AIG Philippines Insurance, Inc.

Financial Statements
As at and for the years ended December 31, 2018 and 2017

Independent Auditor's Report

To the Board of Directors and Shareholders of
AIG Philippines Insurance, Inc.
30th Floor Philamlife Tower
8767 Paseo de Roxas
Makati City

Report on the Audits of the Financial Statements

Our Opinion

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

What we have audited

The financial statements of the Company comprise:

- the statements of comprehensive income for the years ended December 31, 2018 and 2017;
- the statements of financial position as at December 31, 2018 and 2017;
- the statements of changes in equity for the years ended December 31, 2018 and 2017;
- the statements of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 30 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits 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.

Isla Lipana & Co.

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706, issued on January 8, 2019, Makati City
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 112-071-386
BIR A.N. 08-000745-17-2018, issued on December 10, 2018; effective until December 9, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
March 22, 2019

AIG Philippines Insurance, Inc.

Statements of Comprehensive Income
For the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

	Notes	2018	2017
CONTINUING OPERATIONS			
Gross earned premiums on insurance contracts	8,29	2,356,225,930	2,083,043,803
Reinsurer's share of gross earned premiums on insurance contracts	8,29	2,057,758,352	1,874,949,285
NET EARNED INSURANCE PREMIUMS		298,467,578	208,094,518
Commission income		468,672,103	442,732,692
Net investment income	9	87,640,856	113,011,221
Others	10	69,135,874	55,905,978
OTHER INCOME		625,448,833	611,649,891
TOTAL INCOME		923,916,411	819,744,409
Gross insurance claims paid	11,29	1,538,588,561	336,226,341
Reinsurers' share of gross insurance claims paid	11,29	(1,273,865,687)	(285,574,466)
Gross change in claims liabilities	11,29	(529,251,971)	1,340,944,027
Reinsurers' share of gross change in claims liabilities	11,29	451,932,370	(1,207,059,654)
NET INSURANCE CLAIMS		187,403,273	184,536,248
Operating expenses	12,29	278,072,792	299,746,446
Commission expense	16,29	178,759,982	142,721,260
Interest expense on funds held for reinsurers	28,29	31,030,760	18,121,991
Reversal of impairment loss	19	(6,096,787)	(12,092,626)
Foreign exchange loss, net		(1,643,748)	15,805,212
Investment expenses		1,597,955	2,085,293
OTHER EXPENSES		481,720,954	466,387,576
TOTAL INSURANCE CLAIMS AND OTHER EXPENSES		669,124,227	650,923,824
INCOME BEFORE INCOME TAX		254,792,184	168,820,585
PROVISION FOR INCOME TAX	13	77,828,036	31,812,022
PROFIT FROM CONTINUING OPERATIONS		176,964,148	137,008,563
LOSS FROM DISCONTINUED OPERATION, NET OF TAX	29	(29,283,010)	(80,451,026)
NET INCOME FOR THE YEAR		147,681,138	56,557,537

(forward)

AIG Philippines Insurance, Inc.

Statements of Comprehensive Income
For the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

(forwarded)

	Notes	2018	2017
NET INCOME FOR THE YEAR		147,681,138	56,557,537
Other comprehensive (loss) income			
Item that will be reclassified subsequently to profit or loss			
Change in fair value reserve on available-for-sale financial assets		(58,781,487)	52,969,562
Income tax effect		885,097	(1,056,083)
	17, 21	(57,896,390)	51,913,479
Item that will not be reclassified subsequently to profit or loss			
Remeasurement gain on defined benefit plan		3,179,989	7,042,317
Income tax effect		(953,998)	(2,112,695)
	22	2,225,991	4,929,622
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR, NET OF TAX EFFECT		(55,670,399)	56,843,101
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		92,010,739	113,400,638

(The notes on pages 1 to 62 are integral part of these financial statements)

AIG Philippines Insurance, Inc.

Statements of Financial Position
December 31, 2018 and 2017
(All amounts in Philippine Peso)

	Notes	2018	2017
ASSETS			
Retirement benefit asset	22	19,015,012	21,403,295
Deferred income tax assets, net	13	60,945,122	80,772,374
Property and equipment, net	14	31,174,487	39,707,673
Other assets		62,315,727	63,184,544
Insurance contracts			
Reinsurance assets	15	2,256,664,934	2,692,223,457
Deferred acquisition costs	16	65,836,542	63,252,562
Accrued income		16,195,217	19,109,584
Available-for-sale financial assets	17	1,955,962,838	2,636,606,137
Loans and receivables	18	59,813,165	61,377,975
Insurance receivables, net	19	594,261,636	497,100,742
Cash and cash equivalents	20	1,160,104,986	990,925,585
TOTAL ASSETS		6,282,289,666	7,165,663,928
EQUITY			
Share capital	21	935,852,400	935,852,400
Share premium		60,204,136	60,204,136
Accumulated other comprehensive income	21	9,690,302	65,360,701
Retained earnings	21	997,198,104	1,099,516,966
TOTAL EQUITY		2,002,944,942	2,160,934,203
LIABILITIES			
Deferred reinsurance commissions		169,436,359	185,142,251
Insurance contract liabilities	23	2,605,900,609	3,125,446,057
Insurance payables	25	1,299,284,136	1,411,382,395
Trade and other liabilities	26	204,723,620	282,759,022
TOTAL LIABILITIES		4,279,344,724	5,004,729,725
TOTAL EQUITY AND LIABILITIES		6,282,289,666	7,165,663,928

(The notes on pages 1 to 62 are integral part of these financial statements)

AIG Philippines Insurance, Inc.

Statements of Changes in Equity
For the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

	Share capital (Note 21)	Share premium	Accumulated other comprehensive income (Note 21)	Retained earnings (Note 21)	Total
As at January 1, 2017	935,852,400	60,204,136	8,517,600	1,042,959,429	2,047,533,565
Other comprehensive income					
Net income for the year	-	-	-	56,557,537	56,557,537
Other comprehensive income for the year	-	-	56,843,101	-	56,843,101
Total comprehensive income for the year	-	-	56,843,101	56,557,537	113,400,638
As at December 31, 2017	935,852,400	60,204,136	65,360,701	1,099,516,966	2,160,934,203
Other comprehensive income					
Net income for the year	-	-	-	147,681,138	147,681,138
Other comprehensive loss for the year	-	-	(55,670,399)	-	(55,670,399)
Total comprehensive (loss) income for the year	-	-	(55,670,399)	147,681,138	92,010,739
Transaction with owners					
Cash dividends	-	-	-	(250,000,000)	(250,000,000)
As at December 31, 2018	935,852,400	60,204,136	9,690,302	997,198,104	2,002,944,942

(The notes on pages 1 to 62 are integral part of these financial statements)

AIG Philippines Insurance, Inc.

Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		212,630,638	69,692,738
Adjustments for:			
Amortization of bond premium	9,17	5,141,654	8,971,477
Interest expense	28	32,324,772	19,574,797
Depreciation and amortization	12,14	11,741,784	5,559,170
Unrealized foreign exchange (gain) loss, net		(3,208,626)	2,566,409
Loss (gain) on sale of available-for-sale financial assets	9	2,282,380	(28,508,421)
Impairment of available-for-sale financial assets	9,17	-	8,271,793
Provision for incurred but not reported losses, net	23	(11,427,297)	31,533,498
Reversal of impairment of insurance receivable	19	(6,096,787)	(12,092,626)
Retirement expense	22	4,761,733	4,899,603
Provision for other post-employment benefits	22	332,237	320,488
Interest income	9	(90,562,039)	(94,441,393)
Dividend income	9	(4,502,851)	(7,304,677)
Retirement of property and equipment		773	-
Operating income before changes in operating assets and liabilities		153,418,371	9,042,856
Changes in operating assets and liabilities			
(Increase) decrease in:			
Insurance receivables		(91,064,107)	(79,275,633)
Loans and receivable		1,220,492	(46,920,898)
Deferred reinsurance premiums	23	(14,438,859)	96,151,719
Reinsurance recoverable on unpaid losses	23	420,355,914	(1,114,961,696)
Deferred acquisition costs		(2,583,980)	(9,051,209)
Other assets		(44,322,331)	(18,852,140)
Increase (decrease) in:			
Provision for unearned premiums	23	1,116,908	(38,581,910)
Provision for claims reported and loss adjustment expenses	23	(479,593,591)	1,234,240,152
Insurance payables		(112,098,259)	(83,933,273)
Deferred reinsurance commissions		(15,705,892)	(31,419,759)
Trade and other liabilities		(77,749,643)	132,422,539
Cash (used in) generated from operations		(261,444,977)	48,860,748
Income tax paid		-	(27,874,366)
Interest paid on funds held for reinsurers	28	(32,324,772)	(19,574,797)
Employee benefit payments	22	(43,764)	(65,530)
Net cash used in operating activities		(293,813,513)	1,346,055

(forward)

AIG Philippines Insurance, Inc.

Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

(forwarded)

	Notes	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income received		93,513,856	97,648,452
Dividends received		4,465,400	7,372,452
Proceeds from:			
Sale of available-for-sale securities	17	77,442,953	231,823,646
Maturities and sale of government securities	17	1,521,765,000	418,391,000
Collections of mortgage and guaranteed loans		344,318	1,222,458
Purchases of:			
Available-for-sale financial assets	17	(984,770,175)	(511,312,028)
Property and equipment	14	(3,209,371)	(37,577,933)
Net cash from investing activities		709,551,981	207,568,047
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid	21	(250,000,000)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		165,738,468	208,914,102
CASH AND CASH EQUIVALENTS			
January 1		990,925,585	784,807,136
Effect of exchange rate changes on cash and cash equivalents		3,440,933	(2,795,653)
December 31	20	1,160,104,986	990,925,585

(The notes on pages 1 to 62 are integral part of these financial statements)

AIG Philippines Insurance, Inc.

Notes to financial statements
As at and for the years ended December 31, 2018 and 2017
(All amounts are shown in Philippine Peso, unless otherwise stated)

1. General information

AIG Philippines Insurance, Inc. (the “Company”) was incorporated in the Philippines and registered with the SEC on February 23, 1961 to engage in the business of non-life insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events. Non-life insurance includes lines such as health, accident, fire and allied lines, motor vehicles, casualty, surety, marine cargo, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with and incident to aforementioned lines.

As at December 11, 2017, the Company changed its registered office address, which is also its principal place of business, from 47th Floor, PBCom Tower, 6795 Ayala Avenue corner V.A Rufino St., Makati City, to 30th Floor, Philamlife Tower, 8767 Paseo de Roxas, Makati City.

As at December 31, 2018 and 2017, the Company is 62.09% owned by American International Overseas Limited, 32.06% owned by AIG Asia Pacific Insurance Pte. Ltd. and 5.85% owned by AIG Property Casualty International LLC. The shareholders are all foreign corporations.

The Company’s ultimate parent is the American International Group, Inc. (“AIG”).

The Company has a Board of Directors (“BOD”) which met four (4) times during 2018. The directors, including certain members of senior management concurrently serving as director, only hold qualifying shares in the Company. None of these shares have been traded during the year. The Board also appoints certain members to constitute the Audit Committee which met four (4) times in 2018.

The Company has no operating subsidiary, joint venture and special purpose vehicles.

The accompanying financial statements of the Company were authorized for issue by the Board of Directors on March 20, 2019. There are no material events that occurred subsequent to March 20, 2019 until March 22, 2019.

2. Changes in accounting policy and disclosures

(a) New amended standards adopted by the Company

The following relevant amended standards have been adopted by the Company effective January 1, 2018:

Revenue from contracts with customers

- *PFRS 15, ‘Revenue from contracts with customers’* will replace PAS 18, ‘Revenue’ which covers contracts for goods and services and PAS 11, ‘Construction contracts’ which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for adoption.

The adoption of PFRS 15 did not have a significant impact to the financial statements as the Company's revenues arise largely from activities related to its insurance and investment contracts, which are outside the scope of the revenue standard. PFRS 15 did not result to a significant change in the revenue recognition of the remaining sources of revenue because the timing and measurement of its revenue under PAS 18 and PFRS 15 are essentially the same. However, as a result of the adoption, the disclosures of the accounting policy has been enhanced to comply with PFRS 15.

<u>Valuation of non-life insurance policy reserves for premium liabilities</u>

- On March 9, 2018, the Insurance Commission (IC), through its Circular Letter (CL) No. 2018-18, issued the new Valuation Standards for Non-life Insurance Policy Reserves and replaced CL No. 2016-67. Among others, the new valuation standards provides for the determination of premium liabilities on an aggregate basis. A computation should be performed to determine whether an additional reserve is required to be booked on top of the unearned premium reserve (UPR). Therefore, premium liabilities should be valued equal to the UPR plus the difference between the unexpired risk reserve (URR) and the UPR, net of deferred acquisition cost (DAC). UPR shall be calculated for all classes of business, on a gross of reinsurance basis while URR shall be calculated as the best estimate of future claims and expenses for all classes of business, with margin for adverse deviation. The changes shall take effect retroactively from January 1, 2017.

  The Company has elected to apply the change in valuation methodology for the Company's premium liabilities retrospectively. The adoption did not have a significant impact as the Company's URR did not exceed its UPR.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2018 are not considered relevant to the Company.

(b) New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing these financial statements. The more relevant standards affecting the Company's financial statements are set out below:

<u>Insurance contracts</u>

- *PFRS 17, 'Insurance Contracts' (effective January 1, 2023)*. PFRS 17, 'Insurance contracts'. PFRS 17 was issued in May 2018 as replacement for PFRS 4, 'Insurance Contracts'. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

IFRS 17 is effective for accounting periods beginning on or after January 1, 2022 and earlier application is permitted, although the IC has deferred the implementation of PFRS 17 to January 1, 2023 granting an additional one-year period from the date of effectivity proposed by the International Accounting Standards Board (IASB).

The Group's management is currently reviewing the impact of PFRS 17 across its entire business and has established a project team to manage the implementation approach.

Financial Instruments

- *PFRS 9, 'Financial instruments'.* PFRS 9 deals with the classification, measurement and impairment of financial instruments, as well as hedge accounting.

  PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39, 'Financial Instruments: Recognition and Measurement' with a single model that has three classification categories: amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. Classification under PFRS 9 is driven by the entity's business model for managing and holding the financial assets and whether the contractual characteristics of the financial assets represent solely payments of principal and interest. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at fair value through profit or loss. For such liabilities, changes in fair value arising from changes in the entity's own credit risk are presented separately in OCI.

