COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number: 1 6 6 9 7

COMPANY NAME

STRONGHOLD INSURANCE COMPANY, INCORPORATED.

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

17TH FLOOR, SECURITY BANK CENTER 6776 AYALA AVENUE, MAKATI CITY. BRGY SAN LORENZO 1226

Form Type	Department requiring the report	Secondary License Type, If Applicable
AFS		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number	Mobile Number
mail@strongholdinsurance.com.ph	891-13-29	09175089444

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
8	FEBRUARY/28	DECEMBER/31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
MANUEL R. BERNARDO	mrbernardo@strongholdinsurance.com.ph	891-13-29	09175089444

CONTACT PERSON's ADDRESS

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirthy (30) calendar days from the occurance thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

I.T. SABADO & ASSOCIATES

Certified Public Accountants

L1 B1 QC Ville Townhomes, Central Avenue
Culiat, Quezon City
Tel: (632) 832 4367

INDEPENDENT AUDITORS' REPORT TO ACCOMPANY INCOME TAX RETURN

The Board of Directors and Shareholders
STRONGHOLD INSURANCE COMPANY, INC.
17/F Security Bank Centre
Ayala Avenue, Makati City

We have audited the accompanying financial statements of Stronghold Insurance Company, Inc., as of and for the year ended December 31, 2017, on which we have rendered the attached report dated July 5, 2018.

In compliance with Revenue Regulations V-20, we are stating the following:

1. The taxes paid or accrued by the above Company for the year ended December 31, 2017 are shown in the Schedule of Taxes and Licenses attached to the Annual Income Tax Return.

2. No partner of our Firm is related by consanguinity or affinity to the president, manager or principal shareholders of the Company.

I. T. SABADO & ASSOCIATES, CPAs
PRC/BOA Registration No. 1324
Until September 10, 2021
BIR Accreditation No. 07-001182-002-2017
Until February 13, 2020
IC Accreditation No. F-2015-009-R
Until October 23, 2018

By:

ISAGANI T. SABADO
Managing Partner
CPA Reg. No. 078824
Until July 10, 2019
IC Accreditation No. SP-2015-024-R
Until October 23, 2018
TIN 145-707-022
PTR No. 5611722
January 9, 2018
Quezon City

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date JUL 09 2018
RECEIVED
ELMER B. TANAY

July 5, 2018

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **STRONGHOLD INSURANCE COMPANY, INC.** is responsible for the preparation and fair presentation of the financial statements for the year(s) ended December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the shareholders or members.

I.T. Sabado & Associates, CPA's, the independent auditors, appointed by the shareholders has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the shareholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature : _____
Chairman of the Board : **DAVID C. MERCADO**

Signature : _____
Chief Executive Officer : **ROMULO I. DELOS REYES, JR.**

Signature : _____
Chief Financial Officer (Treasurer) : **CORAZON M. FERMIN**

Signed this 5th day of July 2018.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of **STRONGHOLD INSURANCE COMPANY, INC.** is responsible for all information and representations contained in the Annual Income Tax for the year ended December 31, 2017. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2017 and the accompanying Annual Income Tax Return are in accordance with the books and records of **STRONGHOLD INSURANCE COMPANY, INC.**, complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the Income Tax Return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) **STRONGHOLD INSURANCE COMPANY, INC.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Signature : _____

Chief Executive Officer: **ROMULO I. DELOS REYES, JR.**

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date JUL 09 2018
RECEIVED
ELMER B. TANAY

I.T. SABADO & ASSOCIATES

Certified Public Accountants

L1 B1 QC Ville Townhomes, Central Avenue
Culiat, Quezon City
Tel: (632) 832 4367

SUPPLEMENTAL WRITTEN STATEMENT

The Board of Directors and Shareholders
STRONGHOLD INSURANCE COMPANY, INC.
17/F Security Bank Centre
Ayala Avenue, Makati City

We have examined the Financial Statements of Stronghold Insurance Company, Inc. for the year ended December 31, 2017, on which we have rendered the attached report dated July 5, 2018.

In compliance with SRC Rule 68, We are stating that the said company has a total number of **five (5)** shareholders owning one hundred (100) or more shares each.

I. T. SABADO & ASSOCIATES, CPAs
PRC/BOA Registration No. 1324
Until September 10, 2021
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Until October 23, 2018

By:

ISAGANI T. SABADO
Managing Partner
CPA Reg. No. 078824
Until July 10, 2019
IC Accreditation No. SP-2015-024-R
Until October 23, 2018
TIN 145-707-022
PTR No. 5611722
January 9, 2018
Quezon City

July 5, 2018

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date JUL 09 2018
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ELMER B. TANAY

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Tel: (632) 832 4367

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
STRONGHOLD INSURANCE COMPANY, INC.
17/F Security Bank Centre
Ayala Avenue, Makati City

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAX [illegible] COMPLIANCE DIVISION
Date JUL 09 2018
RECEIVED
ELMER B. TANAY

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Stronghold Insurance Company, Inc. ("the Company"), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including 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, 2017 and 2016, 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 operation, 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 procedure 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 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 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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date JUL 09 2018
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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 Notes 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 Stronghold Insurance Company, Inc. The information has been subjected to the auditing procedures applied in our audits 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.

