TEODORO SANTAMARIA CANLAS & CO.
CERTIFIED PUBLIC ACCOUNTANTS

Suite 2108 Cityland 10 Tower 1
156 H. V. Dela Costa Street, Salcedo Village
1226 Makati City, Philippines
Tels.: (632) 869-4309
(632) 856-3649
Tel/Fax No.: (632) 812-4202

Trust Service Commitment

Supplemental Written Statement Accompanying Report of Independent Auditors

The Board of Directors and Stockholders
SGI Philippines General Insurance Company, Inc.
15th Floor, Citibank Tower
8741 Paseo de Roxas
Makati City, Philippines

We have audited the financial statements of **SGI Philippines General Insurance Company, Inc.** for the year ended December 31, 2017, on which we have rendered the attached report dated March 23, 2018.

In compliance with SRC Rule 68, we are stating that the above Company has fifty four (54) stockholders, nineteen (19) of whom owning one hundred (100) or more shares each.

TEODORO SANTAMARIA CANLAS & CO.

By: **Rachel Lydia T. Santamaria**
Partner
CPA License No. 083524
Valid until December 9, 2020
BOA/PRC Registration No. 5593
Valid until December 16, 2020
SEC Accreditation No. 0308-F (Firm)
Valid until April 15, 2018
I.C. Accreditation No. SP 2015-022-R (Individual)
Valid until October 18, 2018
I.C. Accreditation No. SP 2015-002-0 (Firm)
Valid until April 6, 2018
BIR A.N. 08-003408-002-2016
Valid until March 31, 2019
T.I.N. 102-921-088
PTR No. 6618479 / Makati City
January 10, 2018

March 23, 2018
Makati City, Philippines

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Trust Service Commitment

Report of Independent Auditors

The Board of Directors and Stockholders
SGI Philippines General Insurance Company, Inc.
15th Floor, Citibank Tower
8741 Paseo de Roxas
Makati City, Philippines

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying financial statements of **SGI Philippines General Insurance Company, Inc.** ("the Company"), which comprise the statement of financial position as at **December 31, 2017 and 2016**, and the related statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information disclosed in Note 29 of the Notes to financial statements is presented for the purpose of filing with the Bureau of Internal Revenue under Revenue Regulation No. 15-2010 and the supplementary information provided in Schedules 1 and 2 as at December 31, 2017 and for the year then ended as required by the Securities and Exchange Commission under the Securities Regulation Code (SRC) Rule are presented as additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of the management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

TEODORO SANTAMARIA CANLAS & CO.

By: **Rachel Lydia T. Santamaria**
Partner
CPA License No. 083524
Valid until December 9, 2020
BOA/PRC Registration No. 5593
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SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF FINANCIAL POSITION

	Notes	December 31 2017	2016
		(In Philippine Peso)	
Assets			
Cash and cash equivalents	7	**246,124,106**	212,018,586
Insurance receivables	8	**325,063,591**	365,106,625
Loss reserve withheld by ceding companies	8	**4,150,048**	8,016,872
Available-for-sale financial assets	9	**325,985,771**	133,734,938
Property and equipment - net	10	**39,907,829**	41,973,712
Deferred acquisition cost	11	**346,573**	3,670,575
Deferred reinsurance premium	12	**19,632,878**	31,211,179
Deferred tax assets	25	**13,678,659**	9,387,155
Other assets	13	**9,419,282**	7,149,101
Total Assets		**984,308,737**	812,268,743
LIABILITIES AND EQUITY			
Liabilities			
Insurance liabilities	14	**231,335,987**	396,907,089
Accounts and other payables	15	**5,280,970**	14,447,341
Retirement benefit liability	23	**437,251**	463,680
Deferred tax liability	25	**103,972**	1,101,173
Income tax payable		**-**	-
Total liabilities		**237,158,180**	412,919,283
Equity			
Common stock	16	**710,457,200**	350,457,200
Share premium	16	**26,835,235**	26,835,235
Deposit for future subscription	16	**4,864,008**	-
Revaluation reserve on AFS financial assets	9	**33,480**	(284,580)
Actuarial gains on retirement benefit liability, net	17	**728,520**	498,873
Revaluation increment in property	10	**16,661,614**	17,494,694
Retained earnings	16	**(11,972,300)**	4,805,238
Treasury shares	16	**(457,200)**	(457,200)
Total equity		**747,150,557**	399,349,460
Total Liabilities and Equity		**984,308,737**	812,268,743

See accompanying notes to financial statements.

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SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF PROFIT

	Notes	2017	2016
		For the years ended December 31	
		(In Philippine Peso)	
Revenues			
Gross premiums written	18	**31,944,809**	129,019,686
Reinsurance premium ceded	18	**(31,939,064)**	(65,207,465)
Net premiums retained		**5,745**	63,812,221
Decrease in reserve for unearned premiums	18	**23,456,736**	1,172,611
Premiums earned		**23,462,481**	64,984,832
Commissions earned	18	**9,489,938**	8,901,214
Gross underwriting income	18	**32,952,419**	73,886,046
Underwriting deductions	19	**(33,499,662)**	(53,799,311)
Net underwriting (loss)/ income		**(547,243)**	20,086,735
Other income	20	**17,189,465**	11,218,935
Gross profit		**16,642,222**	31,305,670
Operating Expenses			
General and administrative expenses	21	**(18,768,576)**	(24,571,792)
Interest expense		**(2,073,535)**	(1,849,974)
Total expense		**(20,842,111)**	(26,421,766)
Net (loss)/ income		**(4,199,889)**	4,883,904
Income Tax Benefit/ (Expense)	25		
Current		-	-
Final		**(3,113,911)**	(2,343,029)
Deferred		**5,951,774**	2,020,110
		2,837,863	(322,919)
Net (loss)/ profit		**(1,362,026)**	4,560,985
(Loss)/ Earnings Per Share	26	**(1.03)**	5.21

See accompanying notes to financial statements.

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	**For the years ended December 31** **2017**	2016
		(In Philippine Peso)	
Net (loss)/ profit		**(1,362,026)**	4,560,985
Other comprehensive income that recycle to profit or loss in subsequent periods:			
Reversal/Impairment loss on AFS investment	9	**318,060**	(284,580)
Other comprehensive income that do not recycle to profit or loss in subsequent periods:			
Actuarial gain/ (loss) on retirement benefit plan	17	**229,647**	(90,149)
Total comprehensive (loss)/ income		**(814,319)**	4,186,256

See accompanying notes to financial statements.

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.

(A Non-life Insurance Company)

STATEMENTS OF CHANGES IN EQUITY

	Common stock (Note 16)	**Share premium** (Note 16)	**Treasury shares** (Note 16)	**Deposit for future subscription** (Note 16)	**Revaluation reserve on AFS financial asset** (Note 9)	**Revaluation increment on property and equipments** (Note 10)	**Actuarial gain/(loss) on retirement benefit obligation** (Note 17)	**Retained Earnings** (Note 16)	**Total**
	(In Philippine Peso)								
Balances, January 1, 2016	350,457,200	26,835,235	(457,200)	-	-	18,327,774	589,022	1,339,963	397,091,994
Expired excess MCIT (Note 25)	-	-	-	-	-	-	-	(262,375)	(262,375)
Expired NOLCO (Note 25)				-				(696,053)	(696,053)
Adjustments	-	-	-	-	-	-	-	(137,282)	(137,282)
Depreciation of property and equipment	-	-	-	-	-	(833,080)	-	-	(833,080)
Total comprehensive income	-	-	-	-	(284,580)	-	(90,149)	4,560,985	4,186,256
Balances, December 31, 2016	350,457,200	26,835,235	(457,200)	-	(284,580)	17,494,694	498,873	4,805,238	399,349,460
Additional Capital Stock during the year	360,000,000	-	-	-	-	-	-	-	360,000,000
Deposits for future subscription	-	-	-	4,864,008	-				4,864,008
Total comprehensive income	-	-	-	-	318,060		229,647	(1,362,026)	(814,319)
Expired excess MCIT (Note 25)	-	-	-	-				(564,650)	(564,650)
Adjustments	-	-	-	-	-	-	-	(14,850,862)	(14,850,862)
Depreciation of property and equipment	-	-	-	-	-	(833,080)			(833,080)
Balances, December 31, 2017	**710,457,200**	**26,835,235**	**(457,200)**	**4,864,008**	**33,480**	**16,661,614**	**728,520**	**(11,972,300)**	**747,150,557**

See accompanying notes to financial statements.

