangible assets (Note 14) | **(1,092,446)** | (23,864,454) |
| Financial asset at fair value through profit of loss (Note 9) | **–** | (100,900,000) |
| Dividends received (Notes 9 and 22) | **–** | 14,629 |
| Net cash flows used in investing activities | **(98,303,661)** | (240,288,450) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issuance of stocks (Note 20) | **97,730,640** | – |
| Net cash flows from financing activities | **97,730,640** | – |
| **EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | **(198,509)** | 1,218,643 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **178,631,200** | (114,080,023) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **146,780,216** | 260,860,239 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** (Note 6) | **₱325,411,416** | ₱146,780,216 |

*See accompanying Notes to Financial Statements*

## 1. Corporate Information

The Mercantile Insurance Co., Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on October 30, 1962 to engage in the business of nonlife insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events and to act as agent to other insurance or surety companies, any of its branches, including life insurance. It includes lines such as health, accident, fire and allied lines, motor vehicle, casualty, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with an incident to aforementioned lines.

On August 26, 2012, the SEC approved the amended Articles of Incorporation of the Company extending its corporate life for another fifty (50) years starting October 29, 2012. It has the certificate of authority issued by the Insurance Commission (IC) to transact in non-life insurance business until December 31, 2018.

In 2016, Camerton, Inc. (CI or Parent Company) acquired 69.96% ownership of the Company. With the acquisition, CI obtained control of the Company and became the immediate parent company. Carmetheus Holdings, Inc. (CHI) is the ultimate parent of CI. Both CHI and CI are incorporated in the Philippines.

The registered office address of the Company is Mercantile Insurance Building, General Luna corner Beaterio Streets, Intramuros, Manila.

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on May 24, 2019.

## 2. Basis of Preparation and Statement of Compliance

Basis of Preparation

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

Statement of Compliance

The accompanying financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

## 3. Changes in Accounting Policies

The accompanying policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company’s financial position or performance unless otherwise indicated.

*Amendments*

- PAS 40, *Investment Property, Transfers of Investment Property*
- PAS 28, *Investment in Associate and Joint Venture - Measuring an associate or joint venture at fair value*
- PFRS 2, *Share-based Payment, Classification and Measurement of Share based Payment Transactions*
- PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contract standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  During 2018, the Company performed an assessment of the amendments and reached the conclusion that as of December 31, 2015 up to December 31, 2017, its activities are predominantly connected with insurance. The Company opted to apply the temporary exemption from PFRS 9 and therefore continues to apply PAS 39, *Financial Instruments: Recognition and Measurement*, to its financial assets and liabilities until the Company applies the new standard on insurance contracts.

*Philippine Interpretation*

- IFRIC 22, *Foreign Currency Transaction and Advance Consideration*

*New Standards*

- PFRS 9, *Financial Instruments*

  The Company applies the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*. The temporary exemption permits the Company to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before 1 January 2022.

  The assessment on whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity's total liabilities.

  The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting date after March 31, 2015 and before April 1, 2016. Applying the requirements, the Company performed the predominance assessment using the statement of financial position as of December 31, 2015 and concluded that it qualified for the temporary exemption from PFRS 9 with 99% liabilities arising from contracts within the scope of PFRS 4 of the total carrying amount of all liabilities. Since December 31, 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

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

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

| | SPPI Financial assets | | Other Financial assets | |
|---|---|---|---|---|
| **Financial asset** | **Fair value** | **Fair value change** | **Fair value** | **Fair value change** |
| Cash and cash equivalents | **₱325,411,416** | **₱–** | **₱–** | **₱–** |
| Short term investments | **93,095,593** | – | – | – |
| Insurance receivables | **722,983,955** | – | – | – |
| Financial assets at FVPL | – | – | **105,160,000** | – |
| AFS financial assets | | | | |
| Debt securities | **163,172,474** | **(10,690,049)** | – | – |
| Equity securities | – | – | **9,085,169** | **(2,153,222)** |
| Held-to-maturity investments | **139,663,931** | – | – | – |
| Loans and receivables | **21,148,342** | – | – | – |
| Accrued income | **3,866,998** | – | – | – |
| | **₱1,469,342,709** | **(₱10,690,049)** | **₱114,245,169** | **(₱2,153,223)** |

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

| | Total | Investment Grade | Unrated |
|---|---|---|---|
| Cash and cash equivalents | **₱325,411,416** | **₱325,253,716** | **₱157,700** |
| Short term investments | **93,095,593** | **93,095,593** | – |
| Insurance receivables | **722,983,955** | – | **722,983,955** |
| AFS financial assets | | | |
| Debt securities | **163,172,474** | **163,172,474** | – |
| Held-to-maturity investments | **139,663,931** | **139,663,931** | - |
| Loans and receivables | **21,148,342** | – | **21,148,342** |
| Accrued income | **3,866,998** | **3,866,998** | – |
| | **₱1,469,342,709** | **₱725,052,712** | **₱744,289,997** |

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18, Revenue and related interpretations and it applies with limited exceptions, to all revenue from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers.

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

The adoption of this standard did not have any impact on the Company's financial statements since the Company's revenue is mainly composed of insurance premiums and investment income which are outside the scope of PFRS 15 (scoped in under PFRS 4 and PFRS 9).

Standards Issued but Not yet Effective

The Company will adopt, where applicable, the following new standards, amendments to existing standards and interpretations when these become effective. Unless otherwise stated, the adoption of these new standards, amendments thereto and interpretation is not expected to have significant impact on the Company's financial statements. Additional disclosures will be provided when these standards and amendments are adopted.

*Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization Effective beginning on or after January 1, 2020*
- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

*Effective beginning on or after January 1, 2022*

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2022, with comparative figures required. Early application is permitted. The Company is currently assessing the impact of adopting PFRS 17

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*

The Company continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2018 on the Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

## 4. Summary of Significant Accounting Policies

Use of Estimates, Assumptions and Judgments

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the end of the reporting period as well as affect the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the end of the reporting period, the actual outcome may differ from these estimates, possibly significantly. For further information on critical accounting estimates and judgments, refer to Note 5.

Product Classification

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. 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.

Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Fair Value Measurement

The Company measures financial instrument and non-financial assets such as property and equipment, at fair value at each reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 28.

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 by the Company.

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

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

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

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

- *Level 1* - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- *Level 2* - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- *Level 3* - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash and Cash Equivalents
Cash includes cash on hand, cash in banks and demand deposits. 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 from dates of placement and that are subject to an insignificant risk of changes in value.

Short-term Investments
These are placements in time deposits and other money market instruments with original maturities of more than three months but less than one year and which are not restricted as to use.

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

Insurance receivables are derecognized under the derecognition criteria of financial assets.

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

*Initial recognition of financial instruments*
Financial instruments are initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, financial assets at FVPL and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

As of December 31, 2018 and 2017, the Company's financial instruments are in the nature of AFS financial assets, HTM financial assets, financial assets at FVPL, loans and receivables and other financial liabilities.

*'Day 1' difference*
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an observable data is used, 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' difference amount.

*Loans and receivables*
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVPL. This accounting policy relates to the statement of financial position captions: (a) "Cash and cash equivalents," (b) "Short-term investments," (c) "Insurance receivables", (d) "Loans and receivables" and (e) "Accrued interest income".

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the "Interest income" under "Investment income- net" in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss.

*Financial assets at FVPL*
Financial assets and financial liabilities at FVPL include financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition as at FVPL.

Financial assets and liabilities are classified as held-for-trading if they are acquired for purposes of selling and repurchasing in the near term.

Financial assets and liabilities at FVPL are recorded in the Company's statement of financial position at fair value. Subsequent changes in fair value are recognized in the Company's statement of income.

*AFS financial assets*
AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. Interest earned on holding AFS debt investments are reported as "Interest Income" using the effective interest rate. Dividends earned on holding AFS equity investments are recognized in profit or loss when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Revaluation reserve on available-for-sale financial assets" in equity. The losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as realized gains or losses in profit or loss. When the Company holds more than one investment in the same security, the cost is determined using the weighted average method.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

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

*Other financial liabilities*
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of comprehensive income.

This accounting policy applies primarily to the Company's provision for claims reported by policyholders and IBNR (included in insurance contract liabilities), insurance payables and accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit obligation and income tax payable).

Offsetting
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 asset and settle the liability simultaneously.

Impairment of Financial Assets
The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as past-due status and term.

*AFS investments carried at fair value*
In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income, and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in profit or loss. If, in subsequent year, the fair value of a debt instrument increases 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.

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

Derecognition of Financial Assets and Liabilities
*Financial asset*
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

Where the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

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

Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

Reinsurance assets are reviewed for impairment at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in profit or loss. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts. 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 reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

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

Deferred Acquisition Costs (DAC) and Deferred Reinsurance Commission (DRC)

Commissions expense and commission income recognized 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.

Subsequent to initial recognition, these balances are amortized on a straight-line basis using the 24th method over the life of the contract. Amortization is charged against profit or loss. The unamortized acquisition costs are shown as “Deferred acquisition costs” in the assets section of the statement of financial position. 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” and presented in the liabilities section of the statement of financial position.

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

Property and Equipment

Land and buildings and building improvements are stated at appraised value determined by an independent firm of appraisers, less accumulated depreciation. The net appraisal increment resulting from the revaluation is credited to revaluation increment on property and equipment included under “Other comprehensive income” in the statements of financial position. Accumulated depreciation on the revalued property and equipment is eliminated against the gross carrying value of the asset and the net amount restated to the revalued amount of the asset.

A revaluation surplus is recorded in other comprehensive income and credited to the revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit or loss. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Property and equipment, other than land and buildings and building improvements, are carried at cost less accumulated depreciation, and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow

to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to profit or loss during the financial period in which they are incurred.

Depreciation of property and equipment commence once the property and equipment are available for use and is computed using the straight-line method over the estimated useful lives (EUL) of the assets regardless of the utilization.

The EUL of the Company's property and equipment follows:

| | Years |
|---|---|
| Building and building improvements | 40 |
| Office furniture, fixtures and equipment | 5 |
| Transportation equipment | 4 |
| Computer hardware | 3 to 5 |
| Leasehold improvements | 5 or lease term whichever is shorter |

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

Intangible Assets

Intangible assets which consists of computer software and licenses are stated at cost less accumulated amortization and any impairment losses, if any. Amortization is based on a straight line basis over its estimated useful lives of 10 years for the Geniisys and 2 to 5 years for those softwares that were subscribed.

The estimated useful lives and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits of the intangible assets.

Investment Properties

Property held for long term rental yields or for capital appreciation or for both, is classified as investment property. These properties are initially measured at cost, which includes transaction cost, but excludes day to day servicing cost. 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 reliably measured. Subsequent to initial recognition, investment properties are stated at fair values determined by an independent firm of appraisers. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss for the period in which they arise, including the corresponding tax effect.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development.

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Investment property is derecognized when it has been disposed of or when permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties are recognized in profit or loss in the year of derecognition.

Assets Held for Sale
The Company classifies assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Impairment of Non-financial Assets
The Company assesses at each end of the reporting period whether there is an indication that property and equipment, intangible assets and its investment properties may be impaired. If any such indication exists or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation 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 estimated useful life.

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

*Provision for Unearned Premiums*
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums as part of "Insurance contract liabilities" and presented in the liabilities section of 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. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as provision for unearned premiums as part of "Insurance contract liabilities" and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

*Claims Provision and Incurred But Not Reported (IBNR) Losses*
Provision for claims reported and IBNR losses are based on 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 cost and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The IBNR losses are calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the Chain Ladder Method/ Development Approach, the Bornhuetter-Ferguson Paid Approach (BFPA) and the Loss Ratio Approach (LRA). At each reporting date, prior year claims are reassessed for adequacy and changes made are charged to provision.

