SGI PHILIPPINES
GENERAL INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2018

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of SGI Philippines General Insurance Company, Inc. is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of SGI Philippines General Insurance Company, Inc. is complete and correct in all material respects. Management likewise affirms that:

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

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

c) SGI Philippines General Insurance Company, Inc. has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

April 12, 2019

FARHAT HUSSAIN
President and Chief Executive Officer

ANKIT SETHI
CFO and Treasurer

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APR 13 2019
LUZ F. PORIO
Revenue Office

TEODORO SANTAMARIA CANLAS & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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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

Report of Independent Auditor To Accompany Income Tax Return

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.** (the Company) for the year ended December 31, 2018, on which we have rendered the attached report dated April 10, 2019.

In compliance with Revenue Regulations V-1, we are stating that no partner of our Firm is related by consanguinity or affinity to the President or any principal stockholders and officers of the Company.

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. 1714-A (Individual)
Valid until November 5, 2021
SEC Accreditation No. 0366-F (Firm)
Valid until November 5, 2021
I.C. Accreditation No. SP-2018-018-R (Individual)
Valid until October 18, 2021
I.C. Accreditation No. F-2018-001-R (Firm)
Valid until April 6, 2021
BIR A.N. 08-003408-002-2019
Valid until April 4, 2022
T.I.N. 102-921-088
PTR No. 7345081 / Makati City
January 9, 2019

April 10, 2019
Makati City, Philippines

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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, 2018 and 2017**, and the related statements of profit, 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, 2018 and 2017, 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, 2018 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
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BOA/PRC Registration No. 5593
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Revenue Office

April 10, 2019
Makati City, Philippines

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

STATEMENTS OF FINANCIAL POSITION

	Notes	December 31 2018	2017
		(In Philippine Peso)	
Assets			
Cash and cash equivalents	7	**122,284,354**	246,124,106
Insurance receivables	8	**301,904,701**	325,063,591
Loss reserve withheld by ceding companies	8	**390,968**	4,150,048
Financial asset at FVPL	9	**280,563,840**	324,356,865
Financial asset at FVOCI	9	**1,545,206**	1,628,906
Financial asset at amortized cost	9	**143,309,739**	-
Property and equipment - net	10	**38,873,096**	39,907,829
Deferred acquisition cost	11	**4,383,047**	346,573
Deferred reinsurance premium	12	**8,591,492**	19,632,878
Deferred tax assets	25	**20,673,438**	13,678,659
Other assets	13	**10,039,714**	9,419,282
Total Assets		**932,559,595**	984,308,737
LIABILITIES AND EQUITY			
Liabilities			
Insurance liabilities	14	**188,297,635**	231,335,987
Accounts and other payables	15	**6,110,926**	5,280,970
Retirement benefit liability	23	**755,525**	437,251
Deferred tax liability	25	**1,314,913**	103,972
Total liabilities		**196,478,999**	237,158,180
Equity			
Common stock	16	**710,457,200**	710,457,200
Share premium	16	**22,426,225**	26,835,235
Deposit for future subscription	16	**-**	4,864,008
Revaluation reserve on financial assets at FVOCI	9	**(50,220)**	33,480
Actuarial gains on retirement benefit liability, net	17	**728,520**	728,520
Revaluation increment in property	10	**15,828,533**	16,661,614
Retained earnings	16	**(12,852,462)**	(11,972,300)
Treasury shares	16	**(457,200)**	(457,200)
Total equity		**736,080,596**	747,150,557
Total Liabilities and Equity		**932,559,595**	984,308,737

See accompanying notes to financial statements.

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

STATEMENTS OF PROFIT

	Notes	2018	2017
		For the years ended December 31	
		(In Philippine Peso)	
Revenues			
Gross premiums written	18	**40,993,886**	31,944,809
Reinsurance premium ceded	18	**(23,320,094)**	(31,939,064)
Net premiums retained		**17,673,792**	5,745
(Increase)/ Decrease in reserve for unearned premiums	18	**(13,599,003)**	23,456,736
Premiums earned		**4,074,789**	23,462,481
Commissions earned	18	**3,690,208**	9,489,938
Gross underwriting income	18	**7,764,997**	32,952,419
Underwriting deductions	19	**(8,285,509)**	(33,499,662)
Net underwriting loss		**(520,512)**	(547,243)
Other income	20	**20,557,607**	17,189,465
Gross profit		**20,037,095**	16,642,222
Operating Expenses			
General and administrative expenses	21	**(22,503,418)**	(18,768,576)
Interest expense	22	**(26,316)**	(2,073,535)
Total expense		**(22,529,734)**	(20,842,111)
Net loss		**(2,492,639)**	(4,199,889)
Income Tax Benefit	25		
Final		**(3,975,129)**	(3,113,911)
Deferred		**6,684,229**	5,951,774
		2,709,100	2,837,863
Net profit/ (loss)		**216,461**	(1,362,026)
Earnings/ (Loss) Per Share	26	**0.12**	(1.03)

See accompanying notes to financial statements.