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF CASH FLOWS

	Notes	For the years ended December 31 **2017**	 2016
		(In Philippine Peso)	
Cash flows from operating activities			
Profit before income tax		**(4,199,889)**	4,883,904
Adjustments for:			
Depreciation	21	**1,339,075**	1,416,036
Decrease/ (Increase) in deferred acquisition costs	11	**3,324,002**	(7,096,449)
Decrease in reserve for unearned premiums	18	**23,456,736**	1,172,611
Reversal of allowance on impairment losses		**(318,060)**	-
Fair value adjustment on AFS financial assets	9	**748,065**	1,504,728
Interest income	20	**(14,887,008)**	(10,213,163)
Retirement benefit expense/ (income)	21, 23	**301,638**	(783,495)
Interest expense on notes payable			-
Operating income/ (loss) before working capital changes		**9,764,560**	(9,115,828)
Decrease/ (Increase) in insurance receivables	8	**40,043,034**	(187,806,974)
Decrease/ (Increase) in loss reserve withheld by ceding com	8	**3,866,824**	(1,250,283)
(Increase)/ Decrease in other assets	13	**(2,270,181)**	1,424,930
(Decerase)/ Increase in insurance contract liabilities	14	**(177,449,537)**	217,924,540
(Decerase)/ Increase in accounts and other payables	15	**(9,166,371)**	2,818,833
Net cash (used in)/ provided by operations		**(135,211,671)**	23,995,218
Income taxes paid	25	**(2,795,853)**	(2,754,302)
		-	
Net cash provided by operating activities		**(138,007,524)**	21,240,916
Cash flows from investing activities			
(Acquisition)/ Maturity of government bonds	9	**(192,680,838)**	41,808,000
Acquisition of property and equipment	10	**(106,272)**	(10,714)
Increase in capital stock		**360,000,000**	-
Increase in deposit for future subscriotion		**4,864,008**	-
Interest income earned	20	**14,887,008**	10,213,163
Net cash provided by investing activities		**186,963,906**	52,010,449
Net increase in cash and cash equivalents		**48,956,382**	73,251,365
Prior period adjustment		**(14,850,862)**	-
Cash and cash equivalents, January 1	7	**212,018,586**	138,767,221
Cash and cash equivalents, December 31	7	**246,124,106**	212,018,586

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
(Amounts in Philippine Peso Unless Otherwise Stated)

1. Corporate information

SGI Philippines General Insurance Company, Inc. (the Company) is a domestic corporation which was incorporated in the Philippines on April 2, 1964.

The company is engaged in the business of nonlife insurance indemnifying any person against loss, damage, or liability arising from unknown or contingent events. Its current lines include all kinds of insurance (except life), reinsurance, insurance on buildings, automobiles, cars, and other motor vehicles goods and merchandise, goods in transit, goods in storage, fire insurance, earthquake, insurance against accident, and all other forms of undertakings.

As at December 31, 2017, the Company's total paid-up capital is 75.9% owned by Shriram General Insurance Co. Ltd., a corporation organized under the laws of India. The ownership of the rest of the stockholders ranges from less than 1% to 5.97%.

The registered office and principal address of the Company is at 15th Floor, Citibank Tower, 8741 Paseo De Roxas, Makati City, Philippines.

2. Summary of significant accounting policies

Statement of compliance
The accompanying financial statements were prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), Interpretation of the Philippine Interpretations Committee (PIC), Standing Interpretation Committee (SIC), and International Financial Reporting Standards Interpretations Committee (IFRS IC) which have been adopted by the Financial Reporting Standards Council (FRSC) and approved by the Board of Accountancy (BOA) and the SEC.

Basis of preparation
The accompanying financial statements have been prepared on a historical cost convention method, as modified for available for sale financial assets. The preparation of the financial statements in accordance with PFRS requires the use of critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed in Note 3.

Functional and presentation currency
These financial statements are presented in Philippine Peso, the Company's functional currency and all values are rounded to the nearest Peso, except when otherwise indicated.

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

- Amendments to PAS 7, Disclosure Initiative. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users to financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

- Amendments to PAS 12, Recognition of Deferred Tax Assets for Unrealized Losses. The amendments clarify that:

  The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

  The calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is possible that the entity will achieve this; and

  An entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

<u>Future Adoption of New or Revised and Amendments to Standards</u>
The Company will adopt the following new standards and amendment to standards when these become effective and applicable. Except as otherwise indicated, the Company does not expect the adoptions of these new standards and amendment to standards to have significant effect on the financial statements.

Effective January 1, 2018

- PFRS 9, Financial Instruments (2014 or final version). In July 2014, the final version of PFRS 9, Financial Instruments, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

- Amendments to PFRS 2, Classification and Measurement of Share-Based Payment. The amendments clarify that:

  Cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method.

  A share-based payment transaction with employees is accounted for as equity-settled if: the terms of the arrangement permit or require a company to settle the transaction net by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature; and

The modification of awards from cash-settled to equity-settled, at the modification date the liability for the original cash-settled share-based payment is derecognized; the equity-settled share-based payment is measured at its fair value as at the modification date, and recognized to the extent that the goods or services have been received up to that date.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

- Philippine Financial Reporting Standards (PFRS) 15, Revenue from Contracts with Customers. IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January l, 2018 with early adoption permitted. The Company is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date.

Effective January 1, 2019

- PFRS 16, Leases. PFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted if PFRS 15 Revenue from Contracts with Customers has also been applied. PFRS 16 standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with PFRS l 6’s approach to lessor accounting substantially unchanged from PAS 17. The Company is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date.

<u>IC Circular Letter (ICL) No. 2016-67</u>
On December 28, 2016 the IC issued IC Circular Letter (ICL) No. 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves,* which supersedes Circular Letter No. 2015-32. The following are the more significant provisions of this Circular:

A non-life insurance company shall maintain reserves for its written policies, which shall be charged as a liability in any determination of its financial condition, as required by the IC, in accordance to Sections 219 and 220 of the New Insurance Code (RA 10607), as well as this Valuation Standards for Life Insurance Policy Reserves.

Claims Liabilities

a. Claims liabilities for both direct business and assumed treaty and facultative reinsurance business shall be calculated as the sum of outstanding claims reserve, claims handling expense and IBNR, with MfAD.

b. Outstanding claims reserve shall be based on actual claims reported but have not been settled as of valuation date. The company shall ensure integrity of the data inputs as well as minimize uncertainties in the claims processing.
c. The IBNR shall be calculated based on standard actuarial projection techniques or combinations of such techniques, such as but not limited to the chain ladder approach, the expected loss ratio approach, and the Bornhuetter-Ferguson (BF) method. The Actuary shall determine the appropriateness of the methodology considering the characteristics of the data, such as maturity of the business.
d. The Claims liabilities shall include a provision for Claims handling expenses, which covers the estimated expenses of settling all claims, both reported and unreported, outstanding as of valuation date.
e. The Actuary shall ensure the reliability of the expected loss ratio by obtaining estimates from various sources, such as underwriters, the business plan, pricing actuaries, market statistics, or from a historic view of profitability and loss ratios.
f. In valuing Claims liabilities, the Actuary should consider other factors such as but not limited to: varying expense structure in run-off situations, large losses arising from significant past events, operational changes in claims management, underwriting changes such as business mix and premium rate changes, changes in reinsurance program and changes in claims handling process, and external conditions.
g. To ensure sufficiency of reserves, the Actuary shall conduct a back-testing exercise of the IBNR by comparing the previous year's IBNR of expected current year claim developments, with actual current year claim developments. In cases where the IBNR has proven insufficient to cover actual claims development, the Actuary shall revisit the assumptions for IBNR valuation and document the rationale for this deterioration.

<u>IC Circular Letter (ICL) No. 2016-69</u>
On December 28, 2016 the IC issued IC Circular Letter (ICL) No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves, and Amended Risk-Based Capital (RBC2) Framework.*

The following are the more significant provisions of this Circular:

1. Financial Reporting Framweork (FRF): CL No. 2016-65.
2. Valuation Standards for Life Insurance Policy Reserves: CL No. 2016-66
3. Valuation Standards for Non-Life Insurance Policy Reserves: CL No. 2016-67.

For the initial year of implementation, the requirements will be the relaxed as follows:

Premiums Liabilities

For 2017, companies shall be allowed to set up as Premium Liabilities the Unearned Premium Reserves (UPR) instead of the higher of the UPR and Unexpired Risk Reserve (URR), determined in accordance with Section7.2 of the Circular Letter No. 2016-67.

Starting 2018, the Premium Liabilities shall be determined in accordance with the valuation standards prescribed under the Circular Letter No. 2016-67.

Claims Liabilities

Claims Liabilities shall be determined in accordance with the valuation standards prescribed under Section 8 of CL No. 2016-67.

For 2017, the companies shall be allowed to set the Margin for Adverse Deviation (MfAD) to zero (0).

IC Circular Letter (ICL) No. 2018-19
On March 9, 2018 the IC issued IC Circular Letter (ICL) No. 2018-19, *Amendment to Circular Letter No. 2016-69 "Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves, and Amended Risk-Based Capital (RBC2) Framework."*

The following are the more significant provisions of this Circular:

Margin for Adverse Deviation

MfAD shall be company-specific. The companies shall submit to the IC the documents and certification signed by an IC-accredited actuary to support the computation of their MfAD.

Companies shall be allowed to set the MfAD as follows:

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

This amendatory circular shall take effect immediately. Except as amended herby, all other provisions of CL No. 2016-69 shall remain effective.

The above ICLs become effective on January 1, 2017. The Company assesses the effect of this circular and has made disclosures in the notes to the financial statement based on its parallel run as of December 31, 2017 and 2016.

Significant accounting policies

Cash and cash equivalents
Cash includes cash on hand and with 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 from dates of acquisition and that are subject to an insignificant risk of changes in value.

Foreign currency translation
Transactions in foreign currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income, the gain or loss is then recognized net of the exchange component in other comprehensive income.

Financial instruments
Date of recognition
Financial instruments are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of the instrument. All regular way of purchases or sales of financial assets are recognized on the trade date, which is the date the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). All financial assets are initially measured at fair value plus transaction costs, except for financial instruments valued at fair value through profit or loss (FVPL). Financial assets are classified as either financial assets at FVPL, loans and receivables, held to maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities are classified as financial liabilities at FVPL, and other financial liabilities at amortized cost. The classification depends on the purpose for which the financial instruments were acquired and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Company has no financial asset and liabilities at FVPL, HTM investments or derivatives for the years ended December 31, 2017 and 2016.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interest, dividends, gains and losses relating to a financial instrument or component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

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 held for trading. Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, 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 and costs that are an integral part of the effective interest rate. The amortization is included under “Investment Income” account in profit or loss. The losses arising from impairment are recognized in Provision for impairment in the statements of comprehensive income.