  The impairment rules of PFRS 9 introduce an 'expected credit loss' model that replaces the 'incurred credit loss' model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39.

  The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges.

- *Deferral of PFRS 9, Financial instruments*

  The Company meets the eligibility requirements set out in 'Applying PFRS 9, *Financial Instruments* with PFRS 4, *Insurance Contracts* (Amendments to PFRS 4)'; and has elected to defer the application of PFRS 9 until the Company adopts PFRS 17.

  The Company's activities were predominantly connected with insurance activities at December 31, 2015 (which is its annual reporting date immediately preceding April 1, 2016) at which date the percentage of the total carrying amount of the Company's liabilities connected with insurance activities was more than 95%. This is greater than 90% of the total carrying amount of all of its liabilities as at December 31, 2015. There has been no significant change in the Company's activities subsequent to this date.

The following tables set out the fair value at December 31, 2018 and changes in fair values for the year ended December 31, 2018, of financial assets separately for the following groups:

- Financial assets that meet the SPPI criteria in PFRS 9, excluding those financial assets that are defined as 'held-for-trading' or that are managed and evaluated on a fair value basis; and
- All other financial assets, including those assets that do not meet the SPPI criteria in PFRS 9 and those financial assets that are defined as 'held-for-trading' or that are managed and evaluated on a fair value basis.

Financial assets that meet the SPPI criteria in PFRS 9 are those whose cash flows comprise solely payments of principal and interest (SPPI) on principal outstanding.

The fair value of financial instruments at December 31, 2018 classified between those that meet and those that fail the SPPI criterion are described as follows:

	Financial assets that meet the SPPI criteria*		All other financial assets	
	Fair value	Fair value change during the reporting period	Fair value	Fair value change during the reporting period
Security deposits	3,412,194	-	-	-
Accrued income	16,195,217	-	-	-
AFS financial assets	1,559,322,272	(49,370,187)	396,640,566	(8,111,103)
Loans and receivables				
Mortgage loans	2,327,917	-	-	-
Guaranteed loans	460,573	-	-	-
Intercompany accounts receivable	55,770,133	-	-	-
Miscellaneous receivables	1,254,542	-	-	-
Cash and cash equivalents	1,160,104,986	-	-	-
	2,798,847,834	(49,370,187)	396,640,566	(8,111,103)

**Excluding any financial assets that meet the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis.*

The financial assets that meet the SPPI criteria are tagged as neither past due nor impaired and have a high credit rating.

<u>Leases</u>

- *PFRS 16, 'Leases' (effective January 1, 2018).* PFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. PFRS 16 will affect primarily the accounting by lessees. Under this new model, subject to optional exemptions for leases of short duration and for assets of low value when new, all assets held under a lease by the Company will be recognized in the statement of financial position with a corresponding lease liability representing its future obligation to make lease payments under the contract.

  The Company expects to recognize right-of-use assets and lease liability obligation at January 1, 2019. The Company's net assets will decrease as a result of the adoption.

There are no other standards, amendments or interpretations that are not yet effective that are considered relevant and have a material impact on the financial statements of the Company.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

3.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards ("PFRS"). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards ("PAS"), and interpretations of the Philippine Interpretations Committee ("PIC"), Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC") which have been approved by the Financial Reporting Standards Council ("FRSC") and adopted by the SEC.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale ("AFS") financial assets and retirement plan assets.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of 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 disclosed in Note 4.

3.2 Foreign currency transactions and translation

3.2.1 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 Peso, which is the Company's functional and presentation currency.

3.2.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost and denominated in a foreign currency are translated at exchange rates as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency and classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income as part of the fair value reserve.

3.3 Insurance contracts

3.3.1 Product classification

Insurance contracts are defined as those contracts under which the Company (the “insurer”) accepts significant insurance risk from another party (the “policyholder”) by agreeing to compensate the policyholder if a specified uncertain future event (the “insured event”) adversely affects the policyholder. As a general guideline, the Company defines insurance risk as significant if the insured event could cause an insurer to pay significant additional benefits even if the insured event is extremely unlikely to happen.

Insurance contract can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

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

3.3.2 Revenue recognition

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

Premium revenue

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 365th method. The portion of the premiums pertaining to the premiums written that relate to the unexpired periods of the policies at reporting date is accounted for as Provision for unearned premiums and presented as part of Insurance contract liabilities in the liabilities section of the statement of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as Deferred reinsurance premiums as part of “Reinsurance assets” presented in the assets section of the statement of financial position. The net changes in these accounts between reporting dates are included in the determination of net insurance revenue.

Provisions for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as provision for unearned premiums using the 365th method, except for marine cargo, where the provision for unearned premiums pertain to the premiums for the last two months of the year. The change in the provision for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk. Further provisions are made to cover any deficiency to the extent that the unexpired risk reserve exceeds the provision for unearned premiums (net of DAC). The unexpired risk reserve represents the premiums to match future claims and expenses in the unexpired coverage period of in-force contracts. The future claims and expenses are adjusted for potential changes or uncertainties.

Commission income

Reinsurance commissions are recognized as revenue over the period of the contracts using the 365th method. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as “Deferred reinsurance commissions” in the liabilities section of the statement of financial position.

Other income

<u>Accounting policy applied from January 1, 2018</u>

The Company derives other income mainly from the provision of engineering and surveying services as a separate service from any insurance provided. The Company also provides administrative services to a related entity. The revenue for these services is recognized based on the depiction of transfer of the service to third parties and entities under common control in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Revenue is determined at the gross amount of consideration receivable for the services provided.

<u>Accounting policy adopted prior to January 1, 2018</u>

The Company recognizes other income when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow into the entity and specific criteria have been met for each of the Company’s activities.

3.3.3 Insurance claims

Insurance claims consists of claims paid to policyholders, which include changes in the valuation of insurance contract liabilities, except for changes in the unearned premium provision which are recorded in premium income. Insurance claims are recorded on the basis of notifications received.

3.3.4 Deferred acquisition costs (“DAC”)

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis over the life of the contract. Amortization is reported as part of Commission expense in statement of comprehensive income. The unamortized acquisition costs are shown as “Deferred acquisition costs” in the assets section of the statement of financial position.

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

3.3.5 Insurance contract liabilities

Insurance contract liabilities are recognized when the contracts are entered into and the premiums are charged. These liabilities are known as the outstanding claims provisions, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of which cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money and includes incurred but not reported ("IBNR") losses. No provision for catastrophic reserves is recognized unless the catastrophe is sustained at reporting period.

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risk that have not yet expired, is deferred as provision for unearned premiums using the 365th method, except for marine cargo, where the provision for unearned premiums pertain to the premiums for the last two months of the year. The outstanding provision for unearned premiums is reported under Insurance contract liabilities.

The liability is derecognized when the contract has expired, is discharged or is cancelled.

3.3.6 Claims provisions

Provision is made at the reporting date for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported ("IBNR") to the Company. Although the Company takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures, given the uncertainty in establishing claims provisions, it is likely that the final outcome will be different from the original liability established. To ensure local regulatory compliance, the Company engaged an external actuary to review the analysis and certify the reasonableness of the reserves.

The Company does not discount liabilities for unpaid claims.