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Revenue Officer

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

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the years ended December 31 **2018**	2017
		(In Philippine Peso)	
Net profit/ (loss)		**216,461**	(1,362,026)
Other comprehensive income that recycle to profit or loss in subsequent periods:			
Reversal/Impairment loss on financial asset at FVOCI	9	**(83,700)**	318,060
Other comprehensive income that do not recycle to profit or loss in subsequent periods:			
Actuarial gain on retirement benefit plan	17	**-**	229,647
Total comprehensive income/ (loss)		**132,761**	(814,319)

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 financial asset at FVOCI (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, 2017	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
Total comprehensive income	-	-	-	-	(83,700)	-	-	216,461	132,761
Expired excess MCIT (Note 25)	-	-	-	-	-	-	-	(1,096,623)	(1,096,623)
Adjustments	-	(4,409,010)	-	(4,864,008)	-	-	-	-	(9,273,018)
Depreciation of property and equipment	-	-	-	-	-	(833,081)	-	-	(833,081)
Balances, December 31, 2018	**710,457,200**	**22,426,225**	**(457,200)**	**-**	**(50,220)**	**15,828,533**	**728,520**	**(12,852,462)**	**736,080,596**

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	
		2018	2017
		(In Philippine Peso)	
Cash flows from operating activities			
Loss before income tax		**(2,492,639)**	(4,199,889)
Adjustments for:			
Depreciation	21	**1,457,759**	1,339,075
(Increase)/ Decrease in deferred acquisition costs	11	**(4,036,474)**	3,324,002
(Increase)/ Decrease in reserve for unearned premiums	18	**(13,599,003)**	23,456,736
Reversal of allowance on impairment losses			(318,060)
Fair value adjustment on financial assets at FVOCI	9	**(67,222)**	748,065
Interest income	20	**(19,715,762)**	(14,887,008)
Retirement benefit expense/ (income)	21, 23	**318,274**	301,638
Operating (loss)/ income before working capital changes		**(38,135,067)**	9,764,560
Decrease in insurance receivables	8	**23,158,890**	40,043,034
Decrease in loss reserve withheld by ceding companies	8	**3,759,080**	3,866,824
Increase in other assets	13	**(620,432)**	(2,270,181)
Decerase in insurance contract liabilities	14	**(18,397,963)**	(177,449,537)
Increase/ (Decerase) in accounts and other payables	15	**829,956**	(9,166,371)
Net cash used in operations		**(29,405,536)**	(135,211,671)
Income taxes paid	25	**(4,171,361)**	(2,795,853)
Net cash used in operating activities		**(33,576,897)**	(138,007,524)
Cash flows from investing activities			
Acquisition of government bonds	9	**(99,449,493)**	(192,680,838)
Acquisition of property and equipment	10	**(1,256,106)**	(106,272)
(Decrease)/ Increase in capital stock/ share premium		**(4,409,010)**	360,000,000
(Decrease)/ Increase in deposit for future subscriotion		**(4,864,008)**	4,864,008
Interest income earned	20	**19,715,762**	14,887,008
Net cash (used in)/ provided by investing activities		**(90,262,855)**	186,963,906
Net (decrease)/ increase in cash and cash equivalents		**(123,839,752)**	48,956,382
Prior period adjustment		**-**	(14,850,862)
Cash and cash equivalents, January 1	7	**246,124,106**	212,018,586
Cash and cash equivalents, December 31	7	**122,284,354**	246,124,106

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, 2018, 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 financial assets at FVPL, financial assets at FVOCI and financial assets at amortized cost. 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.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Company adopted for the first time the following new PFRS, amendments to PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018. Except as otherwise indicated, the adoption of

these new standards and amendments to standards did not have any significant effect or impact on the Company's financial statements.

- PAS 40 (Amendments), Investment Property – Reclassification to and from Investment Property. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments provided a non-exhaustive list of examples constituting change in use.

- PFRS 2 (Amendments), Share-based Payment – Classification and Measurement of Share-based Transactions. The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

- PFRS 4 (Amendments), Insurance Contracts – Applying PFRS 9 with PFRS 4. The amendments address the temporary accounting consequences of the different effective dates of PFRS 9, and the anticipated new insurance contracts standard by introducing the following options:
  - overlay approach, which is an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of PFRS 9; or,
  - an optional temporary exemption from applying PFRS 9 for entities whose activities are predominantly connected with insurance.

  These entities will be permitted to continue to apply the existing financial instrument requirements of PAS 39, Financial Measurements: Recognition and Measurement.

- PFRS 9, Financial Instruments (issued in 2014). This new standard on financial instruments replaced PAS 39, Financial Instruments: Recognition and Measurement, and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:
  - three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments i.e., financial asset at amortized cost, at fair value through profit or loss (FVPL), and at fair value through other comprehensive income FVOCI;
  - an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The new accounting policies relative to the adoption of PFRS 9 are fully disclosed under Significant Accounting Policies in this note.

The Company's adoption of PFRS 9 has resulted to some reclassification of accounts and there has been no significant change on the use of the expected credit loss model in determining impairment of all financial assets that are not measured at FVPL.

The Company has applied PFRS 9 with an initial application date of January 1, 2018. The company has not restated the comparative information, which continues to be reported under PAS 39. The adoption of PFRS 9 did not have material impact on the financial statements.

The following are changes in the classification of the Company's financial assets:

	2018			
	Classification under PAS 39	Classification under PFRS 9	**Carrying Amount under PAS 39**	**Carrying Amount under PFRS 9**
Cash and cash equivalents	Loans and receivables	Financial asset at amortized cost	**122,284,354**	**122,284,354**
Other assets	Loans and receivables	Financial asset at amortized cost	**10,039,714**	**10,039,714**
Investment in government securities	Available for sale financial asset	Financial asset at FVPL	**280,563,840**	**280,563,840**
Investment in government securities	Held-to-maturity	Financial asset at amortized cost	**143,309,739**	**143,309,739**
Investment in unquoted equity securities	Available for sale financial asset	Financial asset at FVOCI	**1,545,206**	**1,545,206**

- PFRS 15, Revenue from Contract with Customers, together with the Clarifications to PFRS 15 (herein referred to as PFRS 15). This standard replaced PAS 18, Revenue, and PAS 11, Construction Contracts, the related Interpretations on revenue recognition: IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreement for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and Standing Interpretations Committee 31, Revenue – Barter Transactions Involving Advertising Services. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company's significant sources of revenue pertain to its stock brokerage activities which generate commissions, and other revenues such as rent and interest income. Except for commissions, a significant amount of the Company's revenues are out of the scope of PFRS 15. Recognition and measurement of revenue streams within the scope of PFRS 15 did not vary from PAS 18. The adoption of this standard has no significant impact on the Company's financial statements. Accordingly, no remeasurements nor reclassifications were recognized by the Company at the date of initial application.