Loans and receivables are included in current assets if maturity is within twelve (12) months from reporting period or in the next normal operating cycle of the Company, otherwise these are classified as non-current assets.

As of December 31, 2017 and 2016, the Company’s loans and receivables include cash and cash equivalents, and other assets.

Other financial receivables
Other financial receivables include “Insurance receivables” which are recorded when due and measured at the original invoice amount then subsequently carried at amortized cost less allowance from any uncollectible amount. The carrying value of insurance receivables is reviewed from impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in the Statement of comprehensive income.

Available for sale financial assets
Available for sale (AFS) financial assets or investments are nonderivative financial assets which are designated as AFS such or do not qualify to be classified or designated as financial assets at FVPL, HTM investments or loans and receivables. AFS financial assets or investments are purchased and held indefinitely, and may be sold in response to liquidity

requirements or changes in market conditions. AFS investments include equity investments, money market papers and other debt instruments.

After initial measurement, AFS financial assets or investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. The impact of restatement of foreign-currency denominated AFS equity securities is recorded in the equity section of the statements of financial position. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and will be reported as “Net unrealized gains/losses on AFS financial assets” in the statement of comprehensive income and in the equity section of the statements of financial position.

When an AFS financial asset is disposed of, the cumulative gain or loss previously recognized in the equity section of the statement of financial position is recognized in the profit or loss in the statement of comprehensive income Where the Company holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Interest earned on holding AFS debt securities are reported in profit or loss in the statement of comprehensive income as ‘Interest income’ using effective interest rate. Dividends earned on holding AFS equity securities are recognized in statements of comprehensive income when the right of the payment has been established. The losses arising from impairment of such investments are recognized as ‘Provision for credit losses’ in the profit or loss in the statements of comprehensive income and removed from ‘Changes in fair values of AFS financial assets’ in other comprehensive income.

<u>Derecognition of financial assets</u>
A financial asset (or, where applicable a part of a financial asset or part of a 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 of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a ‘pass-through’ arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset 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 Company could be required to repay.

<u>Impairment of financial assets</u>
The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset (as incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or

the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the debtors or group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with default.

<u>Impairment of financial assets at amortized cost</u>
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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 of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the statements of comprehensive income. The asset together with the associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

<u>Impairment of AFS financial assets</u>
The Company assesses at each reporting date whether there is objective evidence that an AFS financial asset or a group of AFS financial assets is impaired. For equity investments classified as AFS financial assets, objective evidence of impairment would include a significant or prolonged decline in fair value of the investments below its cost. Significant decline in fair value is evaluated against the original cost of investment, while prolonged decline is assessed against the periods in which the fair value has been below its original 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 the statement of comprehensive income, is removed from the other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed in the statement of comprehensive income. Increases in fair value after impairment are recognized in other comprehensive income.

<u>Impairment of insurance receivable</u>
A provision for impairment is made when there is objective evidence (such as probability of insolvency or significant financial difficulties of the debtor) that the company will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Fair value measurement

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

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

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

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liability and the level of the fair value hierarchy.

Other financial liabilities

Issued financial instruments or their components, which are not classified as financial liabilities 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 lender, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest 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. The amortization is included as part of interest expense in the statements of comprehensive income. Any effect of restatement of foreign currency-denominated liabilities is recognized in foreign exchange gains/(losses) account in the statements of comprehensive income.

As at December 31, 2017 and 2016, the Company's other financial liabilities include insurance liabilities and accounts and other payables.

Derecognition of financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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 exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

Offsetting of financial instruments
Financial assets and liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and the liability simultaneously. The legally enforceable right must not be contingent in future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Product classification
Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF or when the host insurance contract and/or investment contract with DPF itself is measured at FVPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments are clearly and closely related to the host insurance and therefore not bifurcated subsequently. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of an interval investment fiend meets the definition of an insurance contract and is therefore not accounted separately from the host insurance contract.

Insurance contract
Non-Life insurance contract liabilities. Non-life insurance contract are recognized when the contracts are entered into and the premiums are recognized. The reserve for Non-life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where he assumptions used depend on the circumstances prevailing in each life operation. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by the Insurance Commission.

Insurance contracts with fixed and guaranteed terms. The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The ability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued. The Company has different assumptions for different products. However, liabilities for contractual benefits are computed to comply with statutory requirements, which require discount rates to be not more than 6% compound interest and mortality and morbidity rates to be in accordance with the standard table of mortality and morbidity. Reserves are computed per thousand of sum insured and depend on the issue age and policy duration. The net change in legal policy reserves during the year is taken to profit or loss. This is not applicable to the Company.

Contract classification
The company issues short-term insurance contracts categorized as:

Casualty insurance contracts protect the assured against the risk of causing them harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events.

Property insurance contracts mainly compensate the Company's assured for damages suffered to their properties or for the value of property lost.

Short-duration accident insurance protects the assured from the consequences of events such as death or disability.

An insurance contract remains in force at the inception date of policy until its maturity regardless of number of claims reported and for as long as the coverage is sufficient.

Deferred acquisition costs
Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts such as commissions, certain underwriting and policy issue costs and inspection fees, are deferred and charged to expense in proportion to premium revenue recognized.

Claim cost recognition
Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur.

The liabilities for unpaid claims (including those for incurred but not reported) are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in the Statement of comprehensive income and expenses in the period the recoveries are determined. Recoverable amounts are presented as part of Reinsurance assets.

Estimated recoveries on settled and unsettled claims are evaluated in terms of the estimated realizable values of the salvage recoverable and deducted from the liability for unpaid claims.

Liability adequacy test
At each reporting date, liability adequacy test are performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of all contractual cash flows, claims and claims handling cost. If the test shows that the liability is inadequate, the entire deficiency is recognized in the statement of comprehensive income.

Reinsurance
The Company utilizes reinsurance agreements to minimize its exposure to large losses in all aspects of its insurance business. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risks reinsured.

Amounts recoverable from insurers that relate to paid and unpaid claims and claim adjustment expenses are classified as assets. Reinsurance receivables and the related liabilities are reported separately.

Reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs.

An impairment review is performed at each reporting period or more frequently when indication of impairment arises during the 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 receives from the reinsurer can be measured reliably. The impairment loss is recorded is charged to profit or loss.

The Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized 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 balance due to reinsurance companies, which are included in insurance payable account in the Statement of financial position. Amounts payable are estimated in a manner consistent with the associated insurance contract.

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

Property and equipment

Property and equipment, including owner-occupied properties, are computed at cost less accumulated depreciation, amortization and accumulated impairment in value. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Office premises and improvements	40 years
Furnitures and office equipment	10 years
Transportation and computer equipment	5 years

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to operations as incurred. Leasehold improvements are amortized over estimated useful life of the improvements or the term of the relate lease, whichever is shorter. When assets are sold, retired or otherwise disposed of, their cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss charged to current operations.

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each reporting period.

Derecognition 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 comprehensive income in the year the item is derecognized. This is not applicable to items that still have useful lives but are currently classified as idle. Depreciation continues for those items until fully depreciated or disposed.

Impairment of Non-financial Assets

At each reporting date, the Company assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists (or when annual impairment testing for an asset is required), the Company estimates the recoverable amount of the impaired assets. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is the present value of future cash flows expected to be derived from an asset while fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable and willing parties less cost of disposal. Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset 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 assessment of the time value of money and the risks specific to the asset.

An impairment loss is charged to profit or loss in the period when it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged directly to the revaluation increment of the said asset.

For non-financial assets, 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 net 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 net recoverable amount. The reversal can be made only to the extent that the resulting carrying value does not exceed the carrying value that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation 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.

Related party relationships and transactions
Parties are considered to be related if one party has the ability to control or exercise significant influence over the party in making financial and operating decisions. This includes: (1) individual owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Company; (2) associates; (3) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

Transactions between related parties are accounted for at arms' length prices or on terms similar to those offered to non-related entities in an economically comparable market.

Equity
Capital stock is determined using the nominal value of shares that have been issued.
Share premium represents the excess of consideration received when the Company issues shares over its par. Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC.

Treasury shares are portion of shares that a company keeps in their own treasury. Treasury stock may have come from a repurchase or buyback from shareholders; or it may have never been issued to the public in the first place. These shares don't pay dividends, have no voting rights, and should not be included in shares outstanding calculations.

Revaluation reserve on AFS financial assets comprise of gains and losses due changes in fair value of available-for-sale financial assets.

Revaluation increment in property and equipment results from appraisal of property and equipment reduced by depreciation on the appraisal increment.

Retained earnings/ (deficit) include all current and prior period results as disclosed in the Statement of comprehensive income.

Revenue recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognized.

- Premiums are recognized as revenue from short duration insurance contracts over the period of the contracts using the 24^{th} method, except for marine cargo insurance contracts. The gross premiums written for marine cargo insurance policies for the first ten months of the year and the last two months of the preceding year are recognized as premium income in the current year. The portion of the premiums written that relate to the unexpired periods of the policies at Reporting periods and the last two months of marine cargo policies are accounted for as reserve for unearned premiums and presented in the liabilities section of the Statement of financial position, under "Reserve for unearned premiums". The related reinsurance premiums that pertain to the unexpired periods accounted as for as deferred reinsurance premiums shown in the Statement of financial position. The net changes in these accounts between Reporting period are charged to or credited against income for the year;

- Commissions income are recognized as revenue from short duration insurance contracts over the period of the contracts using the 24th method, except for marine cargo insurance contracts where the deferred portion pertains to the commissions for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the reporting period is accounted for as "Deferred reinsurance commissions" and presented in the liabilities section of the statement of financial position.