I. T. SABADO & ASSOCIATES, CPAs
PRC/BOA Registration No. 1324
Until September 10, 2021
BIR Accreditation No. 07-001182-002-2017
Until February 13, 2020
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Until October 23, 2018

By:

ISAGANI T. SABADO
Managing Partner
CPA Reg. No. 078824
Until July 10, 2019
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Until October 23, 2018
TIN 145-707-022
PTR No. 5611722
January 9, 2018
Quezon City

July 5, 2018

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISIO
Date JUL 09 2018
RECEIVED
ELMER B TANAY

STRONGHOLD INSURANCE COMPANY, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2017

(With comparative figures for 2016)

SATELLITE OFFICE
SM MANILA
Electronic Records Management Division
Securities and Exchange Commission
JUL 11 2018
BY:
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS
ICTD

ASSETS

	Notes	2017	2016
Cash and cash equivalents	4	P 429,062,331	P 266,009,197
Insurance balances receivable	5	880,068,243	777,671,764
Financial assets	6		
Available for sale securities		13,813,332	12,134,651
Held to maturity invesments		339,565,617	338,350,886
Investment in stocks		17,263,333	33,208,805
Loans and receivables		68,023,057	154,266,370
Reinsurance assets	7	43,205,157	17,080,579
Deferred acquisition cost	8	61,170,231	55,858,953
Deferred reinsurance premium	9	27,588,819	29,265,675
Deferred tax asset	10	28,574,223	15,242,137
Property and equipment - net	11	119,924,252	116,166,975
Investment properties	12	7,638,100	7,638,100
Other assets	13	3,474,616	3,453,343
TOTAL ASSETS		**P 2,039,371,311**	P 1,826,347,434

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES			
Insurance contract liabilities	14	P 646,466,840	P 508,736,351
Reinsurance payable	15	82,792,102	87,845,079
Commission payable	16	18,085,979	29,875,728
Deferred commision income	17	8,059,300	8,219,255
Accounts and other payables	18	267,507,304	172,507,649
Total Liabilities		**1,022,911,525**	807,184,062
SHAREHOLDERS' EQUITY			
Paid-up Share capital		429,953,800	414,953,800
Additional paid in capital	19	35,196,097	35,196,097
Contributed surplus	20	71,000,000	71,000,000
Fluctuation reserves	21	37,943,303	53,206,700
Accumulated profits	22	442,366,586	444,806,775
Total Shareholders' Equity		**1,016,459,786**	1,019,163,372
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**P 2,039,371,311**	P 1,826,347,434

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
DOCUMENTARY STAMP TAX ASSISTANCE DIVISION
Date JUL 09 2018
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ELMER B.

STRONGHOLD INSURANCE COMPANY, INC.

INCOME STATEMENT

For the year ended December 31, 2017

(With comparative figures for 2016)

	Notes		2017		2016
REVENUE					
Gross earned premiums on insurance contracts	23	P	864,445,204	P	703,873,341
Reinsurers' share on gross earned premiums	24		66,361,581		60,862,334
Net Earned Premiums			**798,083,623**		643,011,008
Commissions income	25		18,729,418		16,111,263
TOTAL REVENUE			**816,813,040**		659,122,271
DIRECT COSTS					
Net insurance benefits and claims	26		429,261,217		328,666,618
Commission expense	27		143,013,448		116,663,655
Other underwriting expense	28		19,265,481		10,711,127
Total Direct Costs			**591,540,146**		456,041,399
GROSS INCOME			**225,272,894**		203,080,871
OTHER REVENUE					
Investment and other income	29		18,070,645		72,182,855
TOTAL REVENUE			**243,343,539**		275,263,726
GENERAL AND ADMINISTRATIVE EXPENSES	30		**183,773,229**		247,975,716
INCOME BEFORE INCOME TAX			**59,570,311**		27,288,010
INCOME TAX EXPENSE	31		**24,540,212**		(4,944,581)
NET INCOME		P	**35,030,099**	P	32,232,591

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date JUL 09 2018
RECEIVED
ELMER B. TANAY

STRONGHOLD INSURANCE COMPANY, INC.

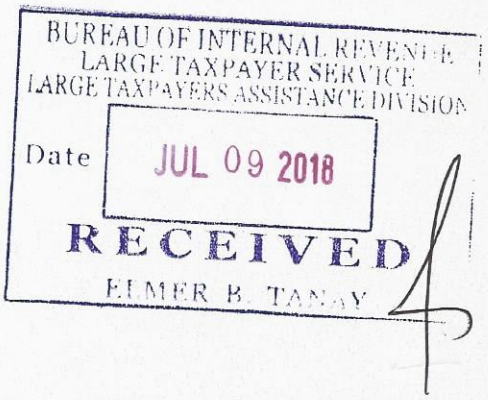
STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2017

(With comparative figures for 2016)

	Note		2017		2016
Net Income		P	35,030,099	P	32,232,591
Other Comprehensive Income:					
Unrealized gain (loss) on AFS	6, 33		1,678,681		(5,767,512)
Revaluation surplus	11		(996,606)		50,501,745
TOTAL COMPREHENSIVE INCOME		**P**	**35,712,173**	P	76,966,824

See accompanying Notes to Financial Statements.



STRONGHOLD INSURANCE COMPANY, INC.

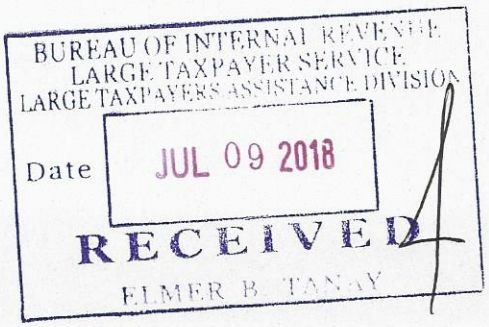
STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

(With comparative figures for 2016)

	Notes	2017	2016
SHARE CAPITAL - P100 par value			
Authorized Share Capital - 6,000,000 shares at P100 par value			
Paid-up share capital			
Balance at beginning of year		P 414,953,800	P 305,000,000
Paid during the year		15,000,000	14,000,000
Conversion of contributed surplus		-	95,953,800
Balance at end of year		**429,953,800**	414,953,800
ADDITIONAL PAID IN CAPITAL	19	**35,196,097**	35,196,097
CONTRIBUTED SURPLUS	20		
Balance at beginning of year		71,000,000	161,453,855
Addition during the year		-	5,499,945
Conversion to paid-up share capital		-	(95,953,800)
Balance at end of year		**71,000,000**	71,000,000
FLUCTUATION RESERVE	21		
Balance at beginning of year		53,206,701	8,472,468
Increase (decrease) in fair value		(15,263,397)	44,734,233
Balance at end of year		**37,943,303**	53,206,701
ACCUMULATED PROFITS	22		
Balance at beginning of year		444,806,774	412,574,183
Translation adjustments		(38,466,894)	-
Amortization of revaluation surplus		996,606	-
Net income for the year		35,030,099	32,232,591
Balance at end of year		**442,366,585**	444,806,774
TOTAL SHAREHOLDERS' EQUITY		**P 1,016,459,786**	P 1,019,163,372

See accompanying Notes to Financial Statements.