The IBNR reserve is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. It includes an allowance for any consistent under or over-estimation in the case reserves. The IBNR review is conducted on a class of business basis. The in-house actuarial team conducts the assessment which is subject to an internal peer review process. Standard actuarial methodologies are used to evaluate and determine the IBNR reserves for all areas of the business including loss development methods and the analysis of individual cases in more volatile lines as appropriate. The Company's actuaries determine and select the most appropriate actuarial method to adopt for each business class. They also determine the appropriate segmentation of data from which the adequacy of the reserve can be established. A point estimate is determined from these detailed reviews and the sum of these point estimates for each class of business provides the overall actuarial point estimate for the IBNR reserve for the Company.
The ultimate process by which the actual carried reserves are determined takes into account both the actuarial point estimate and numerous other internal and external factors such as claims initiatives and economic conditions in the Philippines.

The general insurance loss reserves can generally be categorized into two distinct groups. One group is short-tail classes of business consisting mainly of property, consumer lines, marine and energy. The other group is long-tail commercial lines of business which includes excess and primary liability, Directors and Officers (D&O), professional liability, employers' liability, general liability and related classes.

Short-tail classes do not have a significant delay from the date of accident to date of report to the Company and then settled by the Company. The estimates for these classes are more reliant on the case estimate on individual claims and utilizes loss development methodologies in the projection of the future development of these case estimates.

Long-tail classes generally relate to claims where liability has to be established or where there is an element of bodily injury. For these classes it may take some time from the date of accident for the claim to emerge and for claims to be settled from notification date due to the time taken to establish liability. Estimation of ultimate net indemnity losses and loss expenses for long-tail lines of business is a complex process and depends on a number of factors, including the class and volume of business involved as well as premium rate changes, changes in exposure and claim inflation. The actuarial methods used by the Company for most long-tail commercial lines include loss development methods and expected loss ratio methods, including the Bornhuetter-Ferguson (BF) method. Exceptional large claims or events, to the extent that these distort the historical development, are removed from the analysis and considered separately.

3.3.7 Liability adequacy test

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related DAC assets. In performing the test, current best estimates of future cash flows and claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The liability adequacy test is addressed by the current premium valuation method used by the Company for its premium liabilities.

3.3.8 Reinsurance assets

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurance can be measured reliably. The impairment loss is charged to profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligation to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized 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. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

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

3.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to profit or loss during the financial period in which they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

	Years
EDP equipment	3
Furniture and fixtures	5
Transportation equipment	5

Leasehold improvements are amortized over the estimated useful life of the improvements of 7 years or the term of the lease, whichever is shorter.

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

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

3.5 Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that its non-financial assets, mainly property and equipment, may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of the recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value and the risks specific to the asset (or cash generating unit).

For non-financial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years.

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 reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount less any residual value, on a systematic basis over its remaining life.

3.6 Financial instruments

3.6.1 Classification

The classification of the financial assets is as follows: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets, held-to-maturity ("HTM") investments, and loans and receivables. Financial liabilities are either designated at FVTPL or classified as other financial liabilities. The classification depends on the purpose for which the assets and liabilities were acquired or incurred and whether they are quoted in an active market. Management determines the classification at initial recognition.

Financial assets or financial liabilities at FVTPL

This category consists of financial assets or financial liabilities that are held for trading or designated by management as at FVTPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

In 2018 and 2017, the Company has not classified any of its financial assets or liabilities at FVTPL.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified or designated at FVTPL, held to maturity or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, equity investments, and other debt instruments.

In 2018 and 2017, the Company's AFS financial assets consist of government debt securities, listed equity securities and proprietary shares.

HTM investments

HTM investment are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity.

In 2018 and 2017, the Company has not classified any of its financial assets as HTM investments.

Loans and receivables

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

Other financial liabilities

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

This accounting policy applies primarily to the Company’s insurance payables and trade and other liabilities that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit obligation and income tax payable).

3.6.2 Recognition and measurement

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

Initial recognition

Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset. Financial assets and liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are recognized as expense in profit or loss.

Subsequent measurement

AFS financial instruments

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency denominated AFS debt securities, are reported in profit or loss. Interest earned on holding AFS investments is reported as interest income under investment income using the effective interest rate. Dividends earned on holding AFS investments are recognized in the statement of income as investment income when the right of payment has been established.

The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as part of “Accumulated other comprehensive income” in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized as “Provision for impairment loss” in the statement of income. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as gain or loss on sale of AFS financial assets in the statement of income.

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

Loans and receivables and HTM investments

After initial measurement, the loans and receivables and HTM investments are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in investment income in the statement of income. The losses arising from impairment of such loans and receivables are recognized as “Provision for impairment loss” in the statement of income.

Other financial liabilities

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. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

Determination of fair value

The fair value of instrument in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair values as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing model, and other relevant valuation models.

Day 1 profit

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

3.6.3 Derecognition of financial assets and liabilities

Financial asset

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

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

Where the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

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

3.6.4 Insurance receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the amount of the receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

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

3.6.5 Cash and cash equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the date of acquisition and that are subject to an insignificant risk of changes in value.

3.7 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

As at December 31, 2018 and 2017, there are no financial assets and liabilities that have been offset.

3.8 Investment income

Interest income

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

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

Dividend income

Dividend income is recognized when the Company's right to receive the payment is established.

3.9 Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

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

Loans and receivables

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss. Interest income continues to be accrued in the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

AFS financial assets

In the case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Generally, the Company treats 'significant' as 20% or more and 'prolonged' as greater than twelve months. 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 of that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investment are not reversed through the statement of income. Increases in fair value are recognized directly in equity. In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in the statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss.

3.10 Leases

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

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

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

Leases where the lessor does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Information on minimum aggregate rental commitments for future years is disclosed in Note 27.

3.11 Income tax

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, carry-forward of unused tax losses (net operating loss carryover or “NOLCO”) and unused tax credits (excess minimum corporate income tax or “MCIT”). Deferred income tax is determined using the tax rate (and laws) that have been enacted or substantively enacted as at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences, NOLCO and MCIT can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

The Company reassesses at each reporting date the need to recognize previously unrecognized deferred income tax assets.

Deferred income tax expense or credit included in “Provision for income tax” is recognized for the changes during the year in the deferred income tax assets and liabilities.

3.12 Employee benefits

The Company operates various post-employment schemes, including defined benefit retirement plan and post-employment retirement life and medical plans.

3.12.1 Retirement benefit obligations

The Company has a defined benefit plan that covers substantially all of its employees. A defined benefit plan is a pension plan that defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

The net defined benefit liability or asset is calculated annually by an independent actuary using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees’ projected salaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Service costs which include current 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 a plan amendment or curtailment occurs.

3.12.2 Other post-employment obligations

The Company provides post-retirement life and medical benefits to qualified retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and calculated by an independent actuary using the projected unit credit method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

3.13 Expenses

General, operating and other expenses are recorded in the period in which they are incurred.

3.14 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain and the expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate the risks specific to the liability. Where discounting is used, the increase in the provisions due to passage of time is recognized as a borrowing cost.

3.15 Contingencies

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

3.16 Share capital; Share premium

Common shares are classified as share capital.

Share premium includes any premiums on consideration received in excess of par value on the issuance of share capital.

3.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's BOD.

3.18 Related party transactions and relationships

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party, or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

3.19 Events after the reporting period

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3.20 Comparatives

Some comparative amounts have been restated to conform to current year presentation.