- Dividend income is recognized when the right to receive dividends is established;

- Interest income is recognized as the interest accrues (taking into account the effective yield on the interest);

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for the services provided, excluding value added tax (VAT).

<u>Expense recognition</u>
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease equity, other than those relating to distributions to equity participants. Expenses are recognized when the related revenue is earned or when the service is incurred.

<u>Leases</u>
The determination of whether an arrangement is based on the substance of arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A restatement is made after the inception of the lease only if one of the following applies:

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

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

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

<u>Retirement benefit costs</u>
Retirement benefits liability, as presented in the statement of financial position, is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, if any, adjusted for the effect of limiting a net defined asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under defined benefit plan is actuarially determined using the projected unit credit method. The retirement benefit costs comprise of the service cost, net interest on the net defined liability or asset and the remeasurements of net defined liability or assets.

Service costs which include service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendments or curtailments occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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

<u>Income taxes</u>
Current tax assets or liabilities comprise those claims from, or obligation to, taxation authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the calendar periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the Statement of comprehensive income.

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

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused net operating loss carry over (NOLCO) and unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax, if there are any, to the extent that it is probable that taxable profit will be available against deductible temporary differences.

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

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

Under the present Revenue Code, MCIT of two percent (2%) of the gross income as of the end of the taxable year is hereby imposed on a corporation beginning on the fourth year immediately following the year in which such corporation commenced its business operations, when the income tax computed based on MCIT is greater than the tax computed as normal tax under Subsection (A) of Section 27 of the Code, for the taxable year.

Under current tax laws, corporations subject to income tax are required to file quarterly returns and pay the corresponding amount of tax. Certain forms of income received by the Company such as earnings from bank deposits, interest and others have been subjected to withholding tax at various rates specified by law and remitted by payors for the account of the Company. An adjustment return is filed at the end of the taxable year at which time the balance, if any, shall be paid.

Earnings per share
Earnings per share is computed by dividing net profit by the weighted average number of shares subscribed and issued and outstanding at the end of the year.

Provisions and contingencies
Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required if settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each reporting period and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements, however, they are disclosed if material. In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

Events after the reporting period
Events after the reporting period that provide additional information about the Company's financial position at the reporting period (adjusting events) are reflected in the financial statements. Post year-end events are disclosed in the notes when material.

3. Significant accounting judgments and estimates

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

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

Determination of functional and presentation currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Philippine pesos, which is the Company's functional and presentation currency.

Determination of operating lease
Company as a lessee – The Company entered into a lease agreement with a term of one (1) year and renewable upon mutual terms by the parties.

Rental expense amounted to P903,157 in 2017 and P1,362,464 in 2016 (Please see Note 21).

Categories of financial instruments
The company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument based on the substance of the contractual arrangement and the definitions of financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification at initial recognition and re-evaluates this designation at every financial reporting date (Please see Note 5).

Impairment of financial assets
The Company follows the guidance of PAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its costs; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Provisions and contingencies
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2 – Provisions.

Estimates
The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances of the Company's financial statements. Actual results could differ from those estimates. The following are the relevant estimates performed by Management on its December 31, 2017 and 2016 financial statements:

Valuation of financial instruments
The Company carries certain financial instruments at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence from observable active markets and other valuation techniques including the use of mathematical models. However, the amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

Management valuation methods and assumptions in determining the fair value of the Company's financial instrument are discussed in Note 5.

Allowance for impairment losses of receivables
Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

Allowance for impairment losses amounted P3,745,805 in both 2017 and 2016. (Note 8)

Useful life of property and equipment
The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

Property and equipment, net of accumulated depreciation, amounted to 39,907,829 in 2017 and P41,973,712 in 2016. (Please see Note 10).

Impairment of non-financial assets
PFRS requires that an impairment review be performed when certain impairment indicators are present. The Company's policy on estimating the impairment of non-financial asset is discussed in detail in Note 2 – Impairment of non-financial assets. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations. Based on Management's assessment, there is no impairment loss on non-financial assets needed to be recognized in 2017 and 2016.

Realizable amount of deferred income tax assets
The Company reviews its deferred income tax assets at each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets amounted to P13,678,659 and P9,387,155 in 2017 and 2016, respectively (Please see Note 25).

Liability for insurance claims
Estimates have been made both of expected ultimate cost of claims reported at the reporting period and for the expected ultimate cost of the claims incurred but not yet reported at the reporting period. It can take significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, unreported claims significantly comprise the claims payable presented in the Statement of financial position. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to the Statement of comprehensive income at a non-discounted amount for the time value of money.

Insurance claims payable of December 31, 2017 and 2016 amounted to P169,399,142 and P272,655,122, respectively. (Please see Note 14).

Employee retirement benefits
The determination of the Company's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by an actuary in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expenses and recorded obligation in such future periods.

The estimated retirement benefits obligation amounted to P437,251 in 2017 and P463,680 in 2016. The accumulated actuarial gain, net of tax, amounted to P728,520 and P498,873 in 2017 and 2016, respectively. Retirement benefit expense amounted to P301,638 in 2017 and retirement benefits income amounted to P783,495 in 2016. An actual payment of retirement expense to the employees not covered by the retirement fund amounted to P272,200 in 2016.

4. Risk management objectives and policies

The Company is exposed to a variety of financial risk in relation to its financial instruments. The Company's financial assets and liabilities by category are summarized in Note 5. The main types of risks are insurance risk, market, credit and liquidity.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write option. The most significant financial risks to which the Company is exposed to are described as follows.

Insurance risk
The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under the insurance contracts is that actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency of the severity of claims and benefits are greater than estimated.

Insurance events are random and then the actual number of the amount of claims and benefits will vary from year to year from the estimated established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in the subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Apart from the Company's risk management function, regulators also apply a vital role in the insurance industry in ensuring that policyholders and creditors are assured of any claims that may arise within the term of the policy. The Insurance Commission (IC) imposes:

- Risk-based capital framework that will effectively manage the equity requirement of the Company
- Margin of solvency which requires an appropriate ratio of admitted assets over admitted liabilities
- A mandatory reserve of highly-liquid debt instruments to answer the claims of policyholders and creditors
- And minimum statutory net worth to streamline the operation of insurance industry.

Internally, the Company manages its risks through underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured events. Other reinsurance facility entered includes surplus treaties, catastrophe cover and facultative reinsurance.

The concentration of insurance claims as of December 31, 2017 and 2016 are as follows:

	2017			
	Gross	RI Recoverable	Net Liability	%
Fire	107,215,448	87,831,444	19,384,004	39%
Engineering	31,141,629	19,729,327	11,412,301	23%
Bonds	18,251,000	7,950,000	10,301,000	20%
Motor Car	6,642,195	818,726	5,823,470	12%
Marine	851,000	690,625	160,375	0%
PA	11,000	1,000	10,000	0%
Medical	-	-	-	0%
Miscellaneous	5,286,870	2,119,388	3,167,482	6%
	169,399,142	119,140,510	50,258,632	100%

	2016			
	Gross	RI Recoverable	Net Liability	%
Fire	199,674,023	184,900,962	14,773,061	34%
Engineering	40,910,961	27,305,086	13,605,875	31%
Bonds	13,250,000	7,950,000	5,300,000	12%
Motor Car	9,541,237	2,870,819	6,670,418	15%
Marine	850,000	690,625	159,375	0%
PA	636,997	-	636,997	1%
Medical	-	-	-	0%
Miscellaneous	7,791,904	4,983,530	2,808,374	6%
	272,655,122	228,701,022	43,954,100	100%

Financial risk
The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets may not be 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.

The risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

Market risk
The Company is exposed to market risk through its use of financial instruments and specifically to interest rate risk which result from both operating and financing activities.

Interest rate risk
Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. Changes in interest rates affect (1) the Company's earnings by changing its net interest income and the level of other interest rate-sensitive income and operating expenses; and (2) the underlying economic value of the Company's assets, liabilities and off-balance sheet instruments by means of reducing the present value of future cash flows (and in some cases, the cash flows themselves). The Company exposure to changes in market interest rates is only through the "Cash in bank", "Cash equivalents" and "Government bonds", which is subject to variable interest rates.

The following table demonstrates sensitivity of the Company's profit before tax and equity to reasonable possible changes in interest rate of +10/-10 and +100/-100 basis points of the Company's cash in banks and notes payable, respectively, on December 31, 2017 and 2016. These changes are considered to be reasonably possible based on observation of current market conditions. All other variables are held constant.

	Change in	Effect on		Change in	Effect on	
	basis points	Net results	Equity	basis points	Net results	Equity
2017						
Financial assets						
Cash and						
cash equivalents	+10	3,212,064	2,569,651	-10	(3,212,064)	(2,569,651)
Government bonds	+100	23,159,955	18,527,964	-100	(23,159,955)	(18,527,964)
		26,372,019	21,097,615		(26,372,019)	(21,097,615)
2016						
Financial assets						
Cash and						
cash equivalents	+10	2,611,281	2,089,025	-10	(2,611,281)	(2,089,025)
Government bonds	+100	13,376,318	10,701,054	-100	(13,376,318)	(10,701,054)
		15,987,599	12,790,079		(15,987,599)	(12,790,079)

Foreign currency risks
The Company has no significant exposure to foreign currency risk as most transactions are denominated in Philippine Peso, its functional currency.