STRONGHOLD INSURANCE COMPANY, INC.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

(With comparative figures for 2016)

Date JUL 09 2018
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ELMER B. TANAY

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES :			
Net income		P 35,030,099	P 32,232,591
Adjustment for :			
Amortized premium (discount)	6	(1,214,732)	1,287,651
Translation adjustments	6	(38,466,894)	-
Deferred tax asset	10	(13,332,086)	(15,242,137)
Depreciation	11	14,151,000	53,759,869
Gain on increase in fair value of investment property	12	-	(7,050,330)
OPERATING INCOME (LOSS) BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**(3,832,613)**	64,987,645
Changes in Operating Assets and Liabilities			
Decrease (Increase) in:			
Insurance balances receivable	5	(102,396,478)	(131,843,016)
Loans and other receivables	6	86,243,312	(36,618,205)
Reinsurance assets	7	(26,124,578)	26,120,298
Deferred acquisition cost	8	(5,311,277)	(6,136,441)
Deferred reinsurance premium	9	1,676,856	(1,923,247)
Other assets	13	(21,273)	3,189,837
Increase (Decrease) in:			
Insurance balances payable	14	137,730,489	86,376,186
Reinsurance payables	15	(5,052,977)	(8,059,923)
Commission payable	16	(11,789,749)	4,367,331
Deferred commision income	17	(159,955)	918,978
Accounts and other payables	18	94,999,655	106,400,904
NET CASH USED IN OPERATING ACTIVITIES		**165,961,411**	107,780,348
CASH FLOWS FROM INVESTING ACTIVITIES :			
Disposal of trading securities	6	-	12,217,280
Disposal of available for sale securities	6	-	15,395,472
Disposal of held to maturity investment	6	-	168,102,842
Acquisition of held to maturity investment	6	-	(174,841,630)
Acquisition of investment in stocks	6	-	(15,395,472)
Acquisition of property & equipment	11	(17,908,277)	(31,889,889)
Disposal of investment property	12	-	1,092,688
NET CASH USED IN INVESTING ACTIVITIES		**(17,908,277)**	(25,318,708)
CASH FLOWS FROM FINANCING ACTIVITIES :			
Increase in paid capital		15,000,000	109,953,800
Increase (Decrease) in contributed surplus	20	-	(90,453,855)
NET CASH PROVIDED BY FINANCING ACTIVITIES		**15,000,000**	19,499,945
NET INCREASE IN CASH AND CASH EQUIVALENTS		**163,053,134**	101,961,585
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**266,009,197**	164,047,612
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		P **429,062,331**	P 266,009,197

See accompanying Notes to Financial Statements.

STRONGHOLD INSURANCE COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(With comparative figures as at and for the year ended December 31, 2016)
(All amounts are shown in Philippine Peso unless otherwise stated)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date JUL 09 2018
RECEIVED
ELMER B. TANAY

Note 1 - Organization and operation

STRONGHOLD INSURANCE COMPANY, INC. is a domestic corporation registered with the Securities and Exchange Commission on March 1, 1960 under SEC Reg. No. 16697 and primarily engaged in the business of insurance and guaranty in any line, except in life insurance, for a consideration, to indemnify any person, firm or corporation against loss, damage or liability arising from an unknown or contingent event and to guarantee liabilities and obligation of any person, firm or corporation.

The registered address of the Company is at 17/F Security Bank Centre Building, 6776 Ayala Avenue, Makati City, Philippines.

The accompanying financial statements of the Company were reviewed and authorized for issue by the Board of Directors on July 5, 2018.

Note 2 - Significant accounting policies

2.1 Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for Trading Securities and Available-for-Sale (AFS) investments which have been measured at fair value.

The financial statements are presented in Philippine Peso which is the Company's functional and presentation currency.

2.2 Statement of Compliance

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

2.3 Changes in Accounting Policies

The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective January 1, 2010. Except as otherwise indicated, the adoption of the new and amended Standards and Philippine Interpretations did not have a significant impact on the financial statements.

- PFRS 2, Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions
  The Amendment clarified the scope and the accounting for group cash-settled share-based payment transactions.

- PFRS 3 (Revised), Business Combinations, and Philippine Accounting Standard (PAS) 27 (Amended), Consolidated and Separate Financial Statements

PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest (NCI), the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

- PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with NCI after January 1, 2010.

- PAS 39, Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items
  The Amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- Philippine Interpretation IFRIC 17, Distributions of Non-cash Assets to Owners
  This Philippine Interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to PFRSs
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

Improvements to PFRSs 2008
- PFRS 5, Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains an NCI after the sale transaction.

Improvements to PFRSs 2009
- PFRS 2, Share-based Payment
  This Amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3.

- PFRS 5, Non-current Assets Held for Sale and Discontinued Operations
  This Amendment clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, Operating Segments
  This Amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, Presentation of Financial Statements
  This Amendment clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, Statement of Cash Flows
  This Amendment states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

- PAS 17, Leases
  This Amendment removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, Impairment of Assets
  This Amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, Intangible Assets
  This Amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, Financial Instruments: Recognition and Measurement
  This Amendment clarifies the following: 1) that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; 2) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquire at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken and 3) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives
  This Philippine Interpretation clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

- Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation
  This Philippine Interpretation states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Improvements to PFRSs 2010
An improvement to PFRSs is an omnibus of amendments to PFRSs. The following amendments have not been adopted as they will become effective either for annual periods July 1, 2010 or January 1, 2011:

- PFRS 3, Business Combinations
- PFRS 7, Financial Instruments: Disclosures
- PAS 1, Presentation of Financial Statements
- PAS 27, Consolidated and Separate Financial Statements
- PAS 34, Interim Financial Reporting

- Philippine Interpretation IFRIC 13, Customer Loyalty Programmes

The Company expects no impact from the adoption of the amendments on its financial position or performance.