- IFRIC 22, Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

- Annual Improvements to PFRS 2014-2016 Cycle.

  PFRS 1 (Amendments):
  First-time adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Company's financial statements.

  PAS 28 (Amendments), Investment in Associates – Clarification on Fair Value through Profit or Loss Classification. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. This amendment has no impact on the Company's financial statements.

<u>Future Adoption of New Standards and Amendments to Standards</u>
There are new PFRS, interpretation, annual improvements to PFRS and amendments to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, management is currently assessing the impact on the Company's financial statements:

- PAS 19 (Amendments), Employee Benefits – Plan Amendment, Curtailment or Settlement (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

- PAS 28 (Amendments), Investment in Associates – Long-term Interest in Associates and Joint Venture (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

- PFRS 9 (Amendments), Financial Instruments – Prepayment Features with Negative Compensation (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the solely for payment of principal and interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. Management initially assessed that these amendments will not affect the Company's financial statements since it has no financial instruments having prepayment features with negative compensation.

- PFRS 16, Leases (effective from January 1, 2019). The new standard will eventually replace PAS 17, Leases. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization.

  The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit). For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

- IFRIC 23, Uncertainty over Income Tax Treatments (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

- Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements:

  - PAS 12 (Amendments), Income Taxes – Tax Consequences of Dividends. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), Borrowing Costs – Eligibility for Capitalization. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), Business Combinations, and PFRS 11 (Amendments), Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

- The Company does not expect any other standards issued, but not yet effective, to have a material impact on the Company. The following is a list of other new and amended standards which had been issued but which are effective in future periods. The Company is yet to assess the impact these standards will have on its financial statements

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, Definition of a Business – The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, Presentation of financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of material – The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

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

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

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The amendments are not applicable to the Company.

Deferred effectivity

- Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  The Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

<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 Framework (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).

<u>IC Circular Letter (ICL) No. 2018-19</u>
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 hereby, 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, 2018 and 2017.

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.

The Company has no financial liabilities at FVPL or derivatives for the years ended December 31, 2018 and 2017.

Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("held to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Where the business model is to hold assets to collect contractual cash flows, the Company assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Loans and Other receivables, Investment securities at amortized cost and certain accounts under Other Assets account in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, and investment securities at amortized cost with original maturities of three months or less from placement date.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of income as part of Interest Income.

Financial Assets at Fair Value Through Other Comprehensive Income

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Company for trading or as mandatorily required to be classified as FVPL. The Company has designated equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of NUGL account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the NUGL account is not reclassified to profit or loss but is reclassified directly to Surplus Free account except for those debt securities classified as FVOCI wherein fair value changes are recycled back to profit or loss. Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the Company's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Company, and, the amount of dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVPL. Also, equity securities are classified as financial assets at FVPL, unless the Company designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Company's financial assets at FVPL include equity securities which are held for trading purposes or designated as at FVPL. Financial assets at FVPL are measured at fair value with gains or losses recognized in profit or loss as part of Trading Gain – net under Other Operating Income in the statements of income. Related transaction costs are recognized directly as expense in profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using valuation technique when no active market exists. Interest earned on these investments is recorded as Interest Income and dividend income is reported as part of Dividends both under Other Income account in the statements of income. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI. The Company can only reclassify financial assets if the objective of its business model for managing those financial assets changes.

Accordingly, the Company is required to reclassify financial assets:

(i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and,
(ii) from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Company's business model will take effect only at the beginning of the next reporting period following the change in the business model.

Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVPL, loans and receivables, HTM investments and AFS securities. Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the four categories of financial assets is as follows:

Financial Assets at FVPL

This category includes derivative financial instruments and financial assets that are either classified as held for trading (HFT) or that meet certain conditions and are designated by the Company to be carried at FVPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as HFT unless they are designated and effective as hedging instrument. Financial assets at FVPL include derivatives, quoted equity securities, government bonds and other debt securities. Financial assets at FVPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVPL) may be reclassified out of FVPL category, on rare circumstance, if they are no longer held for the purpose of being sold or repurchased in the near term.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Company provides money, goods or services directly to the debtor with no intention of trading the receivables. The Company's financial assets categorized as loans and receivables are presented as Cash and cash equivalents, Loans and Other Receivables and certain accounts under Other Assets in the statement of financial position. Cash and cash equivalents consist of cash and other cash items. Loans and other receivables also include receivables from customers and other receivables. Loans and other receivables also include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from loans and receivables. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, and HTM securities with original maturities of three months or less from placement date.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in the value of loans and receivables is recognized in profit or loss, except for reclassified financial assets under PAS 39 and PFRS 7, Financial Instruments: Disclosures. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the straight-line method.

As of December 31, 2018 and 2017, the Company's loans and receivables include cash and cash equivalents, and other assets.

HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included under this category. HTM investments consists of government and other debt securities. If the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities.

The tainting provision will not apply if the sales or reclassifications of HTM investments:

(i) are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value;

(ii) occur after the Company has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or,

(iii) are attributable to an isolated event that is beyond the control of the Company, is nonrecurring and could not have been reasonably anticipated by the Company. Upon tainting, the Company shall not classify any financial assets as HTM investments for the next two reporting periods after the year of tainting. Subsequent to initial recognition, HTM investments are measured at amortized costs using effective interest method, less impairment losses, if any.