4. Critical accounting estimates, assumptions and judgments

The preparation of financial statements in compliance with PFRS requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and contingent liabilities. Future effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

4.1 Critical accounting estimates and assumptions

(a) Claims liability arising from insurance contracts (Note 23)

Provision is made at the reporting date for the estimated cost of claims incurred but not settled at the reporting date. The liability for outstanding claims includes the cost of claims reported but yet to be paid, claims incurred but not reported ('IBNR'), and the estimated expenses to be incurred in settling claims, including margin for adverse deviation to address uncertainty in the estimate of claims.

The process of establishing liability estimates is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience becomes available or as regulations change. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is available. Classes of business which have a longer reporting tail and where the IBNR proportion of the total reserve is therefore high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these liabilities. For the short-tailed classes, claims are typically reported soon after the claim event, and tend to display less variation. In calculating the required levels of provisions, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. In arriving at booked claims provisions, management also make allowance for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in patterns of claim incidence, reporting, processing, finalization and payment;
- changes in the legal environment;
- the impact of inflation (both economic/wage and superimposed);
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks;
- medical and technological developments;
- changes in policyholder behavior

The methods used to analyze past claim experience and to project future claim experience are largely determined by the available data and the nature of the portfolio. The projections given by the different methodologies assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Outstanding claims are calculated gross of reinsurance. A separate estimate is made of the amounts recoverable from reinsurers and third parties under insurance contracts based on the gross outstanding claims provision. Future cash flows are not discounted for time value of money.

The carrying value of claims liabilities, gross of reinsurance, as at December 31, 2018 amounts to P1,910.80 million (2017 - P2,431.47 million).

The sensitivity analysis for claims liability is detailed in Note 24.

(b) Unexpired risk reserves (Note 23)

The Company calculates for the unexpired risk reserves (URR) at 75th level percentile of sufficiency using the best estimate of future claims and expenses for all classes of business, including margin for adverse deviation to address uncertainty in the estimate of unexpired risks. In order to arrive at the URR, the UPR for each class of business is multiplied by the expected loss ratio, adjusted for future expenses and margin for adverse deviation.

The expected future claims include all claims which might occur during the unexpired period including: claims which are reported after the end of the unexpired exposure period, but have occurred within the unexpired exposure period; and claims which are reopened at any date, but have occurred within the unexpired exposure period. The expected future expenses include estimates of claims expenses and general policy maintenance expenses based on actual historical experience. The claims expense ratio is being applied to the gross unexpired risk reserves while the policy maintenance expense ratio is applied on the provision for unearned premiums.

The process of establishing liability estimates is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience becomes available or as regulations change. The Company takes all reasonable steps to ensure that it has appropriate information regarding its unexpired risk exposures.

As at December 31, 2018 and 2017, the Company’s URR did not exceed its UPR, net of DAC.

(c) Retirement and other employee benefits (Note 22)

The present value of the retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate and salary increase rate and any changes to assumptions will impact the carrying amount of retirement obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Company considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement obligation.

Other key assumptions for retirement obligations are based in part on current market conditions.

Additional information is disclosed in Note 22.

4.2 Critical judgments

(a) Impairment of financial assets (Notes 9, 17, 18 and 19)

The Company treats AFS equity investments as impaired where there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Company treats ‘significant’ generally as 20% or more and ‘prolonged’ as greater than twelve (12) months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

The Company reviews its insurance receivables and loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgment by management is required in determining the amount and timing of future cash flows when determining the level of allowance required. The amount and timing of recorded expenses for any period would differ if the Company made different judgment. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Impairment of AFS financial assets is nil as at December 31, 2018 (2017 - P8.3 million).

Insurance receivables and loans and receivables, net of allowance for impairment as at December 31, 2018 amount to P594.26 million and P59.81 million (2017 - P497.10 million and P61.38 million), respectively.

(b) Deferred income tax assets (Note 13)

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

The Company’s recognized deferred income tax assets as at December 31, 2018 amount to P60.95 million (2017 - P80.77 million). Unrecognized deferred income tax asset relating to MCIT is nil as at December 31, 2018 (2017 - 9.37 million).

5. Management of insurance and financial risks

(a) Governance framework

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

The main purpose of the Company's financial instruments is to fund its operations including its commitment to each policyholder and capital expenditures. The Company's local management team is assisted and supervised on a day-to-day basis by the management team of the ultimate parent company at the regional and corporate levels. There are established divisional and functional reporting lines to the ultimate parent company across the profit centers and service departments. The risk management function of the Company is aligned with that of its ultimate parent company. A risk oversight committee, consisting of certain members of the Company's Board of Directors, provides oversight on the risk management function of the Company. Most of the Company's policies on market (consisting of foreign currency risk, interest rate risk, and price risk), credit, liquidity, insurance and operational risks are developed at the regional and corporate levels which are implemented by the ultimate parent company across its global operations, including the Philippine operations. The policies primarily encompass underwriting, reinsurance, claims, credit control, finance, system infrastructure and business continuity and recovery and serve as minimum guidance for the Company.

(b) Insurance risk

The risk under an insurance contract is the possibility of occurrence of an insured event and uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims will exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

- Occurrence risk - the possibility that the number of insured events will differ from those expected.
- Severity risk - the possibility that the cost of the events will differ from those expected.
- Development risk - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategies and guidelines. The policies and procedures are developed internally and mandated by the regional and corporate offices of its ultimate parent company.

The business of the Company comprises primarily of short-term non-life insurance contracts. For non-life insurance contracts, claims are often affected by accidents, natural disasters, calamities and the like.

These risks currently do not vary significantly in relation to the location of the risk insured by the Company while undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company has an objective to control and minimize insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

- The use and maintenance of sophisticated management information systems that provide up-to-date, accurate and reliable data on risk exposure at any point in time.
- Guidelines are issued for concluding insurance contracts and assuming insurance risks.
- Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.
- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The Company principally underwrites the following types of general insurance contracts: commercial, liability, accident and health, personal lines and marine insurance.

2018	Note	Gross claims liabilities	Reinsurers' share of claims	Net claims liabilities
Commercial property		1,477,837,764	1,331,865,363	145,972,401
Liability		317,232,529	261,464,084	55,768,445
Accident and health		92,970,010	78,612,388	14,357,622
Marine		13,055,990	9,226,193	3,829,797
Personal line		9,707,404	6,796,927	2,910,477
	23	1,910,803,697	1,687,964,955	222,838,742

2017	Note	Gross claims liabilities	Reinsurers' share of claims	Net claims liabilities
Commercial property		2,026,393,102	1,817,380,032	209,013,070
Liability		291,173,479	238,161,041	53,012,438
Marine		82,546,463	63,907,136	18,639,327
Accident and health		16,201,130	8,904,697	7,296,433
Personal line		15,151,879	9,609,431	5,542,448
	23	2,431,466,053	2,137,962,337	293,503,716

The Company maintains sufficient assets and adequate capital to support settlement of its claims liabilities.

As discussed in Note 29, the Company no longer actively offers consumer insurance products such as personal accident, travel, supplemental health, lifestyle and extended warranty.