Credit risks
Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligation, as and when they fall due.

Credit risk limit is also used to manage credit exposure which specifies exposure credit limit for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

Key areas where the Company is exposed to credit risk are:

- Reinsurer's share of insurance premiums.
- Amounts due from reinsurer's in respect of claims already paid.
- Amounts due from insurance contract holders, and insurance intermediaries.

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

Limits on the level of credit risk by category and territory are approved quarterly by the reinsurance department. Reinsurance is used to manage insurance risk. This does not however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to policyholder.

The credit worthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

The table below shows the credit quality of financial assets as at December 31, 2017 and 2016:

2017	**High Grade**	**Standard Grade**	**Low Grade**	**Gross impaired**	**Allowance for impairment**	**Total**
Cash and cash equivalents	246,124,106	-	-	-	-	246,124,106
Insurance receivable	211,348,811	3,969,616	109,745,164	3,745,805	(3,745,805)	325,063,591
Loss reserve withheld by ceding companies	4,150,048	-	-	-	-	4,150,048
AFS financial assets	324,356,865	-	1,628,906	-	-	325,985,771
	785,979,830	3,969,616	111,374,070	3,745,805	(3,745,805)	901,323,516

2016	**High Grade**	**Standard Grade**	**Low Grade**	**Gross impaired**	**Allowance for impairment**	**Total**
Cash and cash equivalents	212,018,586	-	-	-	-	212,018,586
Insurance receivable	245,570,926	16,804,207	102,731,492	3,745,805	(3,745,805)	365,106,625
Loss reserve withheld						-
by ceding companies	8,016,872	-	-	-	-	8,016,872
AFS financial assets	132,424,092	-	1,310,846	-	-	133,734,938
	598,030,476	16,804,207	104,042,338	3,745,805	(3,745,805)	718,877,021

High grade receivables pertain to receivables with high collectivity, standard and low grade receivables consists of receivable with delay in payments. High grade AFS consists of government bonds and investment in quoted equities, standard grade pertain to investment in unquoted equity shares and low grade pertain to garnished investment in bonds.

As of December 31, 2017 and 2016, the carrying amount of insurance receivables represents the maximum credit exposures, which is aged as follows:

	Premium due and uncollected	Reinsurance recoverable on losses	Due from ceding companies and reinsurer	Total
2017				
Current	190,349	210,968,006	190,456	211,348,811
30 days past due not over 90 days	255,613	-	2,452,209	2,707,821
90 days past due not over 120 days	101,364	-	1,160,430	1,261,794
Over 120 days	67,334,089	-	42,411,075	109,745,164
Total	67,881,415	210,968,006	46,214,170	325,063,591

	Premium due and uncollected	Reinsurance recoverable on losses	Due from ceding companies and reinsurer	Total
2016				
Current	24,034	245,000,071	-	245,024,105
30 days past due not over 90 days	545,010	-	1,811	546,821
90 days past due not over 120 days	2,033,611	-	698	2,034,309
Over 120 days	71,806,199	-	45,695,191	117,501,390
Total	74,408,854	245,000,071	45,697,700	365,106,625

<u>Liquidity risks</u>

Liquidity risks or funding risks are the risks that the Company will encounter in raising funds to meet its commitments and obligations. Liquidity risks may result from difficulty in collections or inability to generate cash inflows as anticipated.

The Company’s objective in managing its profile is:

- to ensure that adequate funding is available at all times;
- to meet commitments as they arise without incurring unnecessary cost;
- to be able to access funding when needed at the least possible cost;
- to regularly monitor and evaluate its projected cash flow

The Company’s financial liabilities have contractual maturities with one (1) year as follows:

	2017	2016
Insurance liabilities	**231,335,987**	396,907,089
Accounts and other payables	**5,280,970**	14,447,341
	236,616,957	411,354,430

5. Categories of fair values of financial assets and liabilities

Comparison of carrying values and fair values
The carrying values and fair values of the categories of financial assets and liabilities presented in the statements of financial position are shown below:

	2017		2016	
	Carrying values	**Fair values**	Carrying values	Fair values
Financial assets				
Loans and receivables				
Cash and cash equivalents	**246,124,106**	**246,124,106**	212,018,586	212,018,586
Other assets	**9,419,282**	**9,419,282**	7,149,101	7,149,101
AFS financial assets	**325,985,771**	**325,985,771**	133,734,938	133,734,938
Other financial asset				
Insurance receivable	**325,063,591**	**325,063,591**	365,106,625	365,106,625
Loss reserve withheld by ceding companies	**4,150,048**	**4,150,048**	8,016,872	8,016,872
	906,592,750	**906,592,750**	718,009,250	718,009,250
Other financial liabilities				
Insurance liabilities	**231,335,987**	**231,335,987**	396,907,089	396,907,089
Accounts and other payables	**5,280,970**	**5,280,970**	14,447,341	14,447,341
	236,616,957	**236,616,957**	411,354,430	411,354,430

Because of their short period, management considers the carrying amounts recognized in the statement of financial position to be reasonable estimates of the fair values of cash and cash equivalents, insurance receivables, other assets, insurance liabilities and accounts and other payables.

The fair values of AFS financial assets are based on the quoted market price in the PSE for quoted shares while the unquoted shares are carried at carrying amount which approximate its fair value as at December 31, 2017 and 2016.

Fair value hierarchy measurement
The table below presents the hierarchy of fair value measurements used by the Company:

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Available for sale financial assets	**-**	**324,356,865**	**1,628,906**	**325,985,771**
December 31, 2016				
Available for sale financial assets	-	**132,424,092**	**1,310,846**	**133,734,938**

The different levels have been defined as follows:

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

There were no transfers of financial instruments between level 1, 2 and 3 during 2017 and 2016.

6. Capital management objectives, policies and procedures

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities. Externally imposed capital requirements are set and regulated by the Insurance Commission (IC). The requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximize shareholders value.

On August 15, 2013, the IC approved the amendment of Republic Act No. 10607 known as "The Insurance Code" and was issued on August 22, 2013. The amended Insurance Code provides the required minimum Net Worth for non-life insurance companies doing business in the Philippines.

The required minimum Net Worth is as follows:

Net worth	Compliance Date
250,000,000	On June 30, 2013
550,000,000	On December 31, 2016
900,000,000	On December 31, 2019
1,300,000,000	On December 31, 2022

As of December 31, 2017, the Company is in compliance with required Net worth provided in "The Insurance Code".

Margin of solvency
Under the old Insurance Code of the Philippines, a non-life insurance company doing business in the Philippines shall maintain at all times a margin of solvency equal to P500,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The margin of solvency shall be the excess of the value of its admitted assets (as defined under the same code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves.

The final amount of the margin of solvency can be determined only after the accounts of the Company have been examined and classified as to admitted and non-admitted assets, as defined in the old Insurance Code of the Philippines, by the IC.

Inadmissible assets
In any determination of a financial condition of any insurance company, there shall be allowed and admitted as assets only such assets legally or beneficially owned by the insurance company as determined by the Commissioner. The following assets shall in no case be allowed as admitted assets of an insurance company:

1. Goodwill, trade names, and other like intangible assets;
2. Prepaid or deferred charges for expenses and commissions paid by such insurance company;

3. Advances from officers which are not adequately secured and which are not previously allowed by the Commissioner, as well as advances to employees, agents and other persons on mere personal security;
4. Shares of stock of such insurance company, owned by it, or an equity therein; as well as loans secured thereby;
5. Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature and supplies;
6. Items of bank credits representing checks, drafts, or notes returned unpaid after the date of settlement;
7. The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such insurance company exceeds the aggregate value thereof as determined in accordance with the provisions of Insurance Code and/or rules of the Commissioner; and
8. Any asset, as the Commissioner from time to time determine to be non-admitted assets

The inadmissible assets of the Company as at December 31, 2017 and 2016 include the following:

	Note	**2017**	2016
Furniture, fixtures and office equipment, net	10	**486,173**	581,987
Deferred acquisition costs	11	**346,573**	3,670,575
Other assets, net of accrued investment income	13	**6,206,326**	5,745,868
Deferred tax assets	25	**13,678,659**	9,387,155
		20,717,731	19,385,585

Capital management objectives

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the Statement of financial position. Capital for the reporting periods under review is summarized as follows:

	2017	2016
Total liabilities	**237,158,180**	412,919,283
Total equity	**747,150,557**	399,349,460
Debt to equity ratio	**0.32**	1.03

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

7. Cash and cash equivalents

This account consists of:

	2017	2016
Cash on hand	**20,000**	20,000
Cash in banks	**21,076,697**	32,414,495
Cash equivalents	**225,027,409**	179,584,091
Total	**246,124,106**	212,018,586

Cash in banks are interest bearing account balances maintained in various banks of the Company. These generally earn interest at rates based on daily bank deposit rates ranging from 0.5% to 0.75% for the year ended December 31, 2016 and 2017.

Cash equivalents are short-term deposits which are placed for varying periods depending on the immediate requirements of the Company, earn interest at rate of 1.50% in 2017 and 2016. Interest earned from cash and cash equivalents amounted to P3,661,602 in 2017 and P2,976,738 in 2016. (Note 20)

8. Insurance receivables

This account consists of the following:

	2017	2016
Premiums due and uncollected	**67,881,415**	74,408,854
Due from ceding companies and reinsurers	**49,959,975**	49,443,505
Less: Allowance for impairment losses	**3,745,805**	3,745,805
	46,214,170	45,697,700
Reinsurance recoverable on losses	**210,968,006**	245,000,071
Total	**325,063,591**	365,106,625

Premiums due and uncollected is net of commission payable amounting to P9,688,055 in 2017 and P11,277,152 in 2016. The amounts due from ceding companies and reinsurers pertain to amounts recoverable from reinsurers in respect of claims already incurred by the Company. No additional provision for impairment losses was recognized for 2017 and 2016.