AFS Securities
This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS securities include government and corporate bonds and equity securities. All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes, except for interest and dividend income, impairment loss and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, that is when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized. Non-derivative financial assets classified as AFS securities may be reclassified to loans and receivable category if that financial asset would have met the definition of loans and receivable and if there is an intention and ability to hold that financial asset for the foreseeable future or until maturity. If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available or because the two preceding financial years' of tainting have passed, it becomes appropriate to carry a financial asset at cost or amortized cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortized cost, as applicable. Any previous gain or loss that has been recognized in other comprehensive income shall be accounted for depending on whether the financial asset is with or without fixed maturity.

Previous gain or loss on reclassified AFS securities that has been recognized in other comprehensive income shall be accounted for as follows:

- In the case of a financial asset with a fixed maturity, the gain or loss shall be amortized to profit or loss over the remaining life of the HTM investment using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

- In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss. Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. A financial asset is reclassified out of the FVPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term under rare circumstances. A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Effective Interest Rate Method and Interest Income

Under both PFRS 9 and PAS 39, interest income is recognized using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under PFRS 9, similar to interest bearing financial assets classified as AFS or HTM under PAS 39, are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. The Company recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges). If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statements of income. The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Impairment of Financial Assets Under PFRS 9

From January 1, 2018, the Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost, debt instruments measured at FVOCI and other contingent accounts. No impairment loss is recognized on equity investments. Recognition of credit losses or impairment is no longer dependent on the Company's identification of a credit loss event. Instead, the Company considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets. The Company measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for impairment is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

Measurement of ECL The key elements used in the calculation of ECL are as follows:

- Probability of Default (PD) – it is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- Loss Given Default (LGD) – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those the Company would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.
- Exposure at Default (EAD) – it represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Company shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(ii) the time value of money; and,
(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

<u>Impairment of Financial Assets under PAS 39</u>
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about certain loss events, including, among others:

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii)the probability that the borrower will enter bankruptcy or other financial reorganization;
(iv)the disappearance of an active market for that financial asset because of financial difficulties; or,
(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

The Company recognizes impairment loss based on the category of financial assets as follows:

(i) Carried at Amortized Cost – Loans and Receivables and HTM Investments the Company first assesses whether objective evidence of impairment exists individually for financial assets either individually or collectively. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, the Company includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial 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 loans and receivables or HTM investments 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. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Company may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., on the basis of the Company's grading process that considers asset type, industry, collateral type, status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income, which is reported as part of Miscellaneous – net under Other Operating Income account in the statement of income. 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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the carrying value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses account.

(ii) Carried at Cost – AFS Securities. The Company assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(iii) Carried at Fair Value – AFS Securities. In the case of investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, 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 other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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.

Impairment of financial assets at amortized cost

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.

<u>Fair value measurement</u>
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.

<u>Other financial liabilities</u>
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, 2018 and 2017, the Company's other financial liabilities include insurance liabilities and accounts and other payables.

<u>Derecognition of Financial Liabilities</u>
Financial liabilities are derecognized in the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

<u>Derivative Financial Instruments</u>
Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognizes profit or loss at initial recognition. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognized as profit or loss depending upon the individual facts and circumstances of each transaction and

not later than when the market data becomes observable. The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks as well as other factors.

Prior to 2018, under PAS 39, certain derivatives embedded in other financial instruments are considered as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. Accordingly, these embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows. With the adoption of PFRS 9, financial assets are no longer bifurcated; instead, the whole instrument (including the host contract) is measured at FVPL. Certain derivatives, if any, may be designated as either:

(i) hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or,
(ii) hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge).

Changes in the fair value of derivatives are recognized in profit or loss. The method of recognizing the resulting fair value gain or loss on derivatives that qualify as hedging instrument, if any, depends on the hedging relationship designated by the Company.

As of December 31, 2018 and 2017, the Company has no derivative financial instruments.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

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.

<u>Insurance contract</u>
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.

<u>Contract classification</u>
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.

<u>Related party relationships and transactions</u>
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.

<u>Equity</u>
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.

<u>Revenue recognition</u>
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 24^{th} 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).

Expense recognition
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.

Leases
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.

Retirement benefit costs

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.

Income taxes

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 P1,385,113 in 2018 and P903,157 in 2017 (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, 2018 and 2017 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.

<u>Allowance for impairment losses of receivables</u>
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 2018 and 2017. (Note 8)

<u>Useful life of property and equipment</u>
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 P38,873,096 in 2018 and P39,907,829 in 2017 (Please see Note 10).

<u>Impairment of non-financial assets</u>
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 2018 and 2017.

<u>Realizable amount of deferred income tax assets</u>
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 P20,673,438 and P13,678,659 in 2018 and 2017, respectively (Please see Note 25).

<u>Liability for insurance claims</u>
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 as of December 31, 2018 and 2017 amounted to P124,393,151 and P169,399,142, respectively. (Please see Note 14).

<u>Employee retirement benefits</u>
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 P755,525 in 2018 and P437,251 in 2017. The accumulated actuarial gain, net of tax, amounted to P728,520 both in 2018 and 2017. Retirement benefit expense amounted to P318,274 in 2018 and P301,638 in 2017

4. <u>Risk management objectives and policies</u>

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.

<u>Insurance risk</u>
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, 2018 and 2017 are as follows:

	2018			
	Gross	RI Recoverable	Net Liability	%
Fire	84,833,861	64,690,522	20,143,339	51%
Engineering	29,648,953	19,639,152	10,009,801	25%
Bonds	5,000,000	-	5,000,000	13%
Motor Car	4,004,008	96,776	3,907,232	10%
Marine	851,000	690,625	160,375	0%
PA	20,458	5,525	14,933	0%
Miscellaneous	34,871	3,076	31,795	0%
	124,393,151	85,125,676	39,267,475	100%

	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%
Miscellaneous	5,286,870	2,119,388	3,167,482	6%
	169,399,142	119,140,510	50,258,632	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, 2018 and 2017. These changes are considered to be reasonably possible based on observation of current market conditions. All other variables are held constant.