(c) Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities and insurance contracts. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

(c.1) Credit risk

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

The Company manages the level of risk it accepts by putting in place policies on credit terms extended to its producers and cancellation of insurance contracts with unpaid premiums beyond the agreed credit terms; limiting the list of reinsurance providers to those that are highly rated by established rating agencies and recommended by the ultimate parent company; limiting banking exposures to levels determined by the Company, taking into account overall group exposure; and limiting investment transactions with Company accredited equity brokers ensuring all contracts are subjected to legal and financial review and reviewing regularly the status of providers of reinsurance and financial service providers. When applicable, the Company enters into netting arrangements with counterparties to reduce credit exposures.

Significant credit risk management expertise and resources are available at the regional and corporate offices of the ultimate parent company. The Company adopts policies and procedures developed internally and those mandated by the regional and corporate offices of its ultimate parent company.

The Company has put in place various monitoring and control measures depending on the types of financial assets for which the credit risk arises. For cash and cash equivalents, the Company monitors credit risk through the use of monthly liquidity report. Also, a quarterly recertification of all bank accounts is being prepared. For receivables, the Company prepares aging reports for each creditor type (producer, reinsurer, ceding companies and employees) which management reviews on a monthly basis. A management level receivable committee discusses monthly collection issues and major receivable balances and develops action plans to address identified issues. For receivables from foreign reinsurers, the Company reports its recoverable position to the corporate office on a monthly basis.

Specific action steps are taken as necessary to address receivables beyond the normal credit terms. For receivables from producers, amounts falling beyond the credit terms are referred to the underwriters for discussion with the brokers and agents for eventual cancellation of the policy. For premiums receivable from reinsurers, any breach in the premium payment warranty date is referred to the underwriters for discussion with the ceding company for eventual cancellation of the reinsurance cover. Any extension of premium payment warranty date requires the approval of the Company's President. For reinsurance recoveries, the corporate office provides support to recover amounts due from foreign reinsurers.

The following table provides information regarding the maximum credit risk exposure of the Company as at December 31:

	2018	2017
Security deposits	3,412,194	7,177,763
Reinsurance recoverable on unpaid losses	1,687,964,955	2,137,962,337
Accrued income	16,195,217	19,109,584
AFS financial assets		
Government debt securities	1,559,322,272	2,235,614,271
Loans and receivables		
Mortgage loans	2,327,917	2,405,658
Guaranteed loans	460,573	727,150
Intercompany accounts receivable	55,770,133	51,325,486
Miscellaneous receivables	1,254,542	6,919,681
Insurance receivables		
Due from brokers	252,507,337	230,657,638
Due from ceding companies	317,446,476	224,558,260
Premiums receivable	25,351,468	51,510,515
Due from agents	6,204,784	3,334,122
Reinsurance recoverable on paid losses	2,914,725	3,300,148
Cash and cash equivalents	1,160,104,986	990,925,585
	5,091,237,579	5,965,528,198

Allowance for impairment on insurance receivables as at December 31, 2018 amounts to P10.16 million (2017 - P16.26 million).

The table below provides information regarding the credit risk exposure of the Company as at December 31 by classifying assets according to the Company's assessment of credit standing of the counterparties, historical dealings and experience with the counterparties, underlying collaterals, if any and other factors.

	Neither past due nor impaired					
2018	High	Medium	Low	Past due	Impaired	Total
Security deposits	3,412,194	-	-	-	-	3,412,194
Reinsurance recoverable on unpaid losses	1,687,964,955	-	-	-	-	1,687,964,955
Accrued income	16,195,217	-	-	-	-	16,195,217
AFS financial assets						
Government debt securities	1,559,322,272	-	-	-	-	1,559,322,272
Loans and receivables						
Mortgage loans	2,327,917	-	-	-	-	2,327,917
Guaranteed loans	460,573	-	-	-	-	460,573
Intercompany accounts receivable	55,770,133	-	-	-	-	55,770,133
Miscellaneous receivables	1,254,542	-	-	-	-	1,254,542
Insurance receivables						
Due from brokers	-	87,183,324	-	161,448,753	3,875,260	252,507,337
Due from ceding companies	-	217,775,581	-	94,159,869	5,511,026	317,446,476
Premiums receivable	-	-	-	24,603,315	748,153	25,351,468
Due from agents	-	781,051	-	5,395,018	28,715	6,204,784
Reinsurance recoverable on paid losses	-	826,055	-	2,088,670	-	2,914,725
Cash and cash equivalents	1,160,104,986	-	-	-	-	1,160,104,986
	4,486,812,789	306,566,011	-	287,695,625	10,163,154	5,091,237,579
Allowance for impairment						(10,163,154)
						5,081,074,425

	Neither past due nor impaired					
2017	High	Medium	Low	Past due	Impaired	Total
Security deposits	7,177,763	-	-	-	-	7,177,763
Reinsurance recoverable on unpaid losses	2,137,962,337	-	-	-	-	2,137,962,337
Accrued income	19,109,584	-	-	-	-	19,109,584
AFS financial assets						
Government debt securities	2,235,614,271	-	-	-	-	2,235,614,271
Loans and receivables						
Mortgage loans	2,405,658	-	-	-	-	2,405,658
Guaranteed loans	727,150	-	-	-	-	727,150
Intercompany accounts receivable	51,325,486	-	-	-	-	51,325,486
Miscellaneous receivables	6,919,681	-	-	-	-	6,919,681
Insurance receivables						
Due from brokers	-	123,937,439	-	95,392,540	11,327,659	230,657,638
Due from ceding companies	-	185,539,432	-	34,613,668	4,405,160	224,558,260
Premiums receivable	-	-	-	51,042,760	467,755	51,510,515
Due from agents	-	-	-	3,322,581	11,541	3,334,122
Reinsurance recoverable on paid losses	-	-	-	3,300,148	-	3,300,148
Cash and cash equivalents	990,925,585	-	-	-	-	990,925,585
	5,452,167,515	309,476,871	-	187,671,697	16,212,115	5,965,528,198
Allowance for impairment						(16,259,941)
						5,949,268,257

A rating of “high” denotes that the Company's assessment of the probability of failure on the part of the counterparties to fulfill its obligation is about 5% or less, while a “medium” rating denotes a probability of more than 5% but less than 20% and a “low” rating denotes a probability of more than 20%.

The table below shows the analysis of age of financial assets that are past due but not impaired:

2018	< 90 days	91 to180 days	181 to 365 days	Total
Insurance receivables				
Due from brokers	57,011,271	54,924,355	49,513,127	161,448,753
Due from ceding companies	79,571,942	12,970,240	1,617,687	94,159,869
Premiums receivable	-	12,203,753	12,399,562	24,603,315
Due from agents	4,586,517	808,501	-	5,395,018
Reinsurance recoverable on paid losses	20	736,870	1,351,780	2,088,670
	141,169,750	81,643,719	64,882,156	287,695,625

2017	< 90 days	91 to180 days	181 to 365 days	Total
Insurance receivables				
Due from brokers	44,611,651	50,780,889	-	95,392,540
Due from ceding companies	34,613,668	-	-	34,613,668
Premiums receivable	22,934,868	9,760,445	18,347,447	51,042,760
Due from agents	2,382,009	921,946	18,626	3,322,581
Reinsurance recoverable on paid losses	1,980	178,622	3,119,546	3,300,148
	104,544,176	61,641,902	21,485,619	187,671,697

The Company did not have any credit risk concentrations other than to the Philippine National Government due to its government bond investments. Reinsurance contracts of the Company and the related amounts recoverable from reinsurers on unpaid losses are substantially with related parties with no history of default.