Improvements to PFRSs 2011

- PAS 24 (Amended), Related Party Disclosures
  The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- PAS 32, Financial Instruments: Presentation (Amendment) - Classification of Rights Issues
  The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010. It amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC 14 (Amendment), Prepayments of a Minimum Funding Requirement
  The amendment to the Philippine Interpretation is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
  This Philippine Interpretation is effective for annual periods beginning on or after July 1, 2010. The Philippine Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs 2012

- Philippine Interpretation IFRIC 15, Agreements for Construction of Real Estate
  The Philippine Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

- PAS 12, Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets
  The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- PFRS 7, Financial Instruments: Disclosures (Amendments) - Disclosures - Transfers of Financial Assets
  The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer

transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

2.4 Future Changes in Accounting Policies

The Company will adopt the following amended standards and Philippine Interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the financial statements.

Effective 2018

- PFRS 9, Financial Instruments: Classification and Measurement
  PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal and interest on the principal outstanding. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The standard is effective for annual periods beginning on or after January 1, 2018.

2.5 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 at the end of the reporting period as well as affecting 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 estimates and judgments, refer to Note 3.

2.6 Product Classification

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policy holders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is significant if an insured event could cause an insurer to pay significant benefits.

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.

2.7 Cash and Cash Equivalents

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

2.8 Insurance Receivables

Insurance receivables are recognized when due and measured at the original invoice amount less allowance for any uncollectible amounts. 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 the statement of income.

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

2.9 Financial Instruments – Initial Recognition and Subsequent Measurement

Date of Recognition

Financial instruments are recognized in the balance sheet 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

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of liability). Except for financial instruments at FVPL, the initial measurement of financial assets includes transactions costs. The Company classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS investments, financial assets at FVPL, and loans and receivables. Financial liabilities are classified either as financial liabilities at FVPL or 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 reporting date.

Determination of Fair Value

The fair value for financial instruments traded in active markets at the balance sheet is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same or discounted cash flow analysis. For discounted cash flow analysis, estimated future cash flows are based on management's best estimated and the discount rate used is a market related rate for a similar instrument. The use of assumptions could produce materially different estimates of fair values.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

Day 1 Profit

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

Financial Assets or Financial Liabilities at FVPL

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

Financial assets or liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.
Financial assets or liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or (b) the assets or liabilities are part of a group of financial assets or liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset or liability contains an embedded derivative that would need to be separately recorded.

HTM Investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention on 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 investments. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less impairment in value. 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 investment income in the statement of income. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and Receivables
Loans and receivables are non-derivative 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 at FVPL or designated as AFS financial assets.

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 losses arising from impairment of such loans and receivables are recognized in Provision for doubtful accounts in the statement of income.

AFS Investments
AFS investments are those which are designated as such or are not classified as financial assets at FVPL, HTM investments 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 investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as Reserve for fluctuation on available-for-sale investments in the equity section of the balance sheet. The losses arising from impairment of such investments are recognized as provisions for impairment losses in the statement of income. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized as realized gains or losses in the statement of income.

When the fair value of AFS investments 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.

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 exchange financial assets or liabilities with the holder under conditions that are potentially unfavorable to the Company.

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 income.

2.10 Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial asset 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 has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Financial Assets Carried At Amortized Cost

For financial assets carried at amortized cost (e.g., loans and receivables, HTM investments), 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 present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. 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 such credit risk characteristics as past-due status and term.

AFS Financial Assets

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. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the

current fair value, less any impairment loss on that financial asset previously recognized in equity - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

In case of debt instruments, 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 using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of 'Investment and other income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

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

2.11 Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet 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.

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

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards to 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 or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or 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 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.

2.13 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.

An impairment review is performed at each reporting date 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 charged against 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.

2.14 Deferred Acquisition Costs (DAC)

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

Subsequent to initial recognition, these costs 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.

An impairment review is performed at each reporting date 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 reporting period.

2.15 Reinsurance Commissions

Reinsurance commissions are deferred and are subject to the same amortization method as the related acquisition costs. Unamortized reinsurance commissions are shown in the balance sheets as Deferred commission income.

2.16 Property and Equipment

Property and equipment are stated at cost, net of 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 cost 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 against the statement of income during the period in which they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment as follows:

	Number of Years
Building and Improvement	20-50
Electronic and data processing (EDP) equipment	2-5
Office equipment	5
Transportation equipment	5
Furniture, fixtures and equipment	5

Office improvements are depreciated over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.

The assets' residual values, estimated useful lives and depreciation method are reviewed periodically to ensure that the residual value, period and 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 the statement of income in the year the item is derecognized.

2.17 Impairment of Non-financial Assets

At each reporting date, the Company assesses whether there is any indication that its non-financial assets (e.g. property and equipment) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. 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 other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) 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 (or cash generating unit). An impairment loss is charged to operations in the year in which it arises.

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

2.18 Insurance Contract Liabilities

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. 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 balance sheet. The change in the provision for unearned premiums is taken to profit or loss in the 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

These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR losses. The liability is derecognized when the contract is discharged, cancelled or has expired.

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 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.

2.19 Pension Liability

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, the effect of any past service cost and curtailment or settlement.

The pension liability recognized by the Company is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past services costs that shall be recognized in later periods. The defined benefit obligation is calculated by an independent actuary using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rate of government bonds that have terms to maturity approximating to the terms of the related pension liability. Past-service costs, if any, are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Present Value of Defined Benefit Obligation
The present value of the retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

2.20 Equity
Share capital represents the value of shares that have been issued at par.
Accumulated profits include all the accumulated earnings (losses) of the Company less dividends declared.