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

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

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

Defined benefit cost comprises the following:

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

Service cost includes current service cost, past service cost and gain or loss on non-routine settlements and is recognized as expense in profit or loss. Past service cost is recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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 defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Equity

*Capital Stock*

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. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to contributed surplus. Share issuance costs incurred as necessary part of completing an equity transaction are accounted for as part of that transaction and are treated as a deduction from contributed surplus from previous share issuance. If the contributed surplus account is not sufficient, the excess is deducted from retained earnings.

*Contributed Surplus*

Contributed Surplus represents contributions of the stockholders to cover any unexpected deficiency in the Margin of Solvency (MOS) and Risk-Based Capital (RBC) as required under the Insurance Code and can be withdrawn upon the approval of the IC.

*Retained earnings*

Retained earnings include all the accumulated earnings (losses) of the Company, less any amount of dividends declared.

Revenue

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made.

The Company follows a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

a. Identify the contract(s) with a customer
b. Identify the performance obligations in the contract
c. Determine the transaction price
d. Allocate the transaction price to the performance obligation in the contract
e. Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company exercises its judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

*Premiums revenue*

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

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as provision for unearned premiums and shown as part of “Insurance contract liabilities” presented in the liabilities section of the statements of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at end of the reporting period are accounted for as deferred reinsurance premiums and shown as part of “Reinsurance assets” in the statements of financial position. The net changes in these accounts between each end of reporting period are recognized in profit or loss.

*Reinsurance commissions*

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method calculation.

*Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as “Interest income” under “Investment income-net” in the statement of income.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

*Commission expense and other underwriting expenses*
Commissions are recognized when the insurance contracts are entered and the corresponding premiums are recognized. Other expenses are those minimal expenses incurred in connection with the policies issued such as reimbursement for towing services and those expenses incurred in connection with the SCCI Management & Insurance Agency Corporation pool.

*Dividend income*
Dividend income is recognized when the shareholders' right to receive the payment is established.

*Benefits and claims*
Benefits and claims consist of benefits and claims paid to policyholders, which include changes in the valuation of insurance contract liabilities, except for changes in the provision for unearned premiums which are recorded in insurance revenue. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

*Operating expense*
Operating expenses, except for lease expenses, are recognized as expense as they are incurred.

*Interest expense*
Interest expense is charged against operations and is calculated using the effective interest method.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

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

<u>Provisions and Contingencies</u>
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example,

under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Income Tax

*Current tax*

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

*Deferred income tax*

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

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

Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable 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 at the end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

Current tax and deferred tax relating to items recognized as other comprehensive income is also recognized in the statement of comprehensive income.

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

Value-added tax (VAT)
Expenses and assets are recognized, net of the amount of VAT, except:

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

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

Events after the Reporting Period
Any post year-end events that provide additional information about the Company's position at the end of the reporting period (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the financial statements when material.

## 5. Significant Accounting Judgments and Estimates

The preparation of the Company's financial statements in accordance with PFRS required management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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. However, actual outcome can differ from these estimates.

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

*Product classification*
The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

The Company has determined that the insurance policies it issues have significant insurance risks and therefore meet the definition of an insurance contract and should be accounted for as such.

*Distinction between investment properties and owner occupied properties*
The Company determines whether a property qualifies as investment property or owner-occupied property. In making its judgment, the Company considers whether the property generated cash flows largely independently of the other assets held by an entity or for capital appreciation or to earn rentals. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the supply of services or for administrative purposes.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions cannot be sold or leased out separately under a finance lease as of the reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancilliary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment.

There were no reclassifications to or from property and equipment or investment properties in 2018 and 2017.

As of December 31, 2018 and 2017, the carrying values of property and equipment amounted to ₱214.21 million and ₱204.52 million, respectively (see Note 12), while the carrying value of investment properties amounted to ₱153.20 million and ₱148.33 million, respectively (see Note 13).

*Operating leases - Company as a lessee*
The Company has entered into property leases. Substantially, all the risk and benefits incidental to ownership of the leased item are not transferred to the Company. The future minimum rentals under non-cancellable operating lease amounted to ₱10.81 million and ₱9.64 million in 2018 and 2017, respectively (see Note 31).

*Operating leases - Company as a lessor*
The Company has entered into property leases on its investment property portfolio. The Company has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases. The future minimum rentals under non-cancellable operating leases amounted to ₱5.72 million and ₱8.85 million in 2018 and 2017, respectively (see Note 31).

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

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

As of December 31, 2018 the carrying value of AFS financial assets and financial assets at FVPL amounted to ₱105.16 million and ₱99.86 million, respectively. As of December 31, 2018 and 2017, the carrying value of AFS financial assets are ₱172.26 and ₱133.94 million, respectively (see Notes 9 and 28).

*HTM investments*
The Company classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investment. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than in certain specific circumstances - for example, sales that are so close to maturity - it will be required to reclassify the entire portfolio as AFS financial assets. The investment would therefore be measured at fair value and not as amortized cost. HTM investments amounted to ₱139.66 million and ₱154.65 million as of December 31, 2018 and 2017, respectively (see Notes 9 and 28).

Estimates
*Claims liability arising from insurance contracts*
For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of the claims IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Paid Chain Ladder method with and without Bornhuetter-Ferguson (BF) adjustments, Reported Chain Ladder method with and without BF adjustments and Expected Loss Ratio methods.

The main assumption underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future, (i.e., for example to reflect one-off occurrences, changes in external or market factors such as public attitudes 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 cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The carrying value of total provision for outstanding claims, IBNR and reserve for unearned premiums amounted to ₱1,129.84 million and ₱809.17 million as of December 31, 2018 and 2017, respectively (see Note 16).

*Impairment of financial assets*
*AFS – Equity Securities*
The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' greater than six (6) months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate

also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

*Held-to-maturity investments*
The Company assesses at each reporting date whether there is any objective evidence that its HTM investments are impaired. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

a. significant financial difficulty of the issuer or obligor;
b. breach of contract, such as a default or delinquency in interest or principal payments;
c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
d. it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

*Loans and receivables*
The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a regular basis.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

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. Allowance for impairment losses on insurance receivable amounted to ₱14.91 million and ₱5.63 million as of December 31, 2018 and 2017, respectively. Insurance receivables, net of allowance for impairment losses, amounted to ₱722.98 million and ₱427.66 million as of December 31, 2018 and 2017, respectively (see Note 8).

The allowance for impairment losses of loans and receivables amounted to ₱0.40 million for both December 31, 2018 and 2017. The carrying value of loans and receivables, net of allowance for impairment losses, amounted to ₱21.15 million and ₱21.67 million (see Note 9).

The carrying values of financial assets follow (see Note 9):

| | **2018** | 2017 |
|---|---|---|
| AFS financial assets | **₱172,257,643** | ₱133,937,986 |
| HTM investments | **139,663,931** | 154,648,805 |
| Financial assets at FVPL | **105,160,000** | 99,860,000 |
| Loans and receivables | **21,148,342** | 21,674,998 |

*EUL of property and equipment, investment properties and intangible assets*
The Company reviews annually the EUL of property and equipment, investment properties and intangible assets based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the EUL of property and equipment, investment properties and intangible assets would increase recorded depreciation and amortization expense and decrease the related asset accounts.

The related balances follow:

| | **2018** | 2017 |
|---|---|---|
| Property and equipment - net (Note 12) | **₱214,212,818** | ₱204,517,335 |
| Investment properties (Note 13) | **153,197,229** | 148,332,921 |
| Intangible assets (Note 14) | **20,873,601** | 22,369,501 |

*Impairment of nonfinancial assets*
The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall 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. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

As of December 31, 2018 and 2017, the Company has determined that there are no indications that its property and equipment, investment properties and intangible assets may be impaired.

*Pension costs*
The determination of the obligation and cost of pension is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, which include, among others, discount rate and salary increase rate, are described in Note 25. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation. Please refer to Note 25 for the related balances.

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

As of December 31, 2018 and 2017, the Company recognized deferred tax assets amounting to ₱21.13 million and ₱15.40 million, respectively (see Note 27). Based on the Company's estimate, sufficient taxable income will be generated to utilize the temporary differences in the future.

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

## 6. Cash and Cash Equivalents

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Cash on hand | **₱157,700** | ₱111,700 |
| Cash in banks | **255,253,716** | 132,134,314 |
| Cash equivalents | **70,000,000** | 14,534,202 |
| | **₱325,411,416** | ₱146,780,216 |

Cash in banks earn interest at the prevailing bank deposit rates which ranged from 0.25% to 1.25% in 2018 and 2017. Cash equivalents are short-term deposits made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates that ranged from 4.75% and 5.57% and 1.50% to 2.00% in 2018 and 2017, respectively.

Interest income earned on cash and cash equivalents amounted to ₱1.37 million and ₱3.39 million in 2018 and 2017, respectively (see Note 22).

## 7. Short-term Investments

Short-term investments consist of money market placements made for varying periods of more than three (3) months to twelve (12) months and earn interest ranging from 2.5% to 6.0% in 2018 and 2017. Short-term investments amounted to ₱93.10 million and ₱45.52 million as of December 31, 2018 and 2017, respectively.

The carrying values of short-term investments have been determined as follows:

| | 2018 | 2017 |
|---|---|---|
| At January 1 | **₱45,524,529** | ₱60,586,358 |
| Maturities | **(40,928,936)** | (35,461,829) |
| Roll over placement | **88,500,000** | 20,400,000 |
| | **₱93,095,593** | ₱45,524,529 |

Interest income earned on these short-term investments amounted to ₱1.64 million and ₱1.04 million in 2018 and 2017, respectively (see Note 22).

8. **Insurance Receivables**

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Premiums receivable | **₱591,116,786** | ₱331,035,447 |
| Reinsurance recoverable on paid losses | **84,545,220** | 91,217,324 |
| Due from reinsurers | **62,228,099** | 11,036,353 |
| | **737,890,105** | 433,289,124 |
| Less allowance for impairment losses | **14,906,149** | 5,626,967 |
| | **₱722,983,956** | ₱427,662,157 |

Premiums receivable represent unpaid premiums on written insurance policies which are collectible from policyholders within the Company's usual grace period of ninety (90) days.

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

Due from reinsurers pertains to premiums collectible from ceding companies with respect to assumed policies.

The following table shows aging information of insurance receivables:

| | **December 31, 2018** | | | | |
|---|---|---|---|---|---|
| | **1 to 30 days** | **31 to 90 days** | **91 to 180 days** | **181 days and above** | **Total** |
| **Premiums receivable** | **₱432,451,516** | **₱79,801,555** | **₱68,310,371** | **₱10,553,344** | **₱591,116,786** |
| **Reinsurance recoverable on paid losses** | **69,671,725** | **748,865** | **460,351** | **13,664,279** | **84,545,220** |
| **Due from reinsurers** | **12,481,272** | **9,859,144** | **17,053,153** | **22,834,530** | **62,228,099** |
| | **₱514,604,513** | **₱90,409,564** | **₱85,823,875** | **₱47,052,153** | **₱737,890,105** |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | 1 to 30 days | 31 to 90 days | 91 to 180 days | 181 days and above | Total |
| Premiums receivable | ₱27,177,935 | ₱60,684,284 | ₱71,365,407 | ₱171,807,821 | ₱331,035,447 |
| Reinsurance recoverable on paid losses | 48,217,514 | 3,860 | 35,834 | 42,960,116 | 91,217,324 |
| Due from reinsurers | 35,611 | 348,611 | 2,907,458 | 7,744,673 | 11,036,353 |
| | ₱75,431,060 | ₱61,036,755 | ₱74,308,699 | ₱222,512,610 | ₱433,289,124 |

The allowance for impairment losses on insurance receivables as at December 31, 2018 and 2017 follows:

| | **Premiums receivable** | **Due from reinsurers** | **Reinsurance recoverable on paid losses** | **Total** |
|---|---|---|---|---|
| **At January 1, 2017** | **₱5,626,967** | **₱–** | **₱–** | **₱5,626,967** |
| **Provision (Note 24)** | **1,790,474** | **5,683,772** | **1,804,936** | **9,279,182** |
| **At December 31, 2018** | **₱7,417,441** | **₱5,683,772** | **₱1,804,936** | **₱14,906,149** |

| | Premiums receivable | Due from reinsurers | Reinsurance recoverable on paid losses | Total |
|---|---|---|---|---|
| At January 1, 2016 | ₱2,879,220 | ₱– | ₱– | ₱2,879,220 |
| Provision (Note 24) | 2,747,747 | – | – | 2,747,747 |
| At December 31, 2017 | ₱5,626,967 | ₱– | ₱– | ₱5,626,967 |

Management recorded provision for impairment loss based on collective and specific assessment on individual insurance receivables.