	Change in basis points	Effect on Net results	Effect on Equity	Change in basis points	Effect on Net results	Effect on Equity
2018						
Financial assets						
Cash and cash equivalents	+10	2,291,394	1,833,115	-10	(2,291,394)	(1,833,115)
Government bonds	+100	32,429,133	25,943,306	-100	(32,429,133)	(25,943,306)
		34,720,527	27,776,421		(34,720,527)	(27,776,421)
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)

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, 2018 and 2017:

2018	High Grade	Standard Grade	Low Grade	Gross impaired	Allowance for impairment	Total
Cash and cash equivalents	122,284,354	-	-	-	-	122,284,354
Insurance receivable	181,057,689	9,531,361	111,315,651	3,745,805	(3,745,805)	301,904,701
Loss reserve withheld by ceding companies	390,968	-	-	-	-	390,968
Financial asset at FVPL	280,563,840	-	-	-	-	280,563,840
Financial asset at OCI	-	-	1,545,206	-	-	1,545,206
Financial asset at amortized cost	143,309,739	-	-	-	-	143,309,739
	727,606,590	9,531,361	112,860,857	3,745,805	(3,745,805)	849,998,808

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
Financial asset at FVPL	324,356,865	-	-	-	-	324,356,865
Financial asset at OCI	-	-	1,628,906	-	-	1,628,906
	785,979,830	3,969,616	111,374,070	3,745,805	(3,745,805)	901,323,516

High grade receivables pertain to receivables with high collectivity, standard and low grade receivables consists of receivable with delay in payments. High grade Financial Asset at FVPL and Financial Asset at amortized cost consist of government bonds and investment in quoted equities and low grade Financial Asset at OCI consists of investment in unquoted equity shares.

As of December 31, 2018 and 2017, 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
2018				
Current	574,419	177,911,890	2,571,380	181,057,689
30 days past due not over 90 days	925,014	-	3,027,278	3,952,292
90 days past due not over 120 days	463,910	-	5,115,159	5,579,069
Over 120 days	67,636,953	-	43,678,698	111,315,651
Total	69,600,296	177,911,890	54,392,515	301,904,701

	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

Liquidity risks

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:

	2018	2017
Insurance liabilities	**188,297,635**	**231,335,987**
Accounts and other payables	**6,110,926**	**5,280,970**
	194,408,561	236,616,957

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:

	2018		2017	
	Carrying values	**Fair values**	Carrying values	Fair values
Financial assets				
Loans and receivables				
Cash and cash equivalents	**122,284,354**	**122,284,354**	246,124,106	246,124,106
Other assets	**10,039,714**	**10,039,714**	9,419,282	9,419,282
Financial asset at FVPL	**280,563,840**	**280,563,840**	324,356,865	324,356,865
Financial asset at OCI	**1,545,206**	**1,545,206**	1,628,906	1,628,906
Financial asset at amortized cost	**143,309,739**	**143,309,739**	-	-
Other financial asset				
Insurance receivable	**301,904,701**	**301,904,701**	325,063,591	325,063,591
Loss reserve withheld by ceding companies	**390,968**	**390,968**	4,150,048	4,150,048
	860,038,522	**860,038,522**	910,742,798	910,742,798
Other financial liabilities				
Insurance liabilities	**188,297,635**	**188,297,635**	231,335,987	231,335,987
Accounts and other payables	**6,110,926**	**6,110,926**	5,280,970	5,280,970
	194,408,561	**194,408,561**	236,616,957	236,616,957

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 financial asset at FVPL financial asset at amortized cost 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, 2018 and 2017.

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, 2018				
Financial Asset at FVPL	**-**	**280,563,840**	**-**	**280,563,840**
Financial Asset at OCI	**-**	**-**	**1,545,206**	**1,545,206**
Financial Asset at amortized Cost	**-**	**143,309,739**	**-**	**143,309,739**
December 31, 2017				
Financial Asset at FVPL	-	324,356,865	-	324,356,865
Financial Asset at OCI	-	-	1,628,906	1,628,906

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 2018 and 2017.

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, 2018, the Company is in compliance with required Net worth provided in "The Insurance Code".

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, 2018 and 2017 include the following:

	Note	**2018**	2017
Furniture, fixtures and office equipment, net	10	**1,421,509**	486,173
Deferred acquisition costs	11	**4,383,047**	346,573
Other assets, net of accrued investment income	13	**5,943,663**	6,206,326
Deferred tax assets	25	**20,673,438**	13,678,659
		32,421,657	20,717,731

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:

	2018	2017
Total liabilities	**196,478,999**	237,158,180
Total equity	**736,080,596**	747,150,557
Debt to equity ratio	**0.27**	0.32

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:

	2018	2017
Cash on hand	**20,000**	20,000
Cash in banks	**67,624,494**	21,076,697
Cash equivalents	**54,639,860**	225,027,409
Total	**122,284,354**	246,124,106

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, 2018 and 2017.

Cash equivalents are short-term special deposits which are placed for varying periods depending on the immediate requirements of the Company, earn interest at rate of 1.50% in 2018 and 2017. Interest earned from cash and cash equivalents amounted to P2,612,081 in 2018 and P3,661,602 in 2017. (Note 20)

8. Insurance receivables

This account consists of the following:

	2018	2017
Premiums due and uncollected	**69,600,296**	67,881,415
Due from ceding companies and reinsurers	**58,138,320**	49,959,975
Less: Allowance for impairment losses	**3,745,805**	3,745,805
	54,392,515	46,214,170
Reinsurance recoverable on losses	**177,911,890**	210,968,006
Total	**301,904,701**	325,063,591

Premiums due and uncollected is net of commission payable amounting to P10,270,695 in 2018 and P9,688,055 in 2017. The amounts due from ceding companies and reinsurers pertain to assumed premiums. No additional provision for impairment losses was recognized for 2018 and 2017.