2.21 Revenue Recognition
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. 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 as part of Insurance contract liabilities and presented in the liabilities section of the balance sheet. The related reinsurance premiums ceded that pertains 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 balance sheets. The net changes in these accounts between each end of reporting periods 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. 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 balance sheets.

Interest Income
Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend Income
Dividend income is recognized when the shareholders' right to receive the payments is established.

2.22 Benefits and Claims
Benefits and claims consists of benefits and claims paid to policyholders, which includes 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.

2.23 Leases

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

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless 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).

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

2.24 Foreign Currency Transaction and Translations

Translations denominated in foreign currencies are recorded at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at the balance sheet date. Differences from monetary assets and liabilities are taken to the statement of income.

2.25 Income Taxes

Current Tax

Current income 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 the tax laws used to compute the amounts are those that are enacted or substantially enacted at the balance sheet date.

Deferred Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred 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 corporate 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 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 tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax 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 substantially enacted at the balance sheet date. Movements in the deferred 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 directly in equity is also recognized in equity and not in the statement of income.

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

2.26 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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.

2.27 Contingencies

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

2.28 Events after the Balance Sheet Date

Any post year-end event that provides additional information about the Company's position at the balance sheet date (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the financial statements when material.

Note 3 - Significant accounting estimates and judgments

The preparation of the financial statements in accordance with PFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. 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.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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.

(a) Operating Leases

The company entered into commercial property leases with various lessors. The Company determined that the lessors retain all the significant risks and rewards of ownership of the leased properties thus accounts for them as operating leases.

(b) HTM Investments

The Company classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. 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. The investment would therefore be measured at fair value and not at amortized cost.

(c) Financial assets not quoted in an active market

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

Estimates

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

(a) 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 end of the reporting period and for the expected ultimate cost of the IBNR claims at the end of the reporting period. It can take a significant period of time before the ultimate claims cost 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 primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Nonlife insurance claims provisions are not discounted for the time value of money.

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. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by significant business lines and claim types. Large claims are usually separately addressed, 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 historical claims development data on which the projections are based.

(b) Impairment of AFS Equity Investments

The Company considers AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost of where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. 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.

(c) Impairment of 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 the statement of income. 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 assumption about a number of factors and actual result 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 or those that are to be written off.

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

(d) Estimation of Useful Lives of Property and Equipment

The Company reviews annually the estimated useful lives of property and equipment 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 estimates. Reduction of useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

(e) Impairment of Property and Equity

The Company assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount of its property and equipment 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.

(f) 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.

(g) Determination of Pension and other Employee Benefits

The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others,

discount rates, expected return on plan assets and salary increase rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discounts rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the balance sheet date. In accordance with PAS 19, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. 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 liability.

(h) Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position. It is possible, however, that the results of operations could be materially affected by changes in the estimates.

Note 4 - Cash and cash equivalents

This account consists of:

	2017	2016
Cash on hand and in banks	130,184,285	99,494,299
Time deposits	298,878,046	166,514,898
	429,062,331	266,009,197

Cash in banks earn interest at the respective bank deposit rates. Time deposit are placements made for varying periods of up to three months depending on the immediate cash requirements of the company and earn interest at respective time deposits rates.

Note 5 - Insurance balances receivable

This account consists of:

	2017	2016
Premium receivables	392,687,372	270,324,456
Due from ceding companies	131,449,649	122,025,302
Reinsurance recoverable on paid losses	369,088,373	394,993,085
Premium reserve withheld by ceding companies	1,499,472	1,499,472
Total	894,724,866	788,842,315
Less: Allowance for impairment losses	14,656,623	11,170,551
	880,068,243	777,671,764

Details of premium receivable for the year 2017 follows:

	Amount
Within 90 days	349,833,402
Beyond 90 days	42,853,970
	392,687,372

Premiums receivable are usually due within 30-90 days without interest. The Insurance Commission allows the company to give a 90-day credit term to their agents and brokers. Management believes that the carrying amount of its Insurance Balances Receivables approximates its net realizable value.

Following the currently effective statutory solvency measurement, this over 90 days receivable are considered non-admitted and will therefore be deducted from the audited Net Worth to arrive at the statutory Net Worth following the IC procedures.

Note 6 - Financial assets

This account consists of:

	2017	2016
Available for sale securities	13,813,332	12,134,651
Held to maturity investments	339,565,617	338,350,886
Invesment in stocks	17,263,333	33,208,805
Loans and other receivables	68,023,057	154,266,370
	438,665,339	537,960,712

AFS Securities

Fair value adjustment for the year is presented as unrealized gain (loss) on available-for-sale securities under other comprehensive income in the statement of comprehensive income while its accumulated balance is presented as part of equity in the statement of financial position.

Held to maturity investments

Held to maturity investments consist of Investment in government securities which are deposited with the Insurance Commission (IC) in accordance with the provisions of the Insurance Code for the benefit and security of policy holders and creditor of the Company.

The carrying values of HTM investments and AFS securities have been determined as follows:

	Trading Securities	AFS	HTM	TOTAL
At January 1, 2016	12,217,280	33,297,635	332,899,748	378,414,663
Additions	-	-	174,841,630	174,841,630
Disposals	(12,217,280)	(15,395,472)	(168,102,841)	(195,715,593)
Fair value adjustments	-	(5,767,512)	-	(5,767,512)
Amortization adjustments	-	-	(1,287,651)	(1,287,651)
At December 31, 2016	-	12,134,651	338,350,886	350,485,537
Additions	-	-	-	-
Disposals	-	-	-	-
Fair value adjustments	-	1,678,681	-	1,678,681
Amortization adjustments	-	-	1,214,731	1,214,731
At December 31, 2017	**-**	**13,813,332**	**339,565,617**	**353,378,949**

Investment in stocks

Investment in stocks consists of equity securities which are not quoted in stock market, details follows:

At January 1, 2016	17,813,333
Additions	15,395,472
Disposals	-
At December 31, 2016	33,208,805
Additions	-
Disposals	(15,945,472)
At December 31, 2017	**17,263,333**