## 9. **Financial Assets**

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

| | **2018** | 2017 |
|---|---|---|
| AFS financial assets | **₱172,257,643** | ₱133,937,986 |
| HTM investments | **139,663,931** | 154,648,805 |
| Financial assets at FVPL | **105,160,000** | 99,860,000 |
| Loans and receivables - net | **21,148,342** | 21,674,998 |
| | **₱438,229,916** | ₱410,121,789 |

The assets included in each of the categories above are discussed below:

a) *AFS financial assets*

| | **2018** | 2017 |
|---|---|---|
| *Quoted securities - at fair value* | | |
| Government debt securities | **₱107,322,610** | ₱80,853,224 |
| Corporate debt securities | **55,849,864** | 36,788,998 |
| Club shares | **8,140,000** | 6,950,000 |
| Listed common shares | **924,869** | 9,325,464 |
| | **172,237,343** | 133,917,686 |
| *Unquoted securities - at cost* | | |
| Unlisted common shares | **20,300** | 20,300 |
| | **₱172,257,643** | ₱133,937,986 |

The costs of the AFS financial assets follow:

| | **2018** | 2017 |
|---|---|---|
| *Quoted securities - at fair value* | | |
| Government debt securities | **₱112,094,993** | ₱81,213,274 |
| Corporate debt securities | **61,500,000** | 37,500,000 |
| Listed common shares | **17,242** | 387,000 |
| Club shares | **1,427,500** | 1,427,500 |
| | **175,039,735** | 120,527,774 |
| *Unquoted securities - at cost* | | |
| Unlisted common shares | **20,300** | 20,300 |
| | **₱175,060,035** | ₱120,548,074 |

Dividend income earned from the Company's AFS financial assets amounted to nil in 2018 and ₱0.01 million in 2017. Interest income earned on AFS debt securities amounted to ₱6.48 million and ₱2.03 million in 2018 and 2017, respectively (see Note 22).

The carrying values of financial assets have been determined as follows:

| | HTM | AFS |
|---|---|---|
| At January 1, 2018 | **₱154,648,805** | **₱133,937,986** |
| Additions | **–** | **64,788,426** |
| Maturities and disposals | **(15,000,000)** | **(13,986,321)** |
| Amortization of premium - net | **15,126** | **360,823** |
| Fair value change during the year | **–** | **(12,843,271)** |
| At December 31, 2018 | **₱139,663,931** | **₱172,257,643** |
| | | |
| As at January 1, 2017 | ₱154,751,813 | ₱33,800,018 |
| Additions | – | 118,585,785 |
| Maturities and disposals | (143,063) | (3,992,589) |
| Amortization of premium - net | 40,055 | 127,489 |
| Fair value change during the year | – | (14,582,717) |
| At December 31, 2017 | ₱154,648,805 | ₱133,937,986 |

The rollforward analysis of reserve for fluctuation on AFS financial assets follows:

| | **2018** | 2017 |
|---|---|---|
| At January 1 | **₱13,389,912** | ₱31,199,317 |
| *OCI* | | |
| Changes in fair value of AFS financial assets | **(12,843,271)** | (14,582,717) |
| *Transferred to profit of loss* | | |
| Gain on sale | **(3,349,033)** | (3,226,688) |
| At December 31 | **(₱2,802,392)** | ₱13,389,912 |

b) *HTM investments*

The Company's HTM investments consist of investments in Philippine peso-denominated government securities. Details follow:

| | **2018** | 2017 |
|---|---|---|
| Fair value (Note 28) | **₱127,727,660** | ₱148,116,490 |
| Carrying value | **139,663,931** | 154,648,805 |
| Interest income earned (Note 22) | **5,287,707** | 5,553,925 |
| Coupon rate | **3.250% to 6.125%** | 2.125% to 6.125% |

c) *Financial Assets at FVPL*

As of December 31, 2018, financial assets at FVPL consists of quoted equity securities issued by Cirtek Holdings Philippines, Corp. (CHIPS), a related party (see Note 29).

As of December 31, 2018 and 2017, the cost of financial assets at FVPL amounted to ₱100.90 million.

The movement in fair value of financial assets at FVPL follows:

| | 2018 | 2017 |
|---|---|---|
| At January 1 | **₱99,860,000** | ₱– |
| Acquisition | **–** | 100,900,000 |
| Foreign exchange gain (loss) | **5,300,000** | (1,040,000) |
| At December 31 | **₱105,160,000** | ₱99,860,000 |

Dividend income earned from the Company's financial assets at FVPL amounted to ₱6.43 million in 2018 (see Note 22).

d) *Loans and receivables*

| | 2018 | 2017 |
|---|---|---|
| Receivable from tenants | **₱10,228,107** | ₱10,444,814 |
| Bond loss recoverable | **9,248,542** | 9,248,542 |
| Notes receivable | **2,072,875** | 2,382,824 |
| | **21,549,524** | 22,076,180 |
| Less allowance for impairment losses | **401,182** | 401,182 |
| | **₱21,148,342** | ₱21,674,998 |

Bond loss recoverable pertains to the amount paid by the Company under an issued callable surety bond. It is a contract wherein the Company (the surety) guaranteed the performance of certain obligations of a second party (the principal) to a third party (the obligee). It is the amount paid by the Company to the obligee recoverable from the principal.

Notes receivable represent secured notes from employees with interest rates ranging from 6% to 12% per annum payable up to 4 years. Interest income amounted to ₱0.23 million and ₱0.20 million in 2018 and 2017, respectively (see Note 22).

Receivable from tenants pertains to reimbursable expenses incurred for utilities paid by the Company on their behalf.

The management based the provision on a collective assessment of the loans and receivables.

## 10. **Reinsurance Assets**

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Reinsurance recoverable on unpaid losses (Note 16) | **₱62,855,625** | ₱123,659,925 |
| Deferred reinsurance premiums (Note 16) | **23,993,627** | 33,553,480 |
| | **₱86,849,252** | ₱157,213,405 |

The reinsurance recoverable on unpaid losses pertains to amounts recoverable from the reinsurers in respect of claims not yet paid by the Company.

The deferred reinsurance premiums refer to the unrealized portion of the premiums ceded out.

## 11. **Deferred Acquisition Costs and Deferred Reinsurance Commissions**

The rollforward analyses of these accounts follow:

*Deferred acquisition costs*

| | 2018 | 2017 |
|---|---|---|
| At January 1 | **₱125,778,537** | ₱78,409,985 |
| Costs deferred during the year | **348,111,137** | 257,973,898 |
| Amortization during the year | **(303,588,876)** | (210,605,346) |
| At December 31 | **₱170,300,798** | ₱125,778,537 |

*Deferred reinsurance commissions*

| | 2018 | 2017 |
|---|---|---|
| At January 1 | **₱8,539,407** | ₱4,910,590 |
| Income deferred during the year | **8,269,350** | 14,566,741 |
| Income earned during the year | **(10,634,161)** | (10,937,924) |
| At December 31 | **₱6,174,596** | ₱8,539,407 |

## 12. **Property and Equipment - net**

The movements in this account for property and equipment carried at cost follow:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Office furniture, fixtures and equipment** | **Transportation equipment** | **Computer Hardware** | **Leasehold Improvements** | **Total** |
| **Cost** | | | | | |
| **At January 1** | **₱33,036,566** | **₱13,128,311** | **₱11,559,515** | **₱1,758,607** | **₱59,482,999** |
| **Additions** | **2,290,490** | **3,154,464** | **7,260,404** | **1,132,688** | **13,838,046** |
| **At December 31** | **35,327,056** | **16,282,775** | **18,819,919** | **2,891,295** | **73,321,045** |
| **Accumulated depreciation** | | | | | |
| **At January 1** | **24,134,009** | **9,480,623** | **1,200,824** | **73,288** | **34,888,744** |
| **Depreciation** (Note 24) | **3,789,382** | **1,929,059** | **3,300,514** | **446,301** | **9,465,256** |
| **At December 31** | **27,923,391** | **11,409,682** | **4,501,338** | **519,589** | **44,354,000** |
| **Net book value** | **₱7,403,665** | **₱4,873,093** | **₱14,318,581** | **₱2,371,706** | **₱28,967,045** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Office furniture, fixtures and equipment | Transportation equipment | Computer Hardware | Leasehold Improvements | Total |
| Cost | | | | | |
| At January 1 | ₱31,152,370 | ₱15,690,579 | ₱– | ₱– | ₱46,842,949 |
| Additions | 1,884,196 | 2,187,232 | 11,559,515 | 1,758,607 | 17,389,550 |
| Disposal | – | (4,749,500) | – | – | (4,749,500) |
| At December 31 | 33,036,566 | 13,128,311 | 11,559,515 | 1,758,607 | 59,482,999 |
| Accumulated depreciation | | | | | |
| At January 1 | 19,884,882 | 11,712,401 | – | – | 31,597,283 |
| Depreciation (Note 24) | 4,249,127 | 1,380,547 | 1,200,824 | 73,288 | 6,903,786 |
| Disposal | – | (3,612,325) | – | – | (3,612,325) |
| At December 31 | 24,134,009 | 9,480,623 | 1,200,824 | 73,288 | 34,888,744 |
| Net book value | ₱8,902,557 | ₱3,647,688 | ₱10,358,691 | ₱1,685,319 | ₱24,594,255 |

The movements in property and equipment carried at revalued amounts follow:

| | **2018** | | |
|---|---|---|---|
| | **Land** | **Building and Building Improvements** | **Total** |
| **Revalued amount** | | | |
| **At January 1** | **₱149,396,000** | **₱30,527,080** | **₱179,923,080** |
| **Increase (decrease) in fair value** | **8,619,000** | **(1,769,954)** | **6,849,046** |
| **Transfer of depreciation** | **–** | **(1,526,353)** | **(1,526,353)** |
| **At December 31** | **158,015,000** | **27,230,773** | **185,245,773** |
| **Accumulated depreciation** | | | |
| **At January 1** | **–** | **–** | **–** |
| **Depreciation (Note 24)** | **–** | **1,526,353** | **1,526,353** |
| **Increase in fair value** | **–** | **(1,526,353)** | **(1,526,353)** |
| **At December 31** | **–** | **–** | **–** |
| **Net book value** | **₱158,015,000** | **₱27,230,773** | **₱185,245,773** |

| | 2017 | | |
|---|---|---|---|
| | Land | Building and Building Improvements | Total |
| Revalued amount | | | |
| At January 1 | ₱140,777,000 | ₱31,623,281 | ₱172,400,281 |
| Increase (decrease) in fair value | 8,619,000 | 397,812 | 9,016,812 |
| Transfer of depreciation | – | (1,494,013) | (1,494,013) |
| At December 31 | 149,396,000 | 30,527,080 | 179,923,080 |
| Accumulated depreciation | | | |
| At January 1 | | | |
| Depreciation (Note 24) | – | 1,494,013 | 1,494,013 |
| Increase in fair value | – | (1,494,013) | (1,494,013) |
| At December 31 | – | – | – |
| Net book value | ₱149,396,000 | ₱30,527,080 | ₱179,923,080 |

If land, building and building improvements were carried at cost less accumulated depreciation, the amounts would be as follows:

| | **2018** | | |
|---|---|---|---|
| | **Land** | **Building and Building Improvements** | **Total** |
| **Cost** | **₱1,181,816** | **₱8,973,255** | **₱10,155,071** |
| **Accumulated depreciation** | **–** | **(4,896,179)** | **(4,896,179)** |
| **Net book value** | **₱1,181,816** | **₱4,077,076** | **₱5,258,892** |

| | 2017 | | |
|---|---|---|---|
| | Land | Building and Building Improvements | Total |
| Cost | ₱1,181,816 | ₱8,973,255 | ₱10,155,071 |
| Accumulated depreciation | – | (4,770,204) | (4,770,204) |
| Net book value | ₱1,181,816 | ₱4,203,051 | ₱5,384,867 |

The Company's building and building improvements are carried at revalued amount as of December 31, 2018 and 2017. The Company uses the cost approach in the valuation of its building and building improvements.