Loss reserve withheld by ceding companies pertains to the portion of reinsurance premiums withheld by ceding companies under treaty agreements and facultative reinsurances as reserve for losses.

Allowance for impairment losses includes receivable from suspended companies in 2017 and 2016.

9. Available for sale financial assets

Available for sale financial assets with quoted prices are measured at fair value while unquoted AFS financial assets are carried at cost. The difference between the acquisition cost and the fair value is reflected as deduction to equity. Investment in bond is measured at amortized cost which approximates its fair value.

	2017	2016
Investment in stock		
Quoted equity shares	**-**	-
Unqouted equity shares	**1,628,906**	1,310,846
Investment in government bonds	**324,356,865**	132,424,092
Balance, December 31	**325,985,771**	133,734,938

There is no available market value for the quoted equity shares as of December 31, 2017.

Investment in government bonds has a term ranging from one (1) to twenty-five (25) years earned an interest rates ranging from 3.5% to 7.0% in 2017 and 2016. Interest earned from government bonds amounted to P11,973,472 in 2017 and P8,741,154 in 2016. (Note 20)

Movement of Available for sale financial assets is as follows:

	2017	2016
Investment in government bonds		
January 1	**132,424,092**	175,736,820
Acquired/ (Matured)	**192,680,838**	(41,808,000)
Amortization	**417,503**	-
Amortization	**(1,165,568)**	(1,504,728)
December 31	**324,356,865**	132,424,092
Investment in stock		
January 1	**1,310,846**	1,595,425
Fair value adjustment	**318,060**	(284,579)
December 31	**1,628,906**	1,310,846
Total	**325,985,771**	133,734,938

The maturity profile of investment in government bonds is as follows:

	2017	2016
Due within one year	**-**	-
Due beyond one year	**324,356,865**	132,424,092
Balance, December 31	**324,356,865**	132,424,092

The movement of revaluation reserve on AFS financial assets is as follows:

	2017	2016
Balance, January 1	**(284,580)**	-
Fair value adjustment	**-**	(284,580)
Reversal of allowance on impairment losses	**318,060**	-
Balance, December 31	**33,480**	(284,580)

10. Property and equipment, net

The details of this account follow:

	Office premises and improvements	Furnitures and office equipment	Transportation equipment	Total
Cost				
Balance, December 31, 2015	65,723,630	13,052,813	2,209,679	80,986,122
Additions	-	10,714	-	10,714
Balance, December 31, 2016	65,723,630	13,063,527	2,209,679	80,996,836
Additions	-	106,272	-	106,272
Balance, December 31, 2017	65,723,630	13,169,799	2,209,679	81,103,108
Accumulated depreciation				
Balance, December 31, 2015	22,361,836	12,257,159	2,155,012	36,774,007
Depreciation expense	1,970,069	224,381	54,667	2,249,117
Balance, December 31, 2016	24,331,905	12,481,540	2,209,679	39,023,124
Depreciation expense	1,970,069	202,086	-	2,172,155
Balance, December 31, 2017	26,301,974	12,683,626	2,209,679	41,195,279
Net book value, December 31, 2017	**39,421,656**	**486,173**	**-**	**39,907,829**
Net book value, December 31, 2016	41,391,725	581,987	-	41,973,712

In December 2012, the Company obtained the services of an appraisal company accredited by the Insurance Commission, to appraise the value of the office premises in 15th floor of Citibank building, Makati City, Philippines, consisting of an office condominium unit and three parking lots. The appraisal of the particular property has been coordinated with and approved for recording by the Insurance Commission. The appraisal increase was recorded at P20,827,014. The recorded cost of office premises and improvements is P44,216,286, as at December 31, 2012. Depreciation on the revaluation increment in property amounts to P833,080 both for 2017 and 2016.

As of December 31, 2017 and 2016, the following are fully depreciated properties that are still in use.

2017	**Cost**	Accumulated
Office premises and improvements	**680,330**	680,330
Furnitures and office equipment	**2,769,443**	2,769,443
Transportation/computer equipment	**11,008,477**	11,008,477
Total	**14,458,250**	14,458,250

2016	**Cost**	Accumulated
Office premises and improvements	**680,330**	680,330
Furnitures and office equipment	**2,563,014**	2,563,014
Transportation/computer equipment	**11,961,379**	11,961,379
Total	**15,204,723**	15,204,723

11. Deferred acquisition cost

Movement of this account is as follows:

	2017	2016
Balance, January 1	**3,670,575**	(3,425,874)
Released during the year	**(3,670,575)**	3,425,874
Deferred commission expense	**3,888,219**	10,941,490
Unearned commission income	**(3,541,646)**	(7,270,915)
Balance, December 31	**346,573**	3,670,575

12. Deferred reinsurance premium

Movement of this account are as follows:

	2017	2016
Balance, January 1	**31,211,179**	50,875,938
Ceded during the year	**31,939,064**	65,207,466
Amortized during the year	**(43,517,365)**	(84,872,225)
Balance, December 31	**19,632,878**	31,211,179

13. Other assets

This account consists of:

	2017	2016
Advances and other assets	**3,709,805**	3,131,225
Utility and other deposits	**1,626,865**	1,744,987
Accrued investment income	**3,212,956**	1,403,233
Cash under garnishment	**869,656**	869,656
Total	**9,419,282**	7,149,101

Cash under garnishment refers to cash on hold by the National Labor Regulations Commission (NLRC). The cash was garnished due to order issued by NLRC on alleged counterfeited bonds issued by perpetrator. The company is appealing on the said case and is still pending in court at the end of 2017.

Advances and other assets represent cash provided to employees, agents, brokers and third party suppliers of goods and services and prepaid taxes.

14. Insurance liabilities

This account consists of:

	2017	2016
Reserve for unearned premiums	**19,871,067**	54,906,104
Claims payable	**169,399,142**	272,655,122
Due to reinsurers and ceding companies	**41,246,722**	68,526,807
Funds held for reinsurers	**819,056**	819,056
Total	**231,335,987**	396,907,089

Movement of reserve for unearned premiums is as follows:

	2017	2016
Balance, January 1	**54,906,104**	75,743,475
New policies written during the year	**31,944,809**	129,019,685
Premiums earned during the year	**(66,979,846)**	(149,857,056)
Balance, December 31	**19,871,067**	54,906,104

Claims payable consists of the estimated liability for reported claims, accrual of estimated losses incurred but not reported (IBNR).

	2017	2016
Claims reported and loss adjustment expenses	**163,799,541**	177,388,949
Provision for IBNR	**4,383,601**	95,266,173
Provision for claims handling expense	**1,216,000**	-
	169,399,142	177,388,949

15. Accounts and other payables

	2017	2016
Accounts payable	**4,785,584**	7,479,759
Taxes payable	**333,486**	5,167,119
Documentary stamp tax payable	**31,354**	1,737,865
Others	**130,546**	62,598
Total	**5,280,970**	14,447,341

Accounts payable are payables to non-trade suppliers of goods and services and deferred VAT.

16. Equity

The details of the Company's capital stock are shown below:

	2017	2016
Common stocks - P400 par value		
Authorized capital stock:		
2,000,000 shares in 2017; 1,000,000 shares in 2016	**800,000,000**	400,000,000
Issued and outstanding, January 1	**350,457,200**	350,457,200
Subscribed and paid-up	**360,000,000**	-
	-	
Issued and outstanding, December 31	**710,457,200**	350,457,200

As of December 31, 2017 the Company's total issued and outstanding share capital is owned by fifty four (54) shareholders, nineteen (19) of which own more than 100 shares each.

At the meetings held on November 15, 2016 and May 23, 2017, the Corporation's Board of Directors by majority vote and the stockholders affirmative vote of at least two thirds (2/3) of the outstanding capital stock, respectively, approved the increase in capital stock of the Corporation from Four Hundred Million Pesos (Php400,000,000) divided into One Million (1,000,000) shares with a par value of Four Hundred Pesos (Php400) per share to Eight Hundred Million Pesos (Php800,000,000) divided into Two Million (2,000,000) shares with a par value of Four Hundred Pesos (Php400) per share. The increase in authorized capital stock was approved by the Securities and Exchange Commission (SEC) on February 15, 2018.

Share premium amounted to P26,835,235 both in 2017 and 2016.

Treasury shares amounted to P457,200 both in 2017 and 2016.

Adjustments to retained earnings follow:

	2017	2016
Expired excess MCIT	**564,650**	262,375
Expired NOLCO	**-**	696,053
Non-proportional treaty premium for 2014 to 2016	**14,850,862**	-
BIR tax deficiency	**-**	137,282

Deposit for future subscription pertains to the payments amounting to P4,864,008 received from stockholders.