Loans and other receivables

	2017	2016
Mortgage loan	55,825,914	51,748,406
Salvage recoverable	8,874,446	8,874,446
Accrued interest	2,138,922	1,518,276
Advances to officers and employees	1,183,775	1,177,275
Due from agents	-	90,947,967
	68,023,057	154,266,370

Note 7 - Reinsurance assets

This account consists of:

	2017	2016
Reinsurance recoverable on unpaid losses- Treaty	23,286,126	6,373,715
Reinsurance recoverable on unpaid losses- Facultative	2,979,685	10,706,864
Reinsurance share on IBNR losses	16,939,346	-
	43,205,157	17,080,579

Note 8 - Deferred acquisition cost

The details of deferred acquisition cost follow:

	2017	2016
Balance at beginning of year	55,858,953	49,722,512
Cost deferred during the year	148,324,726	122,800,096
Amortized during the year	(143,013,448)	(116,663,655)
Balance at end of year	**61,170,231**	55,858,953

Note 9 - Deferred reinsurance premium

The details of deferred reinsurance premium follow:

	2017	2016
Balance at beginning of year	29,265,675	27,342,428
Premiums deferred during the year	64,684,725	62,785,581
Amortized ceded during the year	(66,361,581)	(60,862,334)
Balance at end of year	**27,588,819**	29,265,675

Note 10 - Deferred tax assets

This account consists of:

	2017	2016
Net operating loss carry-over	24,509,829	11,177,743
Minimum corporate income tax	4,064,394	4,064,394
	28,574,223	15,242,137

The following shows the movement in Net Operating Loss Carry-Over (NOLCO):

Year incurred	Available until	Amount	Applied in prior years	Expired	Applied in current year	Unapplied NOLCO
2016	2019	27,663,555	-	-	3,153,726	24,509,829

The following shows the movement in Minimum Corporate Income Tax (MCIT):

Year incurred	Available until	Amount	Applied in prior years	Expired	Applied in current year	Unapplied MCIT
2016	2019	4,064,394	-	-	-	4,064,394

Note 11 - Property and equipment, net

Details of property and equipment as at December 31, are as follows:

	Furniture, Fixtures & Equipment	Transportation Equipment	Electronics Data Processing	Office Improvement	Building	Total
Cost						
At January 1, 2016	14,294,714	67,254,333	33,567,261	14,265,454	22,716,951	152,458,712
Additions	920,410	595,383	7,694,911	1,463,702	21,215,482	31,889,889
Revaluation	-	-	-	-	50,501,744	50,501,744
At December 31, 2016	15,215,125	67,849,716	41,262,171	16,089,156	94,434,177	234,850,345
Additions	1,693,780	-	14,980,780	1,233,717	-	17,908,277
Reclassification	(4,055,739)	-	-	-	(9,377,095)	(13,432,834)
At December 31, 2017	12,853,166	67,849,716	56,242,951	17,322,873	85,057,082	239,325,788
Accumulated depreciation						
At January 1, 2016	1,913,024	33,315,401	18,634,970	1,683,011	9,377,095	64,923,501
Charges	9,633,516	23,504,099	12,071,714	8,550,540	-	53,759,869
At December 31, 2016	11,546,540	56,819,500	30,706,684	10,233,551	9,377,095	118,683,370
Charges	1,289,796	4,411,293	4,006,649	2,568,006.	1,875,255	14,151,000
Reclassification	(4,055,739)	-	-	-	(9,377,095)	(13,432,834)
At December 31, 2017	8,780,598	61,230,793	34,713,333	12,801,557	1,875,255	119,401,536
Net book values						
December 31, 2016	3,668,585	11,030,216	10,555,487	5,855,605	85,057,082	116,166,975
December 31, 2017	**4,072,568**	**6,618,923**	**21,529,618**	**4,521,316**	**83,181,827**	**119,924,252**

Depreciation and amortization for the years ended December 31, 2017 and 2016 amounting to P14,151,000 and P53,759,869 are presented under general and administrative expenses.

Note 12 - Investment property

Investment property consists of land, details follows:

	2017	2016
Balance at beginning of year	7,638,100	1,680,485
Disposal	-	(1,092,715)
Fair value gains	-	7,050,330
Balance at end of year	**7,638,100**	7,638,100

Note 13 - Other assets

This account consists of:

	2017	2016
Deposits	3,409,847	3,409,847
Security fund	64,769	43,496
	3,474,616	3,453,343

Note 14 - Insurance contract liabilities

This account consists of:

	2017	2016
Claims payable	266,300,355	153,602,115
Reserve for unearned premium	380,166,485	352,489,718
Catastrophe loss reserve	-	2,644,518
	646,466,840	508,736,351

Note 15 - Reinsurance payable

This account consists of:

	2017	2016
Due to reinsurers	48,574,074	59,433,551
Funds held for reinsurers	34,218,028	28,411,528
	82,792,102	87,845,079

Note 16 - Commission payable

The company's commission payable as at December 31, 2017 and 2016 amounted to P18,085,979 and P29,875,728, respectively.

Note 17 - Deferred commission income

The details of deferred commission income follow:

	2017	2016
Balance at beginning of year	8,219,255	7,300,278
Income deferred during the year	18,569,463	17,030,240
Amortized during the year	(18,729,418)	(16,111,263)
Balance at end of year	**8,059,300**	8,219,255

Note 18 - Accounts and other payables

This account consists of:

	2017	2016
Accounts payable	22,564,571	2,293,596
Taxes payable	190,503,963	125,599,725
Pension payable	20,554,359	17,147,606
Deferred VAT payable	33,451,147	26,544,064
SSS, PHIC and HDMF contributions payable	263,216	369,139
SSS and HDMF loans payable	170,048	369,115
Other payables	-	184,404
	267,507,304	172,507,649

Note 19 - Additional paid in capital

This account represents excess of net assets acquired over par value of Company's shares issued arising from merger with Utility Assurance Corporation. The merger was approved by the Securities and Exchange Commission on September 24, 2012.