On February 26, 2019 and March 28, 2018, the Company obtained appraisal of its investment property from Aviso Valuation & Advisory Corporation (formerly CCGA Realty Corporation), an SEC accredited independent firm of appraisers, for the revalued amount of its property and equipment as of December 31, 2018 and 2017, respectively.

The valuation for the property and equipment was derived through market data approach based upon prices paid in actual market transactions. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject properties adjusted based on certain elements of comparison (e.g., market conditions, location, physical condition, and amenities). Significant increases (decreases) in estimated price per square meter would result in a significantly higher (lower) fair value of the property and equipment.

The valuation of the improvements was derived using cost approach based on the amount required to replace the service capacity of an asset. Significant increases (decreases) in estimated replacement cost (i.e., materials and labor cost) would result in a significantly higher (lower) fair value of the properties.

The asset valuation was based on a hypothetical sale of the land and building in its highest and best use and not by using the asset in its current use. The fair value estimate is the price that would be received in a current transaction to sell the combined assets assuming that those assets would be available to market participants.

Depreciation expense charged to operations amounted to ₱10.99 million and ₱8.40 million in 2018 and 2017, respectively (see Note 24). The amount of revaluation increment absorbed through depreciation, net of tax, transferred to retained earnings amounted to ₱0.98 million and ₱0.96 million in 2018 and 2017, respectively.

Cost and percentages used in valuation are market based and reflect typical cost estimation used by the market.  Both sets of inputs can be considered as Level 2.

Description of the valuation techniques used and key inputs to valuation on property and equipment follow:

| Location | Valuation Techniques | Observable Inputs Used (Level 2) | Range (Weighted Average) | |
|---|---|---|---|---|
| | | | **2018** | 2017 |
| Mercantile Insurance Building, | Comparative Market | Price per square meter | **₱45,000 to** | ₱45,000 to |
| General Luna corner Beaterio | Analysis for land | Adjustments to | **₱67,450** | ₱67,460 |
| Streets, Barangas 655, Zone 69, | Depreciated Replacement | elements of comparison | **(₱56,225)** | (₱56,225) |
| Intramuros City of Manila | Cost Method for building | Construction material | **0% to 5%** | (10%) to 10% |
| | improvements including | and labor costs | **3.33%** | (3.33%) |
| | building services | Percentages of indirect | **32,500** | 21,600 |
| | | costs | | |
| | | | **42%** | 60% |

The cost of fully depreciated property and equipment still in use as of December 31, 2018 and 2017 amounted to ₱24.07 million and ₱18.17 million, respectively.

## 13. Investment Properties

The rollforward analysis of this account follows:

| | **Land** | **Building and building improvements** | **Total** |
|---|---|---|---|
| **At January 1, 2018** | **₱52,040,000** | **₱96,292,921** | **₱148,332,921** |
| **Fair value gain(loss) (Note 22)** | **15,262,000** | **(10,397,692)** | **4,864,308** |
| **At December 31, 2018** | **₱67,302,000** | **₱85,895,229** | **₱153,197,229** |
| | | | |
| As at January 1, 2017 | ₱49,526,000 | ₱99,750,719 | ₱149,276,719 |
| Fair value gain (loss) (Note 22) | 2,514,000 | (3,457,798) | (943,798) |
| At December 31, 2017 | ₱52,040,000 | ₱96,292,921 | ₱148,332,921 |

The fair value as of December 31, 2018 and 2017 of the investment property is based on valuations performed by Aviso Valuation & Advisory Corporation (formerly CCGA Realty Corporation), an independent firm of accredited appraisers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. There was no change in the valuation technique used on February 26, 2019 and March 28, 2018, respectively.

The value of land investment property was arrived using the Market Approach. This approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. This approach was used for the valuation of the lands as it is commonly used in the property market since inputs and data for this approach is available. The Cost Approach was used in the valuation of building investment property situated in Intramuros. Cost Approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. The application of this method replicated the deductive process of a typical market participant when estimating Market Value based on cost. The asset valuation was based on a hypothetical sale of the land and building in its highest and best use and not by using the asset in its current use. The fair value estimate is the price that would be received in a current transaction to sell the combined assets assuming that those assets would be available to market participants.

Cost and percentages used in valuation are market based and reflect typical cost estimation used by the market. Both sets of inputs can be considered as Level 2.

The movements in fair value follow:

| | **2018** | 2017 |
|---|---|---|
| Fair value | **₱153,197,229** | ₱148,332,921 |
| Cost | **25,355,189** | 25,355,189 |
| Cumulative fair value gain | **₱127,842,040** | ₱122,977,732 |

There was no transfer between levels of fair value measurement in 2018 and 2017. As at December 31, 2018 and 2017, no property has been pledged as collateral or security for any of the Company's liabilities and the Company has no restrictions on the realizability of its land and condominium units and no contractual obligation to purchase, construct or develop such property or for repairs, maintenance and enhancements.

Description of the valuation techniques used and key inputs to valuation on investment properties follow:

| **Location** | **Valuation Techniques** | **Observable Inputs Used (Level 2)** | **Range (Weighted Average) 2018** | Range (Weighted Average) 2017 |
|---|---|---|---|---|
| 1. Barangay Utod, Nasugbu, Batangas | Comparative Market Analysis | Price per square meter | **₱40 to ₱100 (₱70)** | ₱40 to ₱100 (₱70) |
| | | Adjustments to elements of comparison | **(45%) to 0% (20%)** | (10%) to (40%) (21.67%) |
| 2. Barangay Latag, Nasugbu, Batangas | Comparative Market Analysis | Price per square meter | **₱90 to ₱100 (₱95)** | ₱80 to ₱110 (₱95) |
| | | Adjustments to elements of comparison | **(40%) to 10% (11.67%)** | (40%) to 15% (15%) |
| 3. Barangay Ilagan Ilaya, Tayabas City, Quezon | Comparative Market Analysis | Price per square meter | **₱50 to ₱55 (₱52.50)** | ₱50 to ₱53 (₱51.55) |
| | | Adjustments to elements of comparison | **(80%) to (70%) (73.33%)** | (80%) to (90%) (85%) |
| 4. Barangay Tible Sipocot, Camarines Sur | Comparative Market Analysis | Price per square meter | **₱5.60 to ₱54 (₱29.80)** | ₱5.60 to ₱8.50 (₱7.05) |
| | | Adjustments to elements of comparison | **(80%) to (35%) (55%)** | (35%) to (100%) (45%) |
| 5. Barangays Irayang Solong, Antipolo and Hobo Minalabac Camarines Sur | Comparative Market Analysis | Price per square meter | **₱25 to ₱38 (₱31.50)** | ₱25 to ₱38 (₱31.50) |
| | | Adjustments to elements of comparison | **(75%) to (20%) (46.67%)** | (30%) to (90%) (51.67%) |
| 6. Barangay Bombon San Antonio, Camarines Sur | Comparative Market Analysis | Price per square meter | **₱37 to ₱300 (₱168.50)** | ₱200 to ₱357 (₱278.50) |
| | | Adjustments to elements of comparison | **(40%) to 71% (4.67%)** | (40%) to (60%) (4.67%) |
| 7. Barangay Del Carmen, Minalabac, Camarines Sur | Comparative Market Analysis | Price per square meter | **₱500 to 800 (₱650)** | ₱210 to ₱365 (₱287.50) |
| | | Adjustments to elements of comparison | **5% to 25% 15%** | 35% to 95% 65% |
| 8. Mercantile Insurance Building, General Luna corner Beaterio Streets, Barangas 655, Zone 69, Intramuros City of Manila | Comparative Market Analysis for land Depreciated Replacement Cost Method for building improvements including building services | Price per square meter | **₱45,000 to ₱67,450 (₱56,225)** | ₱45,000 to ₱67,460 (₱56,225) |
| | | Adjustments to elements of comparison | **0% to 5% 3.33%** | (10%) to 10% (3.33%) |
| | | Construction material and labor costs | **32,500** | 21,600 |
| | | Percentages of indirect costs | **42%** | 60% |

*(Forward)*

| Location | Valuation Techniques | Observable Inputs Used (Level 2) | Range (Weighted Average) | |
|---|---|---|---|---|
| | | | **2018** | 2017 |
| 9. Barangay Babag, Lapu-lapu City, Cebu | Comparative Market Analysis | Price per square meter | **₱7,100 to ₱13,00 (₱10,050)** | ₱7,000 to ₱12,00 (₱9,500) |
| | | Adjustments to elements of comparison | **(85%) to (75%) 78.33%** | (80%) to (95%) 86.67% |
| 10. Barangay Canjulao, Lapu-lapu City, Cebu | Comparative Market Analysis | Price per square meter | **₱7,100 to ₱13,000 (₱10,050)** | ₱2,500 to ₱7,000 (₱4,750) |
| | | Adjustments to elements of comparison | **(95%) to (65%) (78.33%)** | (65%) to (75%) (71.67%) |

No depreciation was recognized in 2018 and 2017 since the Company uses fair value method in measuring investment properties. Rental income earned from investment properties amounted ₱12.80 million and ₱12.78 million in 2018 and 2017, respectively, which is included in investment income (see Notes 22 and 31).

14. **Intangible Assets**

As of December 31, 2018, the Company acquired software and licenses to be used in the operations.

The movement of the carrying value of the intangible assets is as follows:

| Cost | 2018 | 2017 |
|---|---|---|
| Beginning balance | **₱23,864,454** | ₱– |
| Additions | **1,092,446** | 23,864,454 |
| Ending balance | **24,956,900** | 23,864,454 |
| Accumulated Amortization | | |
| Beginning balance | **1,494,953** | – |
| Amortization (Note 24) | **2,588,346** | 1,494,953 |
| Ending balance | **4,083,299** | 1,494,953 |
| Net Book Value | **₱20,873,601** | ₱22,369,501 |

15. **Other Assets**

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Prepaid income tax (Note 24) | **₱11,867,907** | ₱5,298,357 |
| DST fund | **6,077,246** | – |
| Prepaid expenses | **5,379,949** | 6,638,964 |
| Claims fund | **2,044,918** | 1,908,920 |
| Security deposit | **1,202,843** | 795,700 |
| | **₱26,572,863** | ₱14,641,941 |

Prepaid income tax pertains to excess income tax payment and creditable withholding taxes which are creditable against income tax due. Creditable withholding taxes are unapplied taxes withheld by the Company's customers on income payments.

DST fund represents fund set-up for documentary stamps for affixture to premium policies.

Prepaid expenses consist of advance payments of certificate of cover (COC) of VAT and DST.

Claims fund represents fund held by third parties for the payment of claims.

Security deposit pertains to rental deposit.