17. Actuarial gains/(losses) on retirement benefit liability, net

Movement of this account is as follows:

	2017	2016
Balance, January 1	**498,873**	589,022
Actuarial gain/ (loss) during the year	**229,647**	(90,149)
Balance, December 31	**728,520**	498,873

18. Gross underwriting income

The account consists of:

	2017	2016
Premiums written	**11,933,163**	84,081,915
Premiums assumed	**20,011,646**	44,937,771
Gross premium written	**31,944,809**	129,019,686
Reinsurance premium ceded	**(31,939,064)**	(65,207,465)
Net premium retained	**5,745**	63,812,221
(Increase)/ Decrease in unearned premium	**23,456,736**	1,172,611
Commissions earned	**9,489,938**	8,901,214
	32,952,419	73,886,046

19. Underwriting expenses

The account consists of:

	2017	2016
Commissions	**12,934,281**	10,107,844
Claims and losses, net	**20,484,063**	43,586,647
Other underwriting expense	**81,318**	104,820
	33,499,662	53,799,311

20. Other income

The breakdown of other income is as follows:

	Notes	**2016**	2016
Interest income, net of amortization	7,9	**14,887,008**	10,213,163
Foreign exchange gain		**2,297,445**	217,993
Retirement benefit income		**-**	783,495
Dividend income		**4,284**	4,284
Miscellaneous		**728**	-
Total		**17,189,465**	11,218,935

21. General and administrative expenses

The breakdown of other expenses is as follows:

	Notes	2017	2016
Salaries, wages and employee benefits	22	**10,577,181**	13,240,601
Association and pool dues		**1,828,888**	3,010,696
Depreciation expense	10	**1,339,075**	1,416,036
Professional fees		**1,294,690**	1,079,093
Rent	24	**903,157**	1,362,464
Utilities		**445,943**	514,057
Communication		**376,026**	533,715
Retirement expense	23	**301,638**	272,200
Travel and transportation		**272,239**	1,118,323
Taxes and licenses		**177,870**	655,445
Supplies		**175,949**	191,703
Representation		**165,281**	381,628
Repairs, maintenance and janitorial services		**131,007**	156,828
Insurance		**74,406**	209,793
Promotion, advertising and networking		**67,390**	85,300
Training and seminar		**43,571**	-
Donation		**5,000**	-
Agency expense		**-**	26,440
Miscellaneous		**589,265**	317,470
Total		**18,768,576**	24,571,792

22. Salaries, wages and employee benefits

Details of salaries, wages and other benefits are as follows:

	2017	2016
Salaries and wages	**9,137,057**	11,463,166
Employees' benefits	**1,440,124**	1,777,435
Total	**10,577,181**	13,240,601

23. Retirement benefits plan

The Company has a funded, non-contributory defined benefit type of retirement plan covering substantially all of its employees. The benefits normal retirement is equal to 125% of the final compensation as of the date of retirement multiplied by years of service.

Actuarial valuations are made at least every two years. The Company's annual contributions to the defined benefit plan consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

The assumptions used in determining retirement benefit liability for the Company are as follows:

	2017	2016
Present value of the obligation	**681,124**	703,868
Fair value of plan assets	**(243,873)**	(240,188)
Underfunded obligation	**437,251**	463,680
Liability to be recognized in the Statement of financial position	**437,251**	463,680

The movements of present value of the retirement benefit liability recognized in the books are as follows:

	2017	2016
Balance, January 1	**703,868**	1,950,486
Interest cost	**37,868**	95,379
Current service cost	**276,692**	200,820
Past service cost	**-**	(1,053,642)
Benefits paid	**-**	(598,650)
Actuarial (gain)/loss	**(337,304)**	109,475
Balance, December 31	**681,124**	703,868

The movements of fair value of plan assets are as follows:

	2017	2016
Balance, January 1	**240,188**	832,095
Interest income	**12,922**	26,052
Benefits paid	-	(598,650)
Remeasurement gain/ (loss)	**(9,237)**	(19,309)
Balance, December 31	**243,873**	240,188

The Company's actual return on plan assets is as follows:

	2017	2016
Interest income	**12,922**	26,052
Remeasurement gain / (loss)	**(9,237)**	(19,309)
Actual return on plan asset	**3,685**	6,743

The amounts of retirement benefits expense recognized in the Statements of comprehensive income are as follows:

	2017	2016
Current service cost	**276,692**	(852,822)
Interest cost	**37,868**	95,379
Interest income on plan assets	**(12,922)**	(26,052)
Expense/ (Income) recognized during the year	**301,638**	(783,495)

Defined benefit cost recognized in Other comprehensive income (OCI):

	2017	2016
Accumulated other comprehensive income, January 1	**(712,676)**	(841,460)
Actuarial (gains)/losses - DBO	**(337,304)**	109,475
Remeasurement (gain)/loss - plan assets	**9,237**	19,309
Remeasurement (gain)/loss - changes in the effect of the asset ceiling	**-**	-
Defined benefit cost in OCI - expense/(income)	**(328,067)**	128,784
Accumulated other comprehensive income, ending	**(1,040,743)**	(712,676)

For the determination of the movement of the retirement benefits liability, the following actuarial assumptions were used:

	2017	2016
Discount rate	**5.70%**	5.38%
Salary increase rate	**5.00%**	5.00%

Sensitivity analysis as follows:

Decrease in DBO due to 100 bps increase in discount rate	**(123,666)**	; (18.2%)
Increase in DBO due to100 bps decrease in discount rate	**157,055**	; 23.1%
Increase in DBO due to 100 bps increase in salary increase rate	**148,672**	; 21.8%
Decrease in DBO due to 100 bps decrease in salary decrease rate	**(120,137)**	; (17.6%)
Increase in DBO, no attrition rates	**221,760**	; 32.6%

Expected future benefit payments as follows:

Financial year	
2018	3,529
2019	5,028
2020	6,849
2021	9,125
2022	12,013
2023-2027	634,328

Allocation of plan assets as follows:

Financial year	
Cash and cash equivalents	0.44%
Unit investment trust fund	5.74%
Debt instruments - government bonds	95.28%
Other (Market gains/losses, accrued receivables, etc.)	-1.46%
Total	100.00%

Weighted average duration of the retirement benefits liability is 20.6 as of December 31, 2017 and 21.1 years 2016

24. Lease commitments

The Company is a lessee under cancellable operating leases. The future minimum rentals payable under this cancellable operating lease are as follows:

	2017	**2016**
Within one year	**1,169,428**	**23,000**
More than one year but less than five years	**668,750**	**-**
Total	**1,838,178**	**23,000**

Total rental expense charged to operations amounted to P903,157 2017 and P1,362,464 in 2016, respectively. (Note 21)

25. Income taxes

Corporate income tax rate – 30%
The income tax (benefit)/ expense consists of the following:

	2017	**2016**
Current:		
Regular corporate income tax	**-**	**-**
Final tax on interest income	**3,113,911**	2,343,029
	-	
Deferred:	**-**	
NOLCO	**(11,901,103)**	(4,735,876)
Deferred acquisition cost	**(997,201)**	2,128,935
Reserve for unearned premium	**7,037,021**	351,783
Retirement benefits (income)/ expense	**(90,491)**	235,048
Income tax (benefit)/ expense	**(2,837,863)**	322,919

A reconciliation of tax on pretax income computed at the applicable statutory rates to income tax expense as reported in the income statements is as follows:

	2017	2016
Tax on pretax income at prevailing rate	**(1,259,967)**	1,465,171
Adjustment for items subject to lower tax rates:		
Interest income	**(1,576,611)**	(1,172,338)
Tax effect on:	**-**	
Non-deductible expense	**-**	31,371
Non-taxable income	**(1,285)**	(1,285)
Total	**(2,837,863)**	322,919

Deferred income tax assets

Components of the Company's deferred income tax (DTA) assets account are as follows:

	2016	2016
Allowance for reinsurance receivable	**1,123,741**	1,123,741
Reserve for unearned premium	**(5,550,573)**	1,486,448
NOLCO	**16,636,980**	4,735,876
MCIT	**1,337,336**	1,901,986
Retirement benefits obligation	**131,175**	139,104
Total	**13,678,659**	9,387,155

Validity of NOLCO as follows:

Year incurred	Validity	Amount	Expired in the current year	Applied in the previous year	Balance
2017	2020	39,670,343	-	-	39,670,343
2016	2019	15,786,256	-	-	15,786,256
		55,456,599	**-**	**-**	**55,456,599**

Validity of MCIT as follows:

Year incurred	Validity	Amount	Applied	Expired	Balance
2014	2017	564,650	-	564,650	-
2015	2018	1,096,623	-	-	1,096,623
2016	2019	240,713	-	-	240,713
		1,901,986	**-**	**564,650**	**1,337,336**

Deferred income tax liability
Components of deferred income tax liability are as follows:

	2017	2016
Deferred acquisition cost	**103,972**	1,101,173

26. Earnings per common share

	2017	**2016**
(Loss)/ Profit for the year	**(1,362,026)**	**4,560,985**
Weighted average number of common shares	**1,326,143**	**875,000**
	(1.03)	**5.21**

27. Related party transactions

In the ordinary course of trade or business, the Company has transaction with related parties. 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 other 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.

Key management personnel compensation
The key management compensation consists of salaries, allowances and employee benefits amounting P2,264,312 and P2,828,476 in 2017 and 2016, respectively.

Defined benefits plan
The Company has a significant influence over the funding and management of the Company's plan assets. The outstanding amount of the plan assets amounts to P243,837 in

2017 and P240,188 in 2016. The Company paid benefits from plan assets amounting to P598,650 in 2016. No contribution was made in both 2017 and 2016.

28. Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Directors through the Company's President, Mr. Farhat Hussain on March 23, 2018.