Note 20 - Contributed surplus

This account represents temporary investment of the shareholders to cover up capital and net worth impairment as determined by the Insurance Commission. The Board of Directors approved on December 28, 2016 the conversion of contributed surplus to share capital amounting to P95,953,800. This account had balances of P71,000,000 as at December 31, 2017 and 2016.

Note 21 - Fluctuation reserves

This account consists of:

	2017	2016
Revaluation surplus	49,505,139	50,501,745
Fluctuation reserve on stocks	(11,561,836)	2,704,955
	37,943,303	53,206,700

Note 22 - Accumulated profits

Translation adjustments

Translation adjustments pertain to the cumulative prior year impact of the changes arising from the adoption of the New Financial Reporting Framework, including the revaluation of the reserves for Claims and Premiums Liabilities computed based on the new valuation standards for non-life insurance policy reserves as provided under Insurance Commission Circular Letter 2016-67. Details are as follows:

	December 31, 2016		
	New Framework	Old Framework	Difference
Reinsurance recoverable on unpaid losses	24,843,550	17,080,579	7,762,971
Less: Claims payable	216,317,792	153,602,115	62,715,677
Translation adjustments			(54,952,706)
Tax effect (at 30%)			(16,485,812)
			(38,466,894)

Note 23 - Gross earned premiums on insurance contracts

Gross earned premiums on insurance contracts for the years ended December 31, are as follows:

	2017	2016
Gross premiums written		
Direct	887,434,589	738,871,279
Assumed	4,687,382	14,468,735
Total gross premiums on insurance contracts	892,121,971	753,340,014
Gross change in provision for unearned premiums	(27,676,767)	(49,466,673)
Gross earned premiums	**864,445,204**	703,873,341

Note 24 - Reinsurers' share on gross earned premiums

Reinsurers' share on gross premiums earned on insurance contracts for the years ended December 31, are as follows:

	2017	2016
Ceded premium	64,684,725	62,785,580
Reinsurers' share of gross change in provision for unearned premiums	1,676,856	(1,923,246)
Reinsurers' share on gross earned premiums	**66,361,581**	60,862,334

Note 25 - Commission income

Commission income earned for the years ended December 31, are as follows:

	2017	2016
Collected and earned during the year	18,569,463	17,030,240
Deferred commission income, beginning	8,219,255	7,300,278
Deferred commission income, ending	(8,059,300)	(8,219,255)
	18,729,418	16,111,263

Note 26 - Net insurance benefits and claims

Net insurance benefits and claims for the years ended December 31, are as follows:

	2017	2016
Insurance contract benefits and claims paid	316,562,978	291,757,105
Gross change in claims payable	112,698,239	36,909,513
	429,261,217	328,666,618

Note 27 - Commission expense

Commission expense for the years ended December 31, are as follows:

	2017	2016
Paid and accrued during the year	148,324,726	122,800,096
Deferred acquisition cost, beginning	55,858,953	49,722,512
Deferred acquisition cost, ending	(61,170,231)	(55,858,953)
	143,013,448	116,663,655

Note 28 - Other underwriting expense

This account consists of certification and authentication fee and other expenses related to underwriting CTPL insurance conracts.

Note 29 - Investment and other income

This account consists of:

	2017	2016
Investment and interest income	17,913,398	14,467,162
Dividend income	55,608	54,604
Gain on sale of investment property	-	50,471,918
Gain on increase in fair value of investment property	-	7,050,330
Other income	101,639	138,841
	18,070,645	72,182,855

Note 30 - General and administrative expenses

This account consists of:

	2017	2016
Salaries and wages	75,491,491	69,569,664
Depreciation	14,151,000	53,759,869
Rent	11,369,835	13,799,720
Printing and office supplies	9,550,377	10,843,107
Transportation	9,162,005	18,957,973

Representation and entertainment	8,700,709	8,426,408
Communication	6,509,853	6,638,686
Allowances and bonuses	5,544,509	12,187,382
Retirement	4,638,802	5,797,472
SSS, PHIC and HDMF premium contributions	3,969,018	3,253,432
Light and water	3,798,681	4,208,395
Impairment losses	3,486,072	3,547,459
Association and pool dues	3,275,051	1,719,989
Directors fees and allowances	2,910,000	3,245,000
Advertising and promotions	2,766,399	1,135,976
Professional fees	2,539,924	2,968,677
Repairs and maintenance	2,222,032	1,251,582
Agency expense	2,171,031	4,041,146
Taxes and licenses	1,256,649	1,508,219
Professional and technical development	855,949	2,152,498
Donations and contributions	373,274	778,829
Other operating expenses	9,030,568	18,184,233
	183,773,229	247,975,716

Note 31 - Current and deferred taxes

Income tax expense for the years ended December 31 is composed of:

	2017	2016
Regular corporate income tax (30%)	15,216,835	(11,177,743)
Final tax	3,582,680	6,233,162
Provision for tax deficiency	5,740,697	-
	24,540,212	(4,944,581)

The reconciliation of the tax on pretax income (loss) computed at the statutory rate to tax expense is shown below:

	2017	2016
Tax on pretax income (30%)	17,871,093	8,186,403
Provision for tax deficiency	5,740,697	-
Add (deduct) tax effects of:		
Nontaxable income	(16,682)	(2,131,480)
Non-deductible expense	2,736,444	2,249,058
Income subject to lower income tax rate	(1,791,340)	(13,248,562)
	24,540,212	(4,944,581)

Note 32 - Supplementary information required by the Bureau of Internal Revenue

On October 10, 2007, Revenue Regulations (R.R.) No 12 was signed, amending certain provisions of R.R.No.9-98 relative to the due date within which to pay MCIT imposed on domestic corporation and resident foreign corporations. These revenue regulations require the quarterly payment of MCIT. The quarterly MCIT payments shall be creditable against the tax that will be due at the end of the taxable year whether it be

RCIT or MCIT. The regulations took effect beginning on the income tax return for fiscal quarter ending September 30, 2007.