## 16. Insurance Contract Liabilities

Insurance contract liabilities may be analyzed as follows:

| | **December 31, 2018** | | | December 31, 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 and loss adjustment expenses | **₱297,442,139** | **₱3,931,667** | **₱293,510,472** | ₱237,962,261 | ₱60,483,925 | ₱177,478,336 |
| Provision for IBNR claims | **100,858,936** | **50,994,928** | **49,864,008** | 102,496,000 | 63,176,000 | 39,320,000 |
| Provisions for MFAD | **17,125,132** | **7,929,030** | **9,196,102** | – | – | – |
| Total claims reported and IBNR claims | **415,426,207** | **62,855,625** | **352,570,582** | 340,458,261 | 123,659,925 | 216,798,336 |
| Provision for unearned premiums | **714,414,807** | **23,993,627** | **690,421,180** | 468,715,622 | 33,553,480 | 435,162,142 |
| Insurance contract liabilities | **₱1,129,841,014** | **₱86,849,252** | **₱1,042,991,762** | ₱809,173,883 | ₱157,213,405 | ₱651,960,478 |

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

| | **December 31, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | **Insurance Contract liabilities** | **Reinsurers' share of liabilities** (Note 10) | **Net** | Insurance Contract liabilities | Reinsurers' share of liabilities (Note 10) | Net |
| At January 1 | **₱340,458,261** | **₱123,659,925** | **₱216,798,336** | ₱352,420,849 | ₱161,523,765 | ₱190,897,084 |
| Claims incurred during the year | **556,933,041** | **21,650,836** | **535,282,205** | 357,464,772 | 16,550,019 | 340,914,753 |
| Claims paid during the year net of recoveries (Note 23) | **(497,453,163)** | **(78,203,096)** | **(419,250,067)** | (358,904,090) | (80,255,405) | (278,648,685) |
| Increase in IBNR | **15,488,068** | **(4,252,040)** | **19,740,108** | (10,523,270) | 25,841,546 | (36,364,816) |
| At December 31 | **₱415,426,207** | **₱62,855,625** | **₱352,570,582** | ₱340,458,261 | ₱123,659,925 | ₱216,798,336 |

Provision for unearned premiums may be analyzed as follows:

| | **December 31, 2018** | | | December 31,2017 | | |
|---|---|---|---|---|---|---|
| | **Insurance contract liabilities** | **Reinsurers' share of liabilities** (Note 10) | **Net** | Insurance contract liabilities | Reinsurers' share of liabilities (Note 10) | Net |
| At January 1 | **₱468,715,622** | **₱33,553,480** | **₱435,162,142** | ₱303,065,940 | ₱18,358,687 | ₱284,707,253 |
| New policies written during the year (Note 21) | **1,455,420,596** | **140,189,302** | **1,315,231,294** | 990,730,267 | 208,593,541 | 782,136,726 |
| Premiums earned during the year (Note 21) | **(1,209,721,411)** | **(149,749,155)** | **(1,059,972,256)** | (825,080,585) | (193,398,748) | (631,681,837) |
| At December 31 | **₱714,414,807** | **₱23,993,627** | **₱690,421,180** | ₱468,715,622 | ₱33,553,480 | ₱435,162,142 |

## 17. Insurance Payables

The rollforward analysis of insurance payables follows:

| | **2018** | 2017 |
|---|---|---|
| At January 1 | **₱51,917,971** | ₱62,991,707 |
| Arising during the year (Notes 16 and 21) | **140,189,302** | 208,593,541 |
| Paid during the year | **(151,971,784)** | (219,667,277) |
| At December 31 | **₱40,135,489** | ₱51,917,971 |

## 18. Insurance Contract Liabilities and Reinsurance Assets - Terms, Assumptions and Sensitivities

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

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

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

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

*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 and delays in settlement.

*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 liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

The analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant, on the statements of comprehensive income.

| | | Change in Assumptions | Impact on gross insurance contract liabilities | Impact on net insurance contract liabilities | Impact on income before income tax |
|---|---|---|---|---|---|
| **Average claim costs** | **2018** | **27% increase** | **₱101,183,223** | **₱78,922,914** | **(₱78,922,914)** |
| **Average number of claims** | **2018** | **20% increase** | **224,117,692** | **34,633,183** | **(34,633,183)** |
| Average claim costs | 2017 | 47% increase | ₱371,194,217 | ₱135,186,299 | (₱135,186,299) |
| Average number of claims | 2017 | 34% increase | 88,778,648 | 69,247,345 | (69,247,345) |

The average claim costs and number of claims were based on the Company's claims development experience for the past three years.

*Claims Development Table*

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

**Gross general insurance contract liabilities for 2018**

| **Accident year** | **2013 and prior years** | **2014** | **2015** | **2016** | **2017** | **2018** | **Total** |
|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claim costs:** | | | | | | | |
| At the end of accident year | **₱20,302,009** | **₱1,175,663** | **₱6,184,132** | **₱8,465,220** | **₱57,951,473** | **₱216,045,328** | **₱216,045,328** |
| One year later | **16,359,247** | **4,461,671** | **1,673,178** | **82,148,561** | **127,791,568** | **–** | **127,791,568** |
| Two years later | **29,004,635** | **5,355,840** | **84,839,094** | **120,887,742** | **–** | **–** | **120,887,742** |
| Three years later | **25,108,666** | **26,558,799** | **182,438,325** | **–** | **–** | **–** | **182,438,325** |
| Four years later | **72,720,095** | **40,222,606** | **–** | **–** | **–** | **–** | **40,222,606** |
| Five years later | **194,752,768** | **–** | **–** | **–** | **–** | **–** | **194,752,768** |
| Current estimate of cumulative claims | **194,752,768** | **40,222,606** | **182,438,325** | **120,887,742** | **127,791,568** | **216,045,328** | **882,138,337** |
| Cumulative payments to date | **187,132,444** | **39,046,943** | **176,254,193** | **112,422,523** | **69,840,095** | **–** | **584,696,198** |
| **Total gross insurance liability in the statement of financial position** | **₱7,620,324** | **₱1,175,663** | **₱6,184,132** | **₱8,465,219** | **₱57,951,473** | **₱216,045,328** | **₱297,442,139** |

**Net general insurance contract liabilities for 2018**

| **Accident year** | **2013 and prior years** | **2014** | **2015** | **2016** | **2017** | **2018** | **Total** |
|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claim costs:** | | | | | | | |
| At the end of accident year | **₱14,947,675** | **₱1,165,763** | **₱5,484,132** | **₱8,442,933** | **₱57,577,587** | **₱213,219,732** | **₱213,219,732** |
| One year later | **14,980,591** | **3,404,830** | **938,828** | **27,849,561** | **129,936,936** | **–** | **129,936,936** |
| Two years later | **23,850,765** | **5,217,206** | **10,651,753** | **76,095,771** | **–** | **–** | **76,095,771** |
| Three years later | **12,810,423** | **8,340,593** | **73,530,561** | **–** | **–** | **–** | **73,530,561** |
| Four years later | **49,746,769** | **34,129,124** | **–** | **–** | **–** | **–** | **34,129,124** |
| Five years later | **85,092,882** | **–** | **–** | **–** | **–** | **–** | **85,092,882** |
| Current estimate of cumulative claims | **85,092,882** | **34,129,124** | **73,530,561** | **76,095,771** | **129,936,936** | **213,219,732** | **612,005,006** |
| Cumulative payments to date | **77,472,558** | **32,963,360** | **68,046,429** | **67,652,838** | **72,359,349** | **–** | **318,494,534** |
| **Total gross insurance liability in the statement of financial position** | **₱7,620,324** | **₱1,165,764** | **₱5,484,132** | **₱8,442,933** | **₱57,577,587** | **₱213,219,732** | **₱293,510,472** |

Gross general insurance contract liabilities for 2017

| Accident year | 2012 and prior years | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of ultimate claim costs: | | | | | | | |
| At the end of accident year | ₱19,135,834 | ₱2,751,450 | ₱4,461,671 | ₱1,673,178 | ₱82,148,561 | ₱127,791,567 | ₱127,791,567 |
| One year later | 13,607,797 | 14,711,105 | 5,355,840 | 84,839,094 | 120,887,742 | – | 120,887,742 |
| Two years later | 14,293,530 | 12,265,270 | 26,558,799 | 182,438,325 | – | – | 182,438,325 |
| Three years later | 12,843,396 | 51,761,356 | 40,222,605 | – | – | – | 40,222,605 |
| Four years later | 20,958,740 | 112,999,411 | – | – | – | – | 112,999,411 |
| Five years later | 81,753,357 | – | – | – | – | – | 81,753,357 |
| Current estimate of cumulative claims | 81,753,357 | 112,999,411 | 40,222,605 | 182,438,325 | 120,887,742 | 127,791,567 | 666,093,007 |
| Cumulative payments to date | 62,617,523 | 110,247,961 | 35,760,935 | 180,765,147 | 38,739,180 | – | 428,130,746 |
| Total gross insurance liability in the statement of financial position | ₱19,135,834 | ₱2,751,450 | ₱4,461,670 | ₱1,673,178 | ₱82,148,562 | ₱127,791,567 | ₱237,962,261 |

Net general insurance contract liabilities for 2017

| Accident year | 2012 and prior years | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of ultimate claim costs: | | | | | | | |
| At the end of accident year | ₱13,781,500 | ₱1,566,681 | ₱3,404,830 | ₱938,828 | ₱27,849,561 | ₱129,936,935 | ₱129,936,935 |
| One year later | 13,413,910 | 9,833,628 | 5,217,206 | 10,651,753 | 76,095,771 | – | 76,095,771 |
| Two years later | 14,017,137 | 1,517,028 | 8,340,593 | 73,530,561 | – | – | 73,530,561 |
| Three years later | 11,293,396 | 33,012,981 | 34,129,124 | – | – | – | 34,129,124 |
| Four years later | 16,733,788 | 35,453,309 | – | – | – | – | 35,453,309 |
| Five years later | 20,271,464 | – | – | – | – | – | 20,271,464 |
| Current estimate of cumulative claims | 20,271,464 | 35,453,309 | 34,129,124 | 73,530,561 | 76,095,771 | 129,936,935 | 369,417,164 |
| Cumulative payments to date | 6,489,964 | 33,886,628 | 30,724,293 | 72,591,733 | 48,246,210 | – | 191,938,828 |
| Total gross insurance liability in the statement of financial position | ₱13,781,500 | ₱1,566,681 | ₱3,404,831 | ₱938,828 | ₱27,849,561 | ₱129,936,935 | ₱177,478,336 |

## 19. Accounts Payable and Accrued Expenses

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Payable to government agencies | **₱146,424,726** | ₱76,711,534 |
| Commissions payable | **126,383,892** | 56,038,569 |
| Accounts payable | **28,206,943** | 23,546,242 |
| Customers' deposits | **15,238,723** | 12,166,158 |
| Rental deposits | **4,400,805** | 3,920,345 |
| Accrued expenses | **2,998,861** | 1,405,746 |
| | **₱323,653,950** | ₱173,788,594 |

Payable to government agencies consists of output VAT, withholding tax, unpaid previous years' taxes, premium tax and local government taxes.

Commissions payable consist of amounts payable to agents which are non-interest-bearing and calculated based on the average commission rates approve by management.

Accounts payable refers to represent accruals and liabilities to pay for goods or services that have been received or supplied but have not been paid, these includes excess payments from clients.

Customers' deposits pertain to cash received as collateral for bond policies.

Rental deposits represent two months deposit on leased premises. These rent deposits are refundable at the end of the lease contract or applied against the remaining lease term depending on the agreement of the contracting parties. Lease contracts are renewable every year.

Accrued expenses refer to expenses incurred but unpaid as of year-end.

## 20. Equity

The Company's capital stock consists of:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Shares** | **Shares** | Shares | Amount |
| Authorized shares at ₱100 par value | **5,000,000** | **₱500,000,000** | 5,000,000 | ₱500,000,000 |
| Issued and outstanding at beginning of the year | **2,500,000** | **250,000,000** | 2,500,000 | 250,000,000 |
| Additional issuance during the year | **814,422** | **81,442,200** | – | – |
| Issued and outstanding at end of the year | **3,314,422** | **₱331,442,200** | 2,500,000 | ₱250,000,000 |

On October 9, 2018, the Company's BOD approved the additional subscription of a stockholder. Consequently, on the same date, additional 814,422 shares were subscribed and paid by the stockholder at ₱120 per share. Excess of amount paid over par value amounting to ₱16.29 million was booked under contributed surplus.