Allowance for impairment losses includes receivable from suspended companies in 2018 and 2017.

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. This amounted to P390,968 in 2018 and P4,150,048 in 2017.

9. Financial assets

Financial assets with quoted prices are measured at fair value while unquoted 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 which management intends to hold until maturity is measured at amortized cost which approximates its fair value.

	2018	2017
Investment in stock		
Quoted equity shares	**1,523,340**	1,607,040
Unquoted equity shares - financial asset at FVOCI	**21,866**	21,866
Investment in government bonds		
Financial Asset at FVPL	**280,563,840**	324,356,865
Financial Asset at amortized cost	**143,309,739**	-
Balance, December 31	**425,418,785**	325,985,771

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 2018 and 2017. Interest earned from government bonds amounted to P17,103,681 in 2018 and P11,973,472 in 2017. (Note 20)

Movement of financial assets is as follows:

	2018	2017
Investment in government bonds		
Financial asset at FVPL		
January 1	**324,356,865**	132,424,092
Acquired/ (Matured)	**99,449,493**	192,680,838
Amortization on discount	**1,288,902**	417,503
Amortization on premium	**(1,221,681)**	(1,165,568)
Reclassified as FA at amortized cost	**(143,309,739)**	-
December 31	**280,563,840**	324,356,865
Financial asset at amortized cost		
January 1		
Face Value	**137,500,000**	-
Amortization on discount	**7,873,011**	-
Amortization on premium	**(2,063,272)**	-
December 31	**143,309,739**	-
Investment in stock - Financial asset at FVOCI		
January 1	**1,628,906**	1,310,846
Fair value adjustment	**(83,700)**	318,060
December 31	**1,545,206**	1,628,906
Total	**425,418,785**	325,985,771

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

	2018	2017
Financial asset at FVPL		
Due within one year	**49,828,530**	**-**
Due beyond one year	**230,735,310**	324,356,865
Financial asset at OCI		
Due within one year	**-**	**-**
Due beyond one year	**143,309,379**	-
Balance, December 31	**423,873,219**	-

The movement of revaluation reserve on financial asset at FVOCI is as follows:

	2018	2017
Balance, January 1	**33,480**	(284,580)
Fair value adjustment	**(83,700)**	-
Reversal of allowance on impairment losses	**-**	318,060
Balance, December 31	**(50,220)**	33,480

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, 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
Additions	-	1,256,106	-	1,256,106
Balance, December 31, 2018	65,723,630	14,425,905	2,209,679	82,359,214
Accumulated depreciation				
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
Depreciation expense	1,970,069	320,770		2,290,839
Balance, December 31, 2018	28,272,043	13,004,396	2,209,679	43,486,118
Net book value, December 31, 2018	**37,451,587**	**1,421,509**	**-**	**38,873,096**
Net book value, December 31, 2017	39,421,656	486,173	-	39,907,829

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 2018 and 2017.

As of December 31, 2018 and 2017, the following are fully depreciated properties that are still in use.

2018	**Cost**	Accumulated
Office premises and improvements	**680,330**	680,330
Furnitures and office equipment	**3,235,799**	3,235,799
Transportation/computer equipment	**11,041,334**	11,041,334
Total	**14,957,463**	14,957,463

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

11. Deferred acquisition cost

Movement of this account is as follows:

	2018	2017
Balance, January 1	**346,573**	3,670,575
Released during the year	**(346,573)**	(3,670,575)
Deferred commission expense	**4,472,842**	3,888,219
Unearned commission income	**(89,795)**	(3,541,646)
Balance, December 31	**4,383,047**	346,573

12. Deferred reinsurance premium

Movement of this account are as follows:

	2018	2017
Balance, January 1	**19,632,878**	31,211,179
Ceded during the year	**23,320,094**	31,939,064
Amortized during the year	**(34,361,481)**	(43,517,365)
Balance, December 31	**8,591,492**	19,632,878

13. Other assets

This account consists of:

	2018	2017
Advances and other assets	**3,494,868**	3,709,805
Utility and other deposits	**1,579,138**	1,626,865
Accrued investment income	**3,907,400**	3,212,956
Cash under garnishment	**869,656**	869,656
Input VAT	**188,652**	-
Total	**10,039,714**	9,419,282

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.

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:

	2018	2017
Reserve for unearned premiums	**22,428,684**	19,871,067
Claims payable	**124,393,151**	169,399,142
Due to reinsurers and ceding companies	**40,656,743**	41,246,722
Funds held for reinsurers	**819,056**	819,056
Total	**188,297,635**	231,335,987

Movement of reserve for unearned premiums is as follows:

	2018	2017
Balance, January 1	**19,871,067**	54,906,104
New policies written during the year	**40,993,886**	31,944,809
Premiums earned during the year	**(38,436,269)**	(66,979,846)
Balance, December 31	**22,428,684**	19,871,067

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

	2018	2017
Claims reported and loss adjustment expenses	**112,142,628**	163,799,541
Provision for MFAD	**5,803,523**	-
Provision for IBNR	**5,474,000**	4,383,601
Provision for claims handling expense	**973,000**	1,216,000
	124,393,151	169,399,142

15. Accounts and other payables

	2018	2017
Accounts payable	**5,577,769**	4,785,584
Taxes payable	**241,951**	333,486
Documentary stamp tax payable	**73,222**	31,354
Others	**217,984**	130,546
Total	**6,110,926**	5,280,970

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

16. Equity

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

	2018	2017
Common stocks - P400 par value		
Authorized capital stock:		
2,000,000 shares	**800,000,000**	800,000,000
Issued and outstanding, January 1:		
1,776,143 shares; 876,143 shares in 2017	**710,457,200**	350,457,200
Subscribed and paid-up: 900,000 shares in 2017	-	360,000,000
	-	
Issued and outstanding, December 31	**710,457,200**	710,457,200

As of December 31, 2018 the Company's total issued and outstanding share capital is owned by fifty three (53) 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 P22,426,225 in 2018 and P26,835,235 in 2017. The decrease in share premium is attributable to the cost of issuance of stocks in 2017 paid in 2018.