In compliance with the requirements set forth by RR15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year.

Output Value Added Tax (VAT)
The Company is a VAT-registered company with VAT output tax declaration of P55,719,806 for the year based on the premiums collected amounting to P464,331,721

The Company has no zero-rated/exempt sales for the year 2017.

Input VAT
The Company has claimed VAT input amounting to P15,605,487 for the year 2017.

Documentary Stamp Tax (DST)
The Company paid DST amounting to P39,922,736 during 2017.

Fire Service Tax (FST)
The Company paid FST amounting to P904,678 during 2017.

Withholding Taxes
The amount of withholding taxes paid/accrued for the year amounted to:

	Amount
Withholding taxes on compensation	13,107,220
Expanded withholding taxes	9,798,274
	22,905,494

Taxes and Licenses
This account consists of:

	Amount
Licenses and fees	1,163,633
Taxes on real estate	80,380
Corporate residence certificate	12,636
	1,256,649

Note 33 - Unrealized gain (loss) on AFS

This account consists of:

	2017	2016
Fair market value, ending	13,813,332	12,134,651
Fair market value, beginning	12,134,651	17,902,163
	1,678,681	**(5,767,512)**

Note 34 - Management of insurance and financial risks

Governance Framework

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

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency positions to meet liabilities arising from claims and that the risk levels are at acceptable levels. The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise).

Financial Risks

The company is exposed to financial risks 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 by setting up exposure limits for each counterparty of 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 sets the maximum amounts and limits that may be advanced to place 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 receivables from them to reduce the risk of doubtful accounts.

The credit quality of the financial assets was determined as follows:

a. Cash and cash equivalent

These are classified as investment grade. These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b. Insurance and other loans and receivables

The Company uses a credit rating concept based on the borrowers overall credit worthiness. Investment grade is given to borrowers and counterparties having good standing in terms of credit and paying habits and their outstanding account balance does not exceed 30% of their total production. Below investment

grade is given to borrowers and counterparties having low standing in terms of credit and paying habits and their outstanding balance exceeds 50% of their total production.

c. Debt securities

These are classified as investment grade. The government debt securities are issued by local government authority and are considered as risk-free debt securities.

d. Equity securities

Listed equity shares are classified as investment grade. Unlisted equity shares are classified as non-investment grade.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2016 and 2015.

Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in arising 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 potential daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company manages liquidity risk by specifying minimum proportion of fund to meet emergency calls; specifying the sources of funding and the events that would trigger the plan; determining concentration of funding sources; reporting of liquidity risk exposure; 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 requirement of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provisions 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 fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and the 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 structure 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; sets out the net exposure limits by each counterparty or group of counterparties, reporting of market risk exposure and breaches; and monitoring compliances with market risk policy and review of market risk policy for pertinence and changing environment.

(a.) Currency Risk

The Company's principal transactions are carried out in Philippines Peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar, as it deals with foreign reinsurers in its settlement of its obligations and receipts of any claim reimbursement.

The Company's financial assets are denominated in the same currencies as its insurance liabilities, which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

(b) Interest Rate Risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in interest rates.

(c) 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, 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, and limits on investment in each sector and market. The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (due to changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

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 that the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, when actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

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 changes in any subset of the portfolio.

The variability if risks is also improved by careful selection and implementation of underwriting strategies, strict claims review policies to assess all new and outgoing 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 also limited its exposure by imposing maximum claims 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 the reinsurance business ceded is placed on quota share basis with retention limits in varying by product line. 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 balance sheets 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 balance sheet dates.

The Company's key management personnel include the President, Senior Vice-President, Department Managers, Supervisors and Officers-in-Charge.

Note 35 - Related party transaction

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.
The Company's related parties include its key management and shareholders.

Note 36 - Capital management and regulatory requirements

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 Model. The Company fully complied with the externally imposed capital requirements during the reported financial periods.

The IC capital requirements are the Margin of Solvency (MOS), Fixed Capitalization Requirements, Risk-Based Capital (RBC) and unimpaired capital requirement.

The operation of the Company is subject to the regulatory requirement of the IC. Such regulations not only prescribe approval and monitoring activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, fixed capitalization requirements, risk-based capital requirements).

Margin of Solvency (MOS)
The company is required to maintain, at all times an MOS equal to P500,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The MOS shall be excess of the value of its admitted assets (as defined under the Code) exclusive of its paid-up capital over the amount of its liabilities, reserve for unearned premiums and reinsurance reserves.

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

If an insurance company failed to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

Fixed Capitalization Requirements

On August 5, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

Networth	Compliance date
₱ 250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

On January 13, 2015, the IC issued the Circular Letter (CL) No. 2015-02-A which provides for the clarification and minimum capital requirement under Sections 194, 197, 200 and 289 of the New Insurance Code. The said circular supersedes the Department Order Nos. 27-06 and 15-2015 and CL Nos. 22-2008 and 26-2008.

The minimum networth requirement must remain unimpaired for the continuance of the license.

Risk-based Capital Requirement

IMC No. 6-2006 provides for the RBC framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every non-life insurance company is annually required to maintain a minimum RBC ratio of 100% and not to fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention, which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth not only to the extent authorized by the IC. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC hurdle rate requirement for a given year to the total number of insurers in the industry.

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

Unimpaired Capital Requirement

IMC 22-2008 provided that for the purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the balance sheet should show that the net worth or stockholders' equity is at least equal to the actual paid-up capital.

Consolidated Compliance Framework

IMC No. 10-2006 integrated the compliance standards for the fixed capitalization and RBC framework. Under this IMC, subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required industry RBC ratio compliance rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2011 which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%. For the review year 2010 which shall be based

on the 2009 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC hurdle rate is 200%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

Note 37 - Contingencies

The Company operates in the insurance industry and has various contingent liabilities arising in the ordinary conduct of business, which are either pending decision by the courts or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have material or adverse effect on the Company's financial position and results of operations.