## 21. **Net Insurance Premiums**

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Gross written premiums on insurance contracts: | | |
| Direct insurance | **₱1,341,071,701** | ₱933,743,096 |
| Assumed reinsurance | **114,348,895** | 56,987,171 |
| Total insurance contract premiums revenue | **1,455,420,596** | 990,730,267 |
| Gross change in provision for unearned premiums | **(245,699,185)** | (165,649,682) |
| **Total gross earned premiums on insurance** (Note 16) | **1,209,721,411** | 825,080,585 |
| Reinsurer's share of gross written premiums on insurance contracts: | | |
| Direct insurance | **134,989,302** | 184,999,979 |
| Assumed reinsurance | **5,200,000** | 23,593,562 |
| Total reinsurer's share of gross written premiums on insurance contracts: | **140,189,302** | 208,593,541 |
| Reinsurer's share of gross change in deferred reinsurance premiums | **9,559,853** | (15,194,793) |
| **Total reinsurers' share of gross earned premiums on insurance** (Note 16) | **149,749,155** | 193,398,748 |
| **Total net insurance earned premiums** | **₱1,059,972,256** | ₱631,681,837 |

## 22. **Investment Income - net**

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Interest income on: | | |
| HTM investments (Note 9) | **₱5,287,707** | ₱5,553,925 |
| Cash and cash equivalents (Note 6) | **1,371,790** | 3,392,403 |
| Short-term investments (Note 7) | **1,638,118** | 1,035,853 |
| AFS financial assets (Note 9) | **6,478,310** | 2,027,835 |
| Loans and receivables (Note 9) | **230,470** | 204,215 |
| Rental income (Notes 13 and 31) | **12,801,965** | 12,780,050 |
| Dividend income (Note 9) | **6,433,939** | 14,629 |
| Gain on foreign exchange | **5,101,491** | 178,643 |
| Fair value gain (loss) on investment properties - net (Note 13) | **4,864,308** | (943,798) |
| Gain on sale of AFS financial assets (Note 9) | **3,349,033** | 3,226,688 |
| | **₱47,557,131** | ₱27,470,443 |

## 23. Net Insurance Benefits and Claims

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

| | **2018** | 2017 |
|---|---|---|
| Insurance contract benefits and claims paid (Note 16): | | |
| Direct insurance | **₱477,560,890** | ₱349,098,450 |
| Assumed reinsurance | **19,892,273** | 9,805,640 |
| Total insurance contract benefits and claims paid | **₱497,453,163** | ₱358,904,090 |

Reinsurer's share of gross insurance contract benefits and claims paid consist of the following:

| | **2018** | 2017 |
|---|---|---|
| Reinsurer's share of insurance contract benefits and claims paid (Note 16): | | |
| Direct insurance | **₱78,203,096** | ₱74,091,680 |
| Assumed reinsurance | **–** | 6,163,725 |
| Total reinsurer's share of gross insurance contract benefits and claims | **₱78,203,096** | ₱80,255,405 |

## 24. Operating Expenses

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Personnel expenses (Note 26) | **₱89,801,471** | ₱63,942,948 |
| Professional fees | **21,706,172** | 4,294,710 |
| Other underwriting expense | **18,882,995** | 7,099,193 |
| Depreciation and amortization (Notes 12 and 14) | **13,579,955** | 9,892,752 |
| Transportation expenses | **11,353,806** | 8,960,914 |
| Provision for impairment losses (Note 8) | **9,279,182** | 2,747,747 |
| Entertainment, amusement and recreation | **8,994,264** | 3,086,770 |
| Contracted services | **7,376,537** | 5,122,861 |
| Management fee (Note 29) | **7,058,823** | 8,458,824 |
| Postage, telephone and telegraph | **6,711,800** | 5,264,239 |
| Stationery, printing and supplies | **5,889,584** | 4,314,428 |
| Rent expense (Note 31) | **5,720,849** | 4,175,017 |
| Write-off of other assets (Note 15) | **5,298,357** | – |
| Advertising and promotion | **5,225,379** | 1,969,150 |
| Repairs and maintenance | **4,559,242** | 1,632,264 |
| Light and water | **3,629,506** | 2,601,498 |
| Agency, seminar and training | **2,801,175** | 2,501,615 |
| Taxes and licenses | **1,612,762** | 11,759,477 |
| Association dues and fees | **690,630** | 544,323 |
| Insurance | **528,175** | 484,105 |
| Miscellaneous | **4,042,008** | 496,810 |
| | **₱234,742,672** | ₱149,349,645 |

Miscellaneous expenses include sports and social affairs, donation and contribution, bank charges and books and subscription.

## 25. **Pension Costs**

The Company has a funded, tax qualified, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment. Republic Act 7641, *The New Retirement Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. The law does not require minimum funding of the plan

The Company's annual contribution to the plan consists principally of payments which covers the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable. The fund is administered by a trustee bank under the supervision of the Board of Trustees of the plan. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, a Director and a Controller. The Controller oversees the entire investment process.

The latest actuarial valuation date of the Company's retirement plan is December 31, 2018.

The following tables summarize the components of the "Current service" and "Net interest income" recognized in profit or loss under "Operating expenses" and "Investment income", respectively, and the funded status and amounts recognized in the statements of financial position for the plan:

Pension benefits expense is as follows:

| | **2018** | 2017 |
|---|---|---|
| Current service cost | **₱4,788,706** | ₱4,682,732 |
| Net interest income | **(459,019)** | (745,841) |
| | **4,329,687** | 3,936,891 |
| Interest on effect of asset ceiling | **54,195** | 162,761 |
| Pension benefits expense | **4,383,882** | 4,099,652 |
| Actual return on plan assets | **(₱995,013)** | ₱760,621 |

Movement in the remeasurement gain on defined benefit obligation follow:

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **(₱18,578,650)** | (₱18,935,597) |
| Remeasurement loss on pension benefit obligation | **4,136,873** | 885,518 |
| Remeasurement loss on plan assets | **3,930,615** | 2,078,750 |
| | **(10,511,162)** | (15,971,329) |
| Remeasurement gain on the effects of asset ceiling | **(604,595)** | (2,607,321) |
| | **(₱11,115,757)** | (₱18,578,650) |

Pension asset recognized by the Company was derived as follows:

| | 2018 | 2017 |
|---|---|---|
| Present value of defined benefit obligation | **₱41,604,109** | ₱42,921,708 |
| Fair value of plan assets | **(47,043,002)** | (53,715,970) |
| Surplus | **(5,438,893)** | (10,794,262) |
| Effects of assets ceiling | **388,853** | 939,253 |
| | **(₱5,050,040)** | (₱9,855,009) |

Movements in the present value of pension benefit obligation follow:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | **₱42,921,708** | ₱39,442,336 |
| Current service cost | **4,788,706** | 4,486,378 |
| Interest cost | **2,476,583** | 1,897,176 |
| Benefits paid from plan asset | **(12,719,761)** | (3,986,054) |
| Remeasurement (gain) loss on: | | |
| Changes in financial assumptions | **(8,677,462)** | 7,942,643 |
| Changes in experience adjustments | **12,814,335** | (6,860,771) |
| Balance at end of year | **₱41,604,109** | ₱42,921,708 |

Movements in the fair value of the plan assets follow:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | **₱53,715,970** | ₱56,941,403 |
| Contributions | **7,041,806** | – |
| Interest income | **2,935,602** | 2,643,017 |
| Benefits paid | **(12,719,761)** | (3,986,054) |
| Actuarial loss excluding amount recognized in net interest cost | **(3,930,615)** | (1,882,396) |
| Balance at end of year | **₱47,043,002** | ₱53,715,970 |

The fair value of plan assets by each class as at the end of the reporting period of the Company are as follow:

| | 2018 | 2017 |
|---|---|---|
| Government securities | **₱37,864,912** | ₱43,942,250 |
| Mutual funds | **6,830,644** | 759,419 |
| Investment in UITF | **2,347,446** | 626,053 |
| Equity instrument | – | 5,677,637 |
| Cash and Cash Equivalents | – | 2,710,611 |
| Fair value of plan assets | **₱47,043,002** | ₱53,715,970 |

The principal actuarial assumptions used in determining retirement benefit obligations follow:

| | 2018 | 2017 |
|---|---|---|
| Discount rate | **7.70%** | 5.77% |
| Salary increase rate | **8.00%** | 8.00% |
| Average remaining working lives of employees | **23.4 years** | 20.8 years |

Below shows the sensitivity analysis determined based on reasonably possible changes of each significant assumptions stated above as of December 31, 2018 and 2017, assuming all other assumptions were held constant:

| | Increase (decrease) in rates | Impact on Defined Benefit Obligation | |
|---|---|---|---|
| | | **2018** | 2017 |
| Discount rate | +1.0% | **(₱3,460,922)** | (₱3,513,418) |
| | (1.0%) | **4,115,710** | 4,165,866 |
| Salary increase rate | +1.0% | **4,062,141** | 3,603,782 |
| | (1.0%) | **(3,481,710)** | (3,110,561) |

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

| | **2018** | 2017 |
|---|---|---|
| Less than 1 year | **₱13,010,449** | ₱15,263,737 |
| More than 1 year to 5 years | **4,182,079** | 5,462,329 |
| More than 5 years to 10 years | **25,576,573** | 13,826,857 |
| Total | **₱42,769,101** | ₱34,552,923 |

The Company expects to contribute ₱9.60 million in 2019.

## 26. Personnel Expenses

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Salaries and wages | **₱55,558,655** | ₱45,245,157 |
| Net pension expense (Note 25) | **4,383,882** | 4,099,652 |
| Other employee benefits | **29,858,934** | 14,598,139 |
| | **₱89,801,471** | ₱63,942,948 |

## 27. Income Tax

The benefit from income tax consists of:

| | **2018** | 2017 |
|---|---|---|
| Current | **₱10,617,525** | ₱6,719,657 |
| Final | **2,615,116** | 2,262,041 |
| Deferred | **(3,637,071)** | (5,135,407) |
| | **₱9,595,570** | ₱3,846,291 |

Deferred tax
The details of the Company's net deferred tax liabilities are as follows:

| | 2018 | 2017 |
|---|---|---|
| **Presented in profit or loss** | | |
| Deferred tax liabilities on: | | |
| Fair value gain on investment properties | **₱23,470,326** | ₱22,431,147 |
| Forex gain - net | **1,530,447** | 53,593 |
| Total deferred tax liabilities | **25,000,773** | 22,484,740 |
| Deferred tax assets on: | | |
| Provision for IBNR | **17,718,033** | 11,796,000 |
| Pension asset | **1,819,715** | 2,617,093 |
| Allowance for impairment losses | **984,121** | 984,121 |
| Unamortized pension cost | **608,337** | – |
| Total deferred tax assets | **21,130,206** | 15,397,214 |
| | **3,870,567** | 7,087,526 |
| **Presented in OCI** | | |
| Deferred tax liabilities: | | |
| Revaluation reserve | **53,996,064** | 52,361,464 |
| Pension asset | **3,334,727** | 5,573,595 |
| | **57,330,791** | 57,935,059 |
| Net deferred tax liabilities | **₱61,201,358** | ₱65,022,585 |

The Company's unrecognized deferred tax assets related to allowance for doubtful accounts amounting to ₱3.61million and ₱0.82 million as of December 31, 2018 and 2017, respectively (see Note 8).

Deferred taxes on revaluation reserve on property and equipment realized in profit or loss through depreciation amounted to ₱420,114 and ₱410,411 in 2018 and 2017, respectively.

The reconciliation of pretax income computed at the statutory tax rate to provision for income tax follows:

| | 2018 | 2017 |
|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% |
| Reduction in income tax resulting from: | | |
| Interest income subjected to final tax | **(5.25)** | (7.41) |
| Nondeductible expenses | **(0.96)** | 9.09 |
| Nontaxable income | **–** | (9.91) |
| Dividend income exempt from tax | **(4.12)** | (0.03) |
| Changes in unrecognized deferred tax assets | **8.04** | 5.92 |
| Effective income tax rate | **27.71%** | 27.66% |

28. **Management of Capital, Insurance and Financial Risks**

Governance Framework
The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the individual business unit levels. The policies define the Company's identification of risk 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.

Capital Management Framework
The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the Risk-based Capital (RBC) Requirement model.

To ensure compliance with these externally-imposed capital requirements, it is the Company's policy to monitor the regulatory requirements of the IC on a quarterly basis as part of the Company's internal financial reporting process.