Treasury shares amounted to P457,200 both in 2018 and 2017.

Deposits for future subscription amounted to nil in 2018 and P4,864,008 in 2017. Deposit for future subscription pertains to the payments received from stockholders. However, all amounts were refunded to the stockholders in 2018.

Adjustments to retained earnings follow:

	2018	2017
Expired excess MCIT	**1,096,623**	564,650
Non-proportional treaty premium for 2014 to 2016	-	14,850,862

17. Actuarial gains on retirement benefit liability, net

Movement of this account is as follows:

	2018	2017
Balance, January 1	**728,520**	498,873
Actuarial gain during the year	-	229,647
Balance, December 31	**728,520**	728,520

18. Gross underwriting income

The account consists of:

	2018	2017
Premiums written	**18,140,641**	11,933,163
Premiums assumed	**22,853,245**	20,011,646
Gross premium written	**40,993,886**	31,944,809
Reinsurance premium ceded	**(23,320,094)**	(31,939,064)
Net premium retained	**17,673,792**	5,745
(Increase)/ Decrease in unearned premium	**(13,599,003)**	23,456,736
Commissions earned	**3,690,208**	9,489,938
	7,764,997	32,952,419

19. Underwriting expenses

The account consists of:

	2018	2017
Commissions	**7,961,792**	12,934,281
Claims and losses, net	**225,926**	20,484,063
Other underwriting expense	**97,791**	81,318
	8,285,509	33,499,662

20. Other income

The breakdown of other income is as follows:

	Notes	**2018**	2017
Interest income, net of amortization	7,9	**19,782,984**	14,887,008
Foreign exchange gain		**767,746**	2,297,445
Dividend income		**5,140**	4,284
Miscellaneous		**1,737**	728
Total		**20,557,607**	17,189,465

21. General and administrative expenses

The breakdown of other expenses is as follows:

	Notes	**2018**	2017
Salaries, wages and employee benefits		**11,207,292**	10,577,181
Association and pool dues		**1,964,402**	1,828,888
Depreciation expense	10	**1,457,759**	1,339,075
Professional fees		**1,439,082**	1,294,690
Rent	24	**1,385,113**	903,157
Christmas party		**1,258,946**	-
Utilities		**772,121**	445,943
Taxes and licenses		**616,569**	177,870
Travel and transportation		**443,021**	272,239
Supplies		**405,345**	175,949
Communication		**385,188**	376,026
Retirement expense	23	**318,274**	301,638
Repairs, maintenance and janitorial services		**242,073**	131,007
Representation		**189,789**	165,281
Insurance		**136,249**	74,406
Promotion, advertising and networking		**24,948**	67,390
Training and seminar		**2,143**	43,571
Donation		**-**	5,000
Miscellaneous		**255,103**	589,265
Total		**22,503,418**	18,768,576

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

	2018	2017
Salaries and wages	**9,363,962**	9,137,057
Employees' benefits	**1,843,330**	1,440,124
Total	**11,207,292**	10,577,181

22. Interest Expense

Interest expense pertains to underwriting expense and is not related to any financing cost.

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:

	2018	2017
Present value of the obligation	**1,013,299**	681,124
Fair value of plan assets	**(257,774)**	(243,873)
Underfunded obligation	**755,525**	437,251
Liability to be recognized in the Statement of financial position	**755,525**	437,251

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

	2018	2017
Balance, January 1	**681,124**	703,868
Interest cost	**38,824**	37,868
Current service cost	**293,351**	276,692
Actuarial gain	**-**	(337,304)
Balance, December 31	**1,013,299**	681,124

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

	2018	2017
Balance, January 1	**243,873**	240,188
Interest income	**13,901**	12,922
Remeasurement loss	-	(9,237)
Balance, December 31	**257,774**	243,873

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

	2018	2017
Interest income	**13,901**	12,922
Remeasurement loss	**-**	(9,237)
Actual return on plan asset	**13,901**	3,685

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

	2018	2017
Current service cost	**293,351**	276,692
Interest cost	**38,824**	37,868
Interest income on plan assets	**(13,901)**	(12,922)
Expense recognized during the year	**318,274**	301,638

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

	2018	2017
Accumulated other comprehensive income, January 1	**(1,040,743)**	(712,676)
Actuarial gain - DBO	-	(337,304)
Remeasurement loss - plan assets	-	9,237
Defined benefit cost in OCI - income	-	(328,067)
Accumulated other comprehensive income, ending	**(1,040,743)**	(1,040,743)

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

	2018	2017
Discount rate	**5.70%**	5.70%
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	
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, 2018 and 2017.