(c.2) Liquidity risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The major liquidity risk confronting the Company is the day-to-day cash requirements for claims arising from insurance contracts. This risk is addressed by an effective cash management function and ensuring that liquidity is a major consideration for selecting long-term investment securities.

A daily cash position report is prepared and reviewed by management based on daily bank balances. The report takes into account projections for settlement of major claims and other liabilities based on the input provided by the different departments executing the transactions. The Company also ensures cash calls are sent promptly to reinsurers. A twelve month rolling cash flow forecast is prepared monthly to project major cash requirements and its impact to the Company’s cash position on an ongoing basis.

The table below summarizes the maturity profile of the financial liabilities of the Company as at December 31, 2018 and 2017 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

2018	Within a year	2-3 years	4-5 years	Total
Insurance payables				
Premiums due to reinsurer	407,274,382	-	-	407,274,382
Funds held for reinsurers	892,009,754	-	-	892,009,754
Trade and other liabilities				
Accrued expenses (except taxes and provisions)	88,378,918	-	-	88,378,918
Intercompany payables	15,646,639	-	-	15,646,639
Other liabilities	10,769,101	-	-	10,769,101
Total financial liabilities	1,414,078,794	-	-	1,414,078,794

2017	Within a year	2-3 years	4-5 years	Total
Insurance payables				
Premiums due to reinsurer	541,289,004	-	-	541,289,004
Funds held for reinsurers	870,093,391	-	-	870,093,391
Trade and other liabilities				
Accrued expenses (except taxes and provisions)	112,342,999	-	-	112,342,999
Intercompany payables	110,101,180	-	-	110,101,180
Other liabilities	208,197	-	-	208,197
Total financial liabilities	1,634,034,771	-	-	1,634,034,771

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate using information that develops during the course of the loss adjustment process.

The Company's financial assets which are primarily held to manage insurance contract liabilities are sufficient to finance operations, pay financial liabilities and to mitigate the effects of fluctuations in cash flows.

(c.3) Market risk

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

The market risk the Company accepts is limited by regulatory restrictions imposed by the Insurance Code by allowing only certain types of investments. Liquidity and security are primary decision criteria for investing while at the same time limiting its investments in Philippine Peso and US Dollar to minimize and efficiently manage currency risk. An effective asset-liability matching process is currently in place.

(c.3.1) Currency risk

The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arise primarily with respect to the US Dollar, as the Company deals with foreign reinsurers in the settlement of its obligations and receipt of any claim reimbursements. The Company's financial assets are denominated in the same currencies as its insurance liabilities, which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

The table below summarizes the Company's main exposure to foreign currency exchange risks as at December 31:

	2018		2017	
	US$	PHP	US$	PHP
Cash and cash equivalents	11,626,620	610,321,248	7,233,192	361,478,859
Insurance receivables	4,806,967	254,800,583	2,693,597	136,513,304
Intercompany receivables	1,006,434	52,656,380	383,143	19,026,738
	17,440,021	917,778,211	10,309,932	517,018,901
Insurance payables	(6,551,031)	(343,564,117)	(10,472,455)	(522,630,540)
Intercompany payables	(205,995)	(10,546,817)	(2,000,276)	(101,924,232)
Accrued expenses	(248,157)	(13,026,598)	(232,482)	(11,618,300)
	(7,005,183)	(367,137,532)	(12,705,213)	(636,173,072)
	10,434,838	(550,640,679)	(2,395,281)	(119,154,171)

The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on profit after tax and equity. The fluctuation rate in 2018 of +/- P1 (2017 - +/-P1) is based on what management considers as material when assessing its exposure to US Dollar.

The correlation of variables will have a significant effect in determining the ultimate impact of market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

2018	Increase (Decrease) in Peso per US$ Depreciation (Appreciation)	Impact on equity	Impact on profit after tax
Cash and cash equivalents	+ P 1	8,138,634	8,138,634
Insurance receivables	+ P 1	3,364,877	3,364,877
Intercompany receivable	+ P 1	704,504	704,504
Insurance payable	+ P 1	(4,585,722)	(4,585,722)
Intercompany payable	+ P 1	(144,196)	(144,196)
Accrued expenses	+ P 1	(173,710)	(173,710)
Cash and cash equivalents	- P 1	(8,138,634)	(8,138,634)
Insurance receivables	- P 1	(3,364,877)	(3,364,877)
Intercompany receivable	- P 1	(704,504)	(704,504)
Insurance payable	- P 1	4,585,722	4,585,722
Intercompany payable	- P 1	144,196	144,196
Accrued expenses	- P 1	173,710	173,710

2017	Increase (Decrease) in Peso per US$ Depreciation (Appreciation)	Impact on equity	Impact on profit after tax
Cash and cash equivalents	+ P 1	5,063,234	5,063,234
Insurance receivables	+ P 1	1,885,518	1,885,518
Intercompany receivable	+ P 1	268,200	268,200
Insurance payable	+ P 1	(7,330,718)	(7,330,718)
Intercompany payable	+ P 1	(1,400,193)	(1,400,193)
Accrued expenses	+ P 1	(162,738)	(162,738)
Cash and cash equivalents	- P 1	(5,063,234)	(5,063,234)
Insurance receivables	- P 1	(1,885,518)	(1,885,518)
Intercompany receivable	- P 1	(268,200)	(268,200)
Insurance payable	- P 1	7,330,718	7,330,718
Intercompany payable	- P 1	1,400,193	1,400,193
Accrued expenses	- P 1	162,738	162,738

(c.3.2) Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in interest rates. The Company's AFS debt securities bear fixed interest rates and therefore the Company is exposed to fair value interest rate risk but not to cash flow interest rate risk.

The following table shows information relating to the Company's exposure to fair value interest rate risk as at December 31:

			Maturity		
2018	Interest Rates	Within a year	2-3 years	4-5 years	Total
AFS debt securities	3.375% - 4.875%	292,251,900	1,267,070,372	-	1,559,322,272

			Maturity		
2017	Interest Rates	Within a year	2-3 years	4-5 years	Total
AFS debt securities	2.125% - 5.875%	1,521,649,015	713,965,256	-	2,235,614,271

The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on revaluing fixed rate AFS financial assets. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear. The fluctuation rate of +/-100 basis points is based on management's assessment of the most reasonable shift in interest rates.

2018	Change in Variables	Impact on Equity
Peso	+100 basis points	(42,988,394)
Peso	-100 basis points	45,289,728

2017	Change in Variables	Impact on Equity
Peso	+100 basis points	(14,893,534)
Peso	-100 basis points	15,338,751

The fluctuations in interest rates has no impact on profit or loss.

(c.3.3) Equity price risk

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

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

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investment, diversification plan and limits on investments. The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on equity. The fluctuation rates used are based on the historical movements of the Philippine Stock Exchange index (PSEi) year on year. The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

2018	Change in Variables	Impact on Equity
PSEi	17.71%	53,777,808
PSEi	-17.71%	(53,777,808)

2017	Change in Variables	Impact on Equity
PSEi	11.68%	39,503,348
PSEi	-11.68%	(39,503,348)

The fluctuations in PSEi has no impact to profit or loss.

6. Capital risk management

The Company maintains a certain level of capital to ensure compliance to statute and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the Risk-Based Capital ("RBC") Model.