As of December 31, 2018 and 2017, the Company fully complied with the externally-imposed capital requirements during the reported financial periods. These are the fixed capitalization requirement and RBC requirement.

**Fixed Capitalization Requirements**
On January 13, 2015, the IC issued CL No. 2015-02-A clarifying the minimum capitalization and networth requirements of new and existing insurance companies in the Philippines. All domestic life and nonlife insurance companies duly licensed by the IC must have a networth of at least ₱550 million by December 31, 2016. The following presents the amount of required networth and the schedule of compliance:

| **Minimum Networth** | **Compliance Date** |
|---|---|
| ₱550,000,000 | December 31, 2016 |
| 900,000,000 | December 31, 2019 |
| 1,300,000,000 | December 31, 2022 |

As of December 31, 2018 the Company's estimated statutory networth amounted to ₱554.42 million. The Company's statutory networth as of December 31, 2017 based on the synopsis amounted to ₱408.83 million, which is below the ₱550.00 million minimum networth requirement. The networth deficiency is covered up in full by the capital infusion on October 9, 2018 and subsequent collection of outstanding premiums receivable.

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

*Unimpaired capital requirement*
IC CL No. 2015-02-A, which supersedes IC CL No. 22-2008, also states that the networth should remain intact and unimpaired at all times. As of December 31, 2018 and 2017, the Company has complied with the unimpaired capital requirement.

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

Pursuant to IC CL No. 2017-15, *Regulatory Requirements and Actions for the New Regulatory Framework*, effective January 1, 2017, nonlife insurance companies are required to maintain minimum RBC2 requirement as prescribed under IC CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*. Under the RBC2 Framework, the RBC ratio shall be calculated as total available capital divided by the RBC2 requirement.

The following table shows the estimated RBC ratio as of December 31, 2018 and 2017 as determined by the Company based on the RBC2 Framework:

| | **2018** | 2017 |
|---|---|---|
| Total available capital | **₱554,425,589** | ₱408,828,045 |
| RBC2 requirement | **218,908,831** | 120,862,072 |
| RBC2 ratio | **253%** | 338% |

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

The total available capital shall be the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer. Tier 2 capital shall not exceed 50% of Tier 1 Capital.

The RBC requirement shall be the capital that is required to be held appropriately to the risks an insurance company is exposed to, computed using the formula as prescribed under IC CL No. 2016-68.

Financial Reporting Framework

IC CL No. 2016-65, *Financial Reporting Framework under Section 189 of the Amended Insurance Code*, prescribes the new financial reporting framework (FRF) that will be used for the statutory quarterly and annual reporting reporting effective January 1, 2017. This also includes rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies.

IC CL No. 2018-18, *Valuation Standards for Nonlife Insurance Policy Reserves*, prescribes the new valuation methodology for the nonlife insurance companies. Nonlife insurance companies are required to change the basis of valuation of non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The IBNR reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. A margin for adverse deviation is provisionally set at 10% and shall be incorporated on both premiums and claims liability valuation. Discount rates to be used shall be based on the latest PDST-R2 rates and the Bloomberg IYC Curve for PhP and USD-denominated policies, respectively.

Unexpired Risk Reserves or URR refers to the amount of reserve required to cover future claims, commission and expenses at a designated level of confidence, that are expected to emerge from an unexpired period of cover. For 2017, companies shall be allowed to set up as premium liabilities the Unearned Premium Reserves or UPR instead of the higher of the UPR and URR. Starting 2018, premiums liabilities shall be determined in accordance with the valuation standards prescribed under IC CL No. 2018-18 which is the higher between the UPR and URR.

On March 9, 2019 the IC issued Circular Letter No. 2018-19, *Amendment to Circular Letter No.2016-69 "Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-based Capital (RBC2) Framework",* which provides that item *3c Margin for Adverse Deviation* (MfAD) of said circular is hereby amended as follows:

Companies shall be allowed to set the MfAD as follows:

| Period Covered | Percentage (%) of company-specific MfAD |
|---|---|
| 2017 | 0% |
| 2018 | 50% |
| 2019 onwards | 100% |

The Company complied with the aforementioned regulation and reflected ₱10.65 million in the 2018 statement of income. In 2018, the Company used 50% of the company-specific MfAD

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 could occur due to any of the following:

Occurrence risk - the possibility that the number of insured events will differ from those expected.

Severity risk - the possibility that the cost of the events will differ from those expected.

Development risk - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

| | **2018** | | |
|---|---|---|---|
| | **Gross Claims Liabilities** | **Reinsurers' Share of Claims Liabilities** | **Net Claims Liabilities** |
| Fire | **₱58,071,808** | **₱1,106,238** | **₱56,965,570** |
| Motorcar | **195,025,226** | **2,064,452** | **192,960,774** |
| Casualty and others | **44,345,107** | **760,977** | **43,584,130** |
| | **₱297,442,141** | **₱3,931,667** | **₱293,510,474** |

| | 2017 | | |
|---|---|---|---|
| | Gross Claims Liabilities | Reinsurers' Share of Claims Liabilities | Net Claims Liabilities |
| Fire | ₱102,562,701 | ₱58,302,582 | ₱44,260,119 |
| Motorcar | 108,777,262 | 1,361,544 | 107,415,718 |
| Casualty and others | 26,622,298 | 819,799 | 25,802,499 |
| | ₱237,962,261 | ₱60,483,925 | ₱177,478,336 |

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

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts and as a more diversified portfolio is less likely to be affected across the board by change 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 premiums retained.

The majority of reinsurance business ceded is placed on a quota share 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 reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

The Company’s placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of the total reinsurance assets at the reporting date.

Fair Values of Financial Instruments

Due to the short-term nature of cash and cash equivalents, insurance receivables, loans and other receivables, insurance contract liabilities, insurance payables, and accounts payable and other liabilities, their carrying values reasonably approximate fair values at year-end.

The fair values of AFS financial assets that are actively traded in organized financial markets are determined by reference to quoted market bid prices, at the close of business on the reporting date or the last trading day as applicable. Unquoted AFS financial instruments are carried at cost, less any allowance for impairment loss. The fair values of HTM financial assets were determined using quoted market prices.

Fair Value Hierarchy

The table below presents the Company's financial instruments carried at fair value by valuation method as of December 31, 2018 and 2017. The different levels have been defined as follows:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | Carrying Values | Level 1 | Level 2 | Level 3 | Total |
| **Assets measured at fair value** | | | | | |
| AFS financial assets | | | | | |
| Government debt securities | **₱107,322,610** | **₱107,322,610** | **₱–** | **₱–** | **₱107,322,610** |
| Corporate debt securities | **55,849,864** | **55,849,864** | **–** | **–** | **55,849,864** |
| Equity securities | **945,169** | **924,869** | **20,300** | **–** | **945,169** |
| Club shares | **8,140,000** | **–** | **8,140,000** | **–** | **8,140,000** |
| Financial assets at FVPL | **105,160,000** | **105,160,000** | **–** | **–** | **105,160,000** |
| **Assets where fair value is disclosed** | | | | | |
| Held-to-maturity investments | **139,663,931** | **127,727,660** | **–** | **–** | **127,727,660** |
| Loans and receivables-net | **21,148,342** | **–** | **–** | **21,148,342** | **21,148,342** |

| | | December 31, 2017 | | | |
|---|---|---|---|---|---|
| | Carrying Values | Level 1 | Level 2 | Level 3 | Total |
| Assets measured at fair value | | | | | |
| AFS financial assets | | | | | |
| Government debt securities | ₱80,853,224 | ₱80,853,224 | ₱– | ₱– | ₱80,853,224 |
| Corporate debt securities | 36,788,998 | 36,788,998 | – | – | 36,788,998 |
| Equity securities | 9,345,764 | 9,325,464 | 20,300 | – | 9,345,764 |
| Club shares | 6,950,000 | 6,950,000 | – | – | 6,950,000 |
| Financial assets at FVPL | 99,860,000 | 99,860,000 | – | – | 99,860,000 |
| Assets where fair value is disclosed | | | | | |
| Held-to-maturity investments | 154,648,805 | 148,116,490 | – | – | 148,116,490 |
| Loans and receivables-net | 21,674,998 | 21,674,998 | – | – | 21,674,998 |

Financial Risk and Management

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company manages the level of credit risk setting up exposure limits for each counterparty or group of counterparties, and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collaterals and guarantees; reporting of credit risk exposures; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

The Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Although, such arrangements do not generally result in offset of statement of financial position assets and liabilities, as transactions are usually settled on gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may however change substantially within a short period following the reporting date because the exposure is affected by transactions subject to the arrangement.

Reinsurance is placed with high-rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each year-end, management performs assessment of credit worthiness of reinsurers to update reinsurance purchase strategies and ascertaining suitable allowance for impairment of reinsurance assets.

In respect of investment securities, the Company secures 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.

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.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are netted off against amounts receivable from them to reduce the risk of doubtful debts. The credit risk in respect of customer balances, incurred on nonpayment of premiums or contributions will only persist during the grace period specified in the policy document.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties and industry segments as of December 31, 2018 and 2017.

The table below shows the maximum exposure to credit risk for the components of its statement of financial position.

| | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents* | **₱325,253,716** | ₱146,668,516 |
| Short-term investments | **93,095,593** | 45,524,529 |
| Insurance receivables | **722,983,955** | 427,662,157 |
| HTM investments | **139,663,931** | 154,648,805 |
| AFS financial assets - debt | **163,172,474** | 117,642,222 |
| Loans and receivables | | |
| Bond loss recoverable | **9,248,542** | 9,248,542 |
| Notes receivable | **2,072,875** | 2,382,824 |
| Receivable from tenants | **10,228,107** | 10,444,814 |
| Accrued interest income | **10,301,523** | 2,240,088 |
| Total | **₱1,476,020,716** | ₱916,462,497 |

**excluding cash on hand*

As of December 31, 2018 and 2017, the carrying values of the Company's financial instruments represent maximum exposure to credit risk at reporting date. The gross maximum exposure to credit risk of the Company approximates its net maximum exposure. There were no amounts that are set-off in accordance with the criteria in PAS 32. There were no amounts subject to an enforceable master netting arrangement or similar agreement as of December 31, 2018 and 2017.

Since the Company transacts only with recognized, creditworthy third parties, there is no requirement for collateral. Insurance receivables and loans and receivables are highly collectible. Cash and cash equivalents are placed with reputable financial institution.

The standard credit-term given by the Company is 90 days. However, accounts more than 90 days may be past due but not necessarily impaired. A 180-day credit term may be given for those accounts with reciprocal business and those accounts involving large amounts of sum insured or the jumbo accounts which as practiced are subject to quarterly remittance scheme.

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

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts.
The Company manages liquidity specifying minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specifying the sources of funding and the events that would trigger the plan; determining concentration of funding sources; reporting of liquidity risk exposures; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

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

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

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

*Interest rate risk*
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to its financial instruments with floating and/or fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

For fair value interest rate risk, the Company's investment policy requires it to buy and hold AFS financial assets, unless the need to sell arises, and to reduce the duration gap between financial assets and financial liabilities to minimize interest rate risk.

The Company manages its interest rate risk by investing in fixed rate instruments. It also manages the maturities of interest-bearing financial assets and financial liabilities.