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:

	2018	**2017**
Within one year	**693,750**	**1,169,428**
More than one year but less than five years	**-**	**668,750**
Total	**693,750**	**1,838,178**

Total rental expense charged to operations amounted to P1,385,113 in 2018 and P903,157 in 2017. (Note 21)

25. Income taxes

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

	2018	2017
Current:		
Regular corporate income tax	**-**	-
Final tax on interest income	**3,975,129**	3,113,911
		-
Deferred:		-
NOLCO	**(3,719,988)**	(11,901,103)
Deferred acquisition cost	**1,210,942**	(997,201)
Reserve for unearned premium	**(4,079,701)**	7,037,021
Retirement benefits expense	**(95,482)**	(90,491)
Income tax benefit	**(2,709,100)**	(2,837,863)

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:

	2018	2017
Tax on pretax income at prevailing rate	**(747,792)**	(1,259,967)
Adjustment for items subject to lower tax rates:		
Interest income	**(1,959,766)**	(1,576,611)
Tax effect on:		
Non-deductible expense	**-**	-
Non-taxable income	**(1,542)**	(1,285)
Total	**(2,709,100)**	(2,837,863)

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

	2018	2017
Allowance for reinsurance receivable	**1,123,741**	1,123,741
Reserve for unearned premium	**(1,470,872)**	(5,550,573)
NOLCO	**20,356,968**	16,636,980
MCIT	**436,943**	1,337,336
Retirement benefits obligation	**226,658**	131,175
Total	**20,673,438**	13,678,659

Validity of NOLCO as follows:

Year incurred	Validity	Amount	Expired in the current year	Applied in the previous year	Balance
2018	2021	12,399,960	-	-	12,399,960
2017	2020	39,670,343	-	-	39,670,343
2016	2019	15,786,256	-	-	15,786,256
		67,856,559	**-**	**-**	**67,856,559**

Validity of MCIT as follows:

Year incurred	Validity	Amount	Applied	Expired	Balance
2015	2018	1,096,623	-	1,096,623	-
2016	2019	240,713	-	-	240,713
2018	2021	196,230	-	-	196,230
		1,533,566	**-**	**1,096,623**	**436,943**

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

	2018	2017
Deferred acquisition cost	**1,314,913**	103,972

26. Earnings per common share

	2018	2017
Profit/ (Loss) for the year	**216,461**	(1,362,026)
Weighted average number of common shares	**1,776,143**	1,326,143
	0.12	(1.03)

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.s

Key management personnel compensation
The key management compensation consists of salaries, allowances and employee benefits amounting P3,123,120 and P2,264,312 in 2018 and 2017, 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 P257,774 in

2018 and P243,837 in 2017. The Company paid no benefits from plan assets both in 2018 and 2017. No contribution was made in both 2018 and 2017.

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 April 10, 2019.

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**	**2018**	2017
Vatable receipts	16,729,476	-	1,610,223	**18,339,699**	29,187,436
Output VAT rate	12%	0%	-	**12%/0%**	12%/0%
Total	2,007,537	-	-	**2,007,537**	3,136,942

Input VAT

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

	2018	2017
Balance, January 1		-
Add: Current year's domestic purchases/payments for:		
Purchase of services	**1,894,261**	1,698,214
Purchase of capital goods and domestic purchases of goods other than capital goods	**-**	-
Total available input VAT	**1,894,261**	1,698,214

Documentary stamp tax (DST)

The DST paid/accrued during the reporting period was P2,343,276 in 2018 and P1,730,273 in 2017 for insurance of policies.

Other taxes and licenses

	OR No.	2018	2017
Community tax	CCC201700096992	**5,278**	10,500
Business permits	various	**43,599**	18,981
Percentage taxes and various	various	**567,692**	148,389
Total per Statement of Comprehensive Income		**616,569**	177,870

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

	2018	2017
Tax withheld by the company on:		
Compensation	**1,255,644**	2,032,304
Expanded	**1,087,201**	755,429
Final	**7,895**	-
Total	**2,350,740**	2,787,733

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, 2018, the Company received a Letter of Authority from the BIR on 2017 taxes. This was settled in March 2019.

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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			
		2018		2017	
Liquidity/ Solvency Ratios					
1. Current Ratio	Current Assets / Current Liabilities	424,580,023 / 194,408,561	2.18	575,337,745 / 236,616,957	2.43
2. Liquidity Ratio	Liquid Assets / Current Liabilities	424,580,023 / 194,408,561	2.18	575,337,745 / 236,616,957	2.43
3. Working Capital to Total Asset	Working Capital / Total Assets	230,171,462 / 932,559,595	0.25	338,720,788 / 984,308,737	0.34
4. Solvency Ratio	Net Profit after Tax + Depreciation / Total Liabilities	1,674,220 / 196,478,999	0.01	(22,951) / 237,158,180	-0.00
Capital Structure Analysis					
5. Debt-to-Equity Ratio	Total Debt / Total Equity	196,478,999 / 736,080,596	0.27	237,158,180 / 747,150,557	0.32
6. Asset-to-Equity Ratio	Total Assets / Total Equity	932,559,595 / 736,080,596	1.27	984,308,737 / 747,150,557	1.32
Profitability Ratio					
7. Return on Assets (ROA)	Net Income / Average Assets	216,461 / 958,434,166	0.00	(1,362,026) / 898,288,740	-0.00
8. Return on Equity (ROE)	Net Income / Average Equity	216,461 / 741,615,577	0.00	(1,362,026) / 573,250,009	-0.00
9. Profit Margin	Net Income / Revenue	216,461 / 7,764,997	0.03	(1,362,026) / 32,952,419	-0.04
10. Gross Profit Margin	Gross Profit / Revenue	20,037,095 / 7,764,997	2.58	16,642,222 / 32,952,419	0.51
11. Earning per share	Net Income / Weighted Average Outstanding Shares	216,461 / 1,776,143	0.12	(1,362,026) / 1,326,143	-1.03
12. Interest Rate Coverage Ratio	Earnings before Income Tax / Interest Expense	(2,492,639) / 26,316	-94.72	(4,199,889) / 2,073,535	-2.03

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		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	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, 2018		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, 2018		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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2018**		**REMARKS** **(A=Adopted, NOA= Not Adopted, N/A=Not Applicable)**
PAS 32	Financial Instruments: Disclosure and Presentation	A
	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	N/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	A
PAS 41	Agriculture	N/A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
SIC-15	Operating Leases - Incentives	N/A
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