29. Supplementary information required by the Bureau of Internal Revenue

Revenue Regulations No. 15-2010 issued by the Bureau of Internal Revenue requires, in addition to the disclosures mandated under the Philippine Financial Reporting Standards, and such other standards and/or conventions as may heretofore be adopted, the Notes to Financial Statements to include information on taxes, duties and license fees paid or accrued during the taxable year, as follows:

Output VAT

Details of the Company's output VAT declared are as follows:

	VATable	VAT - Zero-rated	VAT - exempt	2017	2016
Vatable receipts	26,141,181	1,155,578	1,890,677	**29,187,436**	141,228,272
Output VAT rate	12%	0%	-	**12%/0%**	12%/0%
Total	3,136,942	-	-	**3,136,942**	16,084,963

Input VAT

Details of the Company's input VAT claimed are as follows:

	2017	2016
Balance, January 1		-
Add: Current year's domestic purchases/payments for:		
Purchase of services	**1,698,214**	3,261,991
Purchase of capital goods and domestic purchases of goods other than capital goods	**-**	-
Total available input VAT	**1,698,214**	3,261,991

Documentary stamp tax (DST)

The DST paid/accrued during the reporting period was P1,730,273 in 2017 and P12,606,054 in 2016 for insurance of policies.

Other taxes and licenses

	OR No.	2017	2016
Community tax	CCC201500191110	**10,500**	10,500
Business permits	various	**18,981**	251,462
Percentage taxes and various	various	**148,389**	393,483
Total per Statement of Comprehensive Income		**177,870**	655,445

Withholding taxess
The amount of withholding taxes paid/accrued for the taxable year 2017 amounted to:

	2017	2016
Tax withheld by the company on:		
Compensation	**2,032,304**	2,568,253
Expanded	**755,429**	1,375,118
Total	**2,787,733**	3,943,371

Taxes on importation of goods
The Company has no importation of goods, hence, no taxes were paid during the reporting period.

Excise tax
The Company has no excise tax paid during the reporting period.

As of the year ended December 31, 2017, the Company has no pending tax assessment and litigation.

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SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
Under SRCRule 68, As Amended

		For the years ended December 31			
		2017		2016	
Liquidity/ Solvency Ratios					
1. Current Ratio	Current Assets / Current Liabilities	575,337,745 / 236,616,957	2.43	585,142,083 / 411,354,430	1.42
2. Liquidity Ratio	Liquid Assets / Current Liabilities	575,337,745 / 236,616,957	2.43	585,142,083 / 411,354,430	1.42
3. Working Capital to Total Asset	Working Capital / Total Assets	338,720,788 / 984,308,737	0.34	173,787,653 / 812,268,743	0.21
4. Solvency Ratio	Net Profit after Tax + Depreciation / Total Liabilities	-22,951 / 237,158,180	-0.00	5,977,022 / 412,919,282	0.01
Capital Structure Analysis					
5. Debt-to-Equity Ratio	Total Debt / Total Equity	237,158,180 / 747,150,557	0.32	412,919,282 / 399,349,461	1.03
6. Asset-to-Equity Ratio	Total Assets / Total Equity	984,308,737 / 747,150,557	1.32	812,268,743 / 399,349,461	2.03
Profitability Ratio					
7. Return on Assets (ROA)	Net Income / Average Assets	-1,362,026 / 898,288,740	-0.00	4,560,986 / 711,520,743	0.01
8. Return on Equity (ROE)	Net Income / Average Equity	-1,362,026 / 573,250,009	-0.00	4,560,986 / 398,220,728	0.01
9. Profit Margin	Net Income / Revenue	-1,362,026 / 32,952,419	-0.04	4,560,986 / 73,886,046	0.06
10. Gross Profit Margin	Gross Profit / Revenue	16,642,222 / 32,952,419	0.51	31,305,670 / 73,886,046	0.42
11. Earning per share	Net Income / Weighted Average Outstanding Shares	-1,362,026 / 1,326,143	-1.03	4,560,986 / 875,000	5.21
12. Interest Rate Coverage Ratio	Earnings before Income Tax / Interest Expense	-4,199,889 / 2,073,535	-2.03	4,883,906 / 1,849,974	2.64

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		
PFRSs Practice Statement Management Commentary		N/A
Philippine Financial Reporting Standards		
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	A
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	N/A
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	N/A
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	N/A
	Amendments to PFRS 1: Government Loans	N/A
PFRS 2	Share-based Payment	N/A
	Amendments to PFRS 2: Vesting Conditions and Cancellations	N/A
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	N/A
	Amendments to PFRS 2: Classification and Measurement of Share-Based Payment	N/A
PFRS 3 (Revised)	Business Combinations	N/A
PFRS 4	Insurance Contracts	N/A
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	N/A
	Amendments to PFRS 5: Changes in Methods of Disposal	N/A
PFRS 6	Exploration for and Evaluation of Mineral Resources	N/A
PFRS 7	Financial Instruments: Disclosures	A
	Amendments to PFRS 7: Transition	A
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	A
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	A
	Amendments to PFRS 7: Improving Disclosures about	A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
	Financial Instruments	
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	A
	Amendments to PFRS 7: Servicing Contracts	N/A
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	N/A
PFRS 8	Operating Segments	N/A
PFRS 9	Financial Instruments	A
	Classification and Measurement of Financial Liabilities	A
	Financial Instruments (2014 or final version)	N/A
PFRS 10	Consolidated Financial Statements	N/A
	Amendments to PFRS 10: Transition Guidance	N/A
	Amendments to PFRS 10: Investment Entities	N/A
PFRS 11	Joint Arrangements	N/A
	Amendments to PFRS 11: Transition Guidance	N/A
	Amendments to PFRS 11: Accounting for Acquisitions of Interest in Joint Operations	N/A
PFRS 12	Disclosure of Interests in Other Entities	N/A
	Amendments to PFRS 12: Transition Guidance	N/A
	Amendments to PFRS 12: Investment Entities	N/A
PFRS 13	Fair Value Measurement	A
PFRS 14	Regulatory Deferral Accounts	N/A
PFRS 15	Revenue from Contracts with Customers	N/A
PFRS 16	Leases	N/A
Philippine Accounting Standards		
PAS 1 (Revised)	Presentation of Financial Statements	A
	Amendment to PAS 1: Capital Disclosures	A
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	N/A
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	A
	Amendments to PAS 1: Disclosure Initiative	A
PAS 2	Inventories	N/A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
PAS 7	Statement of Cash Flows	A
	Amendments to PAS 7: Disclosure Initiative	A
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	A
PAS 10	Events after the Balance Sheet Date	A
PAS 11	Construction Contracts	N/A
PAS 12	Income Taxes	A
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	A
	Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	A
PAS 16	Property, Plant and Equipment	A
	Amendments to PAS 16: Clarifications of Acceptable Methods of Depreciation and Amortization	A
PAS 17	Leases	A
PAS 18	Revenue	A
PAS 19 Revised	Employee Benefits	A
	Amendments to PAS 19: Discount Rate: Regional Market Issue	A
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	N/A
PAS 21	The Effects of Changes in Foreign Exchange Rates	N/A
	Amendment: Net Investment in a Foreign Operation	N/A
PAS 23 (Revised)	Borrowing Costs	N/A
PAS 24 (Revised)	Related Party Disclosures	A
PAS 26	Accounting and Reporting by Retirement Benefit Plans	N/A
PAS 27 (Amended)	Separate Financial Statements	N/A
	Amendments to PAS 27 (Amended): Investment Entities	N/A
	Amendments to PAS 27: Equity Method in Separate Financial Statements	N/A
PAS 28 (Amended)	Investments in Associates and Joint Ventures	N/A
PAS 29	Financial Reporting in Hyperinflationary Economies	N/A
PAS 32	Financial Instruments: Disclosure and Presentation	A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
	Financial Instruments: Presentation	A
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	N/A
	Amendment to PAS 32: Classification of Rights Issues	N/A
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	A
PAS 33	Earnings per Share	A
PAS 34	Interim Financial Reporting	N/A
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	N/A
PAS 36	Impairment of Assets	A
	Amendments to PAS 36: Recoverable amount Disclosures for Non-Financial Assets	A
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	A
PAS 38	Intangible Assets	A
PAS 39	Financial Instruments: Recognition and Measurement	A
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	A
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	N/A
	Amendments to PAS 39: The Fair Value Option	A
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	N/A
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	A
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	A
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	N/A
	Amendment to PAS 39: Eligible Hedged Items	N/A
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	N/A
PAS 40	Investment Property	N/A
PAS 41	Agriculture	N/A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
Philippine Interpretations		
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	N/A
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	N/A
IFRIC 4	Determining Whether an Arrangement Contains a Lease	N/A
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	N/A
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	N/A
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	N/A
IFRIC 9	Reassessment of Embedded Derivatives	N/A
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	N/A
IFRIC 10	*Interim Financial Reporting and Impairment*	N/A
IFRIC 12	Service Concession Arrangements	N/A
IFRIC 13	Customer Loyalty Program	N/A
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	N/A
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	N/A
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	N/A
IFRIC 17	Distributions of Non-cash Assets to Owners	N/A
IFRIC 18	Transfers of Assets from Customers	N/A
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	N/A
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	N/A
IFRIC 21	Levies	N/A
SIC-7	Introduction of the Euro	N/A
SIC-10	Government Assistance - No Specific Relation to Operating Activities	N/A
SIC-12	Consolidation - Special Purpose Entities	N/A
	Amendment to SIC - 12: Scope of SIC 12	N/A
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturer	N/A
SIC-15	Operating Leases - Incentives	N/A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	N/A
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	N/A
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	N/A
SIC-29	Service Concession Arrangements: Disclosures.	N/A
SIC-31	Revenue - Barter Transactions Involving Advertising Services	N/A
SIC-32	Intangible Assets - Web Site Costs	N/A