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

| | **December 31, 2018** | | | | |
|---|---|---|---|---|---|
| | **Range of Interest** | **Up to a year** | **2-3 years** | **Over 3 years** | **Total** |
| Loans and receivable | **6% to 12%** | **₱21,148,342** | **₱–** | **₱–** | **₱21,148,342** |
| Cash and cash equivalents | **0.25% to 1.25%** | **325,411,416** | **–** | **–** | **325,411,416** |
| HTM debt securities | **3.250% - 6.125%** | **28,764,163** | **33,225,000** | **94,285,625** | **156,274,788** |
| AFS debt securities | **3.375% - 7.818%** | **15,495,580** | **86,520,555** | **43,738,958** | **145,755,093** |
| | | **₱390,819,501** | **₱119,745,555** | **₱138,024,583** | **₱648,589,639** |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Range of Interest | Up to a year | 2-3 years | Over 3 years | Total |
| Loans and receivable | 6.00%-14.00% | ₱11,114,305 | ₱1,299,882 | ₱9,261,396 | ₱21,675,583 |
| Cash and cash equivalents | 0.25%-1.50% | 146,780,216 | – | – | 146,780,216 |
| HTM debt securities | 1.625% 9.125% | 14,970,623 | 47,176,837 | 92,501,345 | 154,648,805 |
| AFS debt securities | 2.8% to 6.5% | 9,828,846 | 46,909,895 | 61,974,533 | 118,713,274 |
| | | ₱182,693,990 | ₱95,386,614 | ₱163,737,274 | ₱441,817,878 |

As of December 31, 2018 and 2017, the Company has no exposure to interest rate risk since its financial instruments are not subject to floating interest rate.

*Price risk*
The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally AFS equity securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, limits on investment in each sector and market, and careful and planned use of derivative instruments.

The analysis below is performed for reasonably possible movements in Philippine Stock Exchange index (PSEi) with all other variables held constant, showing the impact on equity (that reflects adjustments on changes in fair value of AFS financial assets).

| Market Indices | Year | Change in Variable | Impact on equity Increase (decrease) |
|---|---|---|---|
| **PSEi** | **2018** | +2.09% | ₱16,535 |
| | | -2.09% | (16,535) |
| PSEi | 2017 | +16.20% | ₱119,062 |
| | | -16.20% | (119,062) |

The reasonably possible movements in PSEi are based on the Company's stock composite index for the past three years.

## 29. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) parties owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control, or are controlled by, or under common control with, the Company; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individuals.

As of December 31, 2018 and 2017, there are no advances extended by the Company to its directors and key officers.

Significant transactions with related parties follow:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| **Category** | **Amount/ Volume** | **Outstanding Balance** | **Terms** | **Conditions** |
| **Premiums written** | | | | |
| ***Entities under common control*** | | | | |
| Figaro Coffee Systems, Inc. (a) | **₱48,705** | **₱61,158** | **Due and demandable; non-interest bearing** | **Unsecured; no impairment** |
| Camerton Inc. | **23,403** | **29,164** | **Due and demandable; non-interest bearing** | **Unsecured; no impairment** |
| **Investment in FVPL** (Note 9) | | | | |
| Cirtek Holdings Phils (c) | **–** | **105,160,000** | **On demand, noninterest bearing** | **Unsecured; no impairment** |
| Cirtek Holdings Phils | **6,433,939** | **6,433,939** | **On demand, noninterest bearing** | **Unsecured; no impairment** |
| **Management fees** (Note 24) | | | | |
| **Parent Company** | | | | |
| Camerton Inc. (b) | **7,058,823** | **–** | **–** | **Unsecured; no impairment** |
| | | **₱111,684,261** | | |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| Category | Amount/ Volume | Outstanding Balance | Terms | Conditions |
| Premiums written | | | | |
| Entities under common control | | | | |
| Cirtek Electronics Corporation (a) | ₱3,053,264 | ₱162,869 | Due and demandable; non-interest bearing | Unsecured, no impairment |
| Cirtek Advanced Technology Solutions, Inc. (a) | 15,374 | – | -do- | -do- |
| Figaro Coffee Systems, Inc. (a) | 203,334 | 224,736 | -do- | -do- |
| Investment in FVPL (Note 9) | | | | |
| Cirtek Holdings Phils (c) | 99,860,000 | – | On demand, noninterest bearing | Unsecured; no impairment |
| Management fees (Note 24) | | | | |
| Parent Company | | | | |
| Camerton Inc. (b) | 8,458,824 | – | Non-interest bearing, due and demandable | Unsecured |
| | | ₱387,605 | | |

a. Premiums written refers to one (1) year insurance policies issued to the related parties under common control. Nature of these policies are fire, personal accident, casualty and motor policies.

b. Management fees pertains to amount payable to Camerton Inc. for the management services rendered to the Company (see Note 24).

c. On December 8, 2017, the Company acquired quoted preferred equity securities issued by CHIPS which amounted to $2,000,000. As of December 31, 2018 and 2017, these outstanding quoted preferred equity securities are classified as financial assets at FVPL in the statement of financial position and are carried at fair value (see Note 9).

Compensation of Key Management Personnel
Key management personnel of the Company include the President, Senior Vice-President, Department Managers, Supervisors and Officers-in-Charge.

The salaries and other short term employee benefits of key management personnel amounted to ₱34,771,316 and ₱24,469,816 in 2018 and 2017, respectively.

There are no agreements between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

## 30. Maturity Analysis of Assets and Liabilities

The tables in the next page show an analysis of assets and liabilities analyzed according to when they are expected to be recovered, settled, or reversed as of December 31.

| | 2018 | | |
|---|---|---|---|
| | **Within 12 months** | **Over 12 months** | **Total** |
| **ASSETS** | | | |
| Cash and cash equivalents | **₱325,411,416** | **₱–** | **₱325,411,416** |
| Short-term investments | **93,095,593** | – | **93,095,593** |
| Insurance receivables - net | **722,983,956** | – | **722,983,956** |
| Financial assets | | | |
| Held-to-maturity investments | – | **139,663,931** | **139,663,931** |
| Fair value through profit or loss | **105,160,000** | – | **105,160,000** |
| AFS financial assets | **18,973,307** | **153,284,336** | **172,257,643** |
| Loans and receivables | **21,148,342** | – | **21,148,342** |
| Accrued income | **10,301,523** | – | **10,301,523** |
| Reinsurance assets | **86,849,252** | – | **86,849,252** |
| Deferred acquisition costs | **170,300,798** | – | **170,300,798** |
| Intangible Assets | – | **20,873,601** | **20,873,601** |
| Property and equipment | – | **214,212,818** | **214,212,818** |
| Investment properties | – | **153,197,229** | **153,197,229** |
| Pension asset | – | **5,050,040** | **5,050,040** |
| Asset held for sale | **8,795,000** | – | **8,795,000** |
| Other assets | **26,572,863** | – | **26,572,863** |
| **Total Assets** | **₱1,589,592,050** | **₱686,281,955** | **₱2,275,874,005** |
| | | | |
| **LIABILITIES** | | | |
| Insurance contract liabilities | **₱1,129,841,014** | **₱–** | **₱1,129,841,014** |
| Insurance payables | **40,135,489** | – | **40,135,489** |
| Deferred reinsurance commissions | **6,174,596** | – | **6,174,596** |
| Accounts payable and other liabilities | **323,653,950** | – | **323,653,950** |
| Deferred tax liabilities - net | – | **61,201,358** | **61,201,358** |
| **Total Liabilities** | **₱1,499,805,049** | **₱61,201,358** | **₱1,561,006,407** |

| | 2017 | | |
|---|---|---|---|
| | Within 12 months | Over 12 months | Total |
| ASSETS | | | |
| Cash and cash equivalents | ₱146,780,216 | ₱– | ₱146,780,216 |
| Short-term investments | 45,524,529 | – | 45,524,529 |
| Insurance receivables - net | 427,662,157 | – | 427,662,157 |
| Financial assets | | | |
| Held-to-maturity investments | 14,970,623 | 139,678,182 | 154,648,805 |
| Fair value through profit or loss | 99,860,000 | – | 99,860,000 |
| AFS financial assets | 26,275,903 | 107,662,083 | 133,937,986 |
| Loans and receivables | 21,674,998 | – | 21,674,998 |
| Accrued income | 2,240,088 | – | 2,240,088 |
| Reinsurance assets | 157,213,405 | – | 157,213,405 |
| Deferred acquisition costs | 125,778,537 | – | 125,778,537 |
| Intangible Assets | 22,369,501 | – | 22,369,501 |
| Property and equipment | – | 204,517,335 | 204,517,335 |
| Investment properties | – | 148,332,921 | 148,332,921 |
| Pension asset | – | 9,855,009 | 9,855,009 |
| Asset held for sale | 2,134,622 | – | 2,134,622 |
| Other assets | 14,641,941 | – | 14,641,941 |
| Total Assets | ₱1,107,126,520 | ₱610,045,530 | ₱1,717,172,050 |
| | | | |
| Insurance contract liabilities | ₱809,173,883 | ₱– | ₱809,173,883 |
| Insurance payables | 51,917,971 | – | 51,917,971 |
| Deferred reinsurance commissions | 8,539,407 | – | 8,539,407 |
| Accounts payable and other liabilities | 173,788,594 | – | 173,788,594 |
| Deferred tax liabilities - net | – | 65,022,585 | 65,022,585 |
| Total Liabilities | ₱1,043,419,855 | ₱65,022,585 | ₱1,108,442,440 |

## 31. Commitments

Operating Lease Commitments - as Lessee

The Company entered into various lease agreements for its branch offices renewable every lease term ranging from one (1) to five (5) years. Future minimum rentals payable and rent expense under non-cancellable operating leases as of December 31, 2018 and 2017 follow:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **₱3,983,940** | ₱2,416,002 |
| After one year but not more than five years | **6,823,354** | 7,221,197 |
| | **₱10,807,294** | ₱9,637,199 |

Rent expense amounted to ₱5.72 million and ₱4.18 million in 2018 and 2017, respectively (see Note 24).

Operating Lease Commitments - as Lessor

The Company has entered into commercial property leases on its investment property. These non-cancellable leases are renewable every year. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. Future minimum rentals receivable under non-cancellable operating leases which are all due within one year amounted to million ₱5.72 million and ₱8.85 million in 2018 and 2017, respectively. Rental income amounted to ₱12.80 million and ₱12.78 million in 2018 and 2017, respectively (see Note 22).

## 32. Contingencies

The Company is a defendant in various lawsuits, the outcome of which is not probable to have an outflow of resources. Management, after reviewing with the Company's counsel all actions and proceedings against the Company, is of the opinion that settlement arising therefrom, if any, will not have a material effect on the Company's financial position and financial performance as of and for the years ended December 31, 2018 and 2017.

## 33. Supplementary Tax Information under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year

Value added tax (VAT)

Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns filed for 2018

| | Net Sales/Receipts | Output VAT |
|---|---|---|
| Taxable sales: | | |
| Sale of services-premium | ₱879,383,703 | ₱105,526,156 |
| Leasing income | 12,801,965 | 1,536,236 |
| | ₱892,185,668 | ₱107,062,392 |

The Company's sales of services are based on actual collections received, hence, may not be the same as amounts accrued in the statement of comprehensive income in 2018.

b. Input VAT for 2018

| | |
|---|---|
| Balance at January 1 | ₱– |
| Current year's domestic purchases/payments for: | |
| Goods other than for resale | 4,471,177 |
| Services lodged under cost of goods sold | 38,499,396 |
| | 42,970,573 |
| Input VAT applied to Output VAT | 42,970,573 |
| Balance at December 31 | ₱– |

Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, license and permit fees.

Details for 2018 consist of the following:

| | |
|---|---|
| *Local* | |
| License and permit fees | ₱303,518 |
| Real estate taxes | 267,942 |
| Penalties | 300,000 |
| Others | 733,302 |
| | 1,604,762 |

(forward)

| | |
|---|---|
| *National* | |
| BIR registration and other fees | 8,000 |
| | ₱1,612,762 |

The following taxes relate to nonlife insurance policies that have been shifted or passed on to the policyholders and are not recognized in the statement of comprehensive income in 2018:

| | |
|---|---|
| Documentary stamp taxes | ₱127,868,916 |
| Fire service taxes | 2,160,564 |
| Local government taxes | 1,296,812 |
| | ₱131,326,292 |

Withholding Taxes

Details of withholding taxes for 2018 are as follows:

| | |
|---|---|
| Withholding taxes on compensation and benefits | ₱5,695,378 |
| Expanded withholding taxes | 40,014,749 |
| | ₱45,710,127 |

Tax Assessment and Cases

The Company has no deficiency tax assessments, whether protested or not. The Company has no outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.