The operations of the Company are subject to the regulatory requirements of the Insurance Code as supervised by the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., minimum capital requirements and minimum risk-based capital adequacy ratio).

Currently, management benchmarks its target capital level to the regulatory minimum, providing allowance for potential catastrophe losses, modest expansion and fluctuations in values of assets. The risk management function identifies the areas at its operations where capital can be substantially exposed. These are effectively addressed by the Company's underwriting, reinsurance and credit policies. It is the policy of the Company to distribute capital in excess of its target level to its shareholders by way of cash dividend out of its retained earnings.

Management monitors its target capital level on a quarterly basis. Management is required by internal governance standards to report any situation that may lead to a breach of minimum required capital levels to the Audit Committee and to the BOD to agree on any corrective action required to preserve the capital level.

No changes were made on the Company's objectives, policies and processes from the previous years.

Statutory net worth

Republic Act No. 10607, the Amended Insurance Code (the "Code"), was enacted into law effective September 20, 2013. Among the more significant provisions of the Code include the requirement for domestic insurance companies to maintain a minimum statutory net worth of P250 million by June 30, 2013; P550 million by December 31, 2017; P900 million by December 31, 2019; and P1.3 billion by December 31, 2022.

The Company is compliant with the minimum statutory net worth as at December 31, 2018 and 2017.

Risk-based capital

On December 28, 2016, the IC issued CL No. 2016-68 which provides for the Amended RBC 2 Framework with effect beginning January 1, 2017. The CL provides that the RBC ratio of a non-life insurance company is calculated by dividing the total available capital by the RBC requirement. Total available capital is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and deductions prescribed by the IC. The non-life RBC requirement considered the following components set by the IC: (i) credit risk capital charge; (ii) insurance risk capital charge; (iii) market risk capital charge for equities; (iv) market risk capital charge for other than equities; (v) operational risk capital charge; and (vi) catastrophe risk capital charge. The minimum RBC ratio is to be established at 100%. All non-life insurance companies are required to maintain the minimum RBC ratio and not fail the trend test. Failure to meet the minimum RBC ratio will trigger regulatory intervention by the IC.

On the same date, the IC issued CL No. 2016-69 which provides that on the following year of implementation of the Amended RBC 2 Framework, the RBC requirement will be relaxed to consider the level of sufficiency to be 95th percentile for year 2017, 97.5th percentile for year 2018 and 99.5th percentile for year 2019.

The Company is compliant with the requirements of the RBC 2 framework and will not require capital call from shareholders as of December 31, 2018.

The following table shows how the RBC ratio as at December 31 was determined by the Company in 2018 and 2017 (based on Amended RBC 2 Framework):

	2018	2017
Net worth	1,730,259,930	1,927,874,056
RBC requirement	417,529,232	298,616,016
RBC ratio	414%	646%

7. Fair value estimation

The fair value of financial instruments under AFS that are actively traded in organized financial markets is determined by reference to quoted market prices, at the close of business on the reporting date. For unquoted equity instruments, reference is made to the cost which is assumed to be a reasonable approximation of fair value given the limited transactions and circumstances of the instruments. Unquoted equity instruments pertain to a portion of the Company's proprietary shares.

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as at the reporting date. Market price data is generally obtained from exchange or dealer markets. The Company does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded listed equities. The Company considers that government debt securities issued by G7 countries (United States, Canada, France, Germany, Italy, Japan, and the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.

- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, derivative contracts, and proprietary shares. Mortgage and guaranteed loans, with fair values disclosed, are also classified as Level 2.

- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include private equity investments, and direct private equity investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, the Company considers factors specific to the asset or liability.

The following table presents the fair value hierarchy of the Company’s financial assets measured at fair value at December 31 following the fair value hierarchy definition as described above.

December 31, 2018	Level 1	Level 2	Total
Recurring measurements			
AFS financial assets			
Government debt securities	-	1,559,322,272	1,559,322,272
Listed equity securities	303,664,869	-	303,664,869
Proprietary shares	-	92,975,697	92,975,697
	303,664,869	1,652,297,969	1,955,962,838

December 31, 2017	Level 1	Level 2	Total
Recurring measurements			
AFS financial assets			
Government debt securities	-	2,235,614,271	2,235,614,271
Listed equity securities	338,076,168	-	338,076,168
Proprietary shares	-	62,915,698	62,915,698
	338,076,168	2,298,529,969	2,636,606,137

There are no financial instruments classified as Level 3. There were no transfers between Level 1 and Level 2 during the year.

The carrying values of the other financial assets and liabilities reasonably approximate their fair values due to their short-term nature.

8. Net earned insurance premiums

Gross earned premiums on insurance contracts and reinsurers' share of gross earned premiums on insurance contracts for the years ended December 31 consist of the following:

	2018	2017
Gross premiums on insurance contracts		
Direct insurance	1,740,183,405	1,660,438,526
Assumed reinsurance	731,809,456	604,800,990
Change in provision for unearned premiums	(1,116,908)	38,581,910
Total gross earned premiums on insurance contacts	2,470,875,953	2,303,821,426
Reinsurers' share of gross earned premiums on insurance contracts		
Direct insurance	1,605,593,638	1,503,421,838
Assumed reinsurance	558,220,959	460,720,790
Reinsurers' share of change in deferred reinsurance premiums	(14,438,860)	96,151,719
Total reinsurers' share of gross earned premiums on insurance contracts	2,149,375,737	2,060,294,347
Net earned insurance premiums	321,500,216	243,527,079

This note includes amounts from the discontinued operation in Note 29.

9. Net investment income

The account for the years ended December 31 consists of the following:

	Notes	2018	2017
Interest income on:			
AFS financial assets			
Government securities		65,126,432	83,973,156
Amortization of premium	17	(5,141,654)	(8,971,477)
Cash and cash equivalents	20	25,236,724	10,216,227
Loans and receivables			
Mortgage loans		147,283	153,132
Collateral loans		51,600	98,878
(Loss) gain on sale of available-for-sale financial assets	17	(2,282,380)	28,508,421
Impairment of available-for-sale financial assets		-	(8,271,793)
Dividend income		4,502,851	7,304,677
		87,640,856	113,011,221

10. Other income

Other income for the years ended December 31 consists of the following:

	2018	2017
Fee income	62,803,480	45,059,729
Others	6,332,394	10,846,249
	69,135,874	55,905,978

Fee income pertains mainly to fees for claims handling services, engineering services and other management services rendered to various third parties and entities under common control (Note 28).

Others include income earned from related parties due to shared resources (Note 28).

11. Net insurance claims

Gross insurance claims paid for the years ended December 31 consist of the following:

	Note	2018	2017
Insurance contract claims paid			
Direct insurance		496,804,497	226,349,722
Assumed reinsurance		1,087,217,223	197,573,148
Total insurance contract claims paid	23	1,584,021,720	423,922,870

Reinsurers' share of gross insurance contract claims paid for the years ended December 31 consist of the following:

	Note	2018	2017
Reinsurers' share of insurance contract claims paid			
Direct insurance		415,290,426	179,464,622
Assumed reinsurance		887,242,805	162,318,300
Total reinsurers' share of insurance contract claims paid	23	1,302,533,231	341,782,922

Gross change in claims liabilities as at December 31 follows:

	2018	2017
Change in provision for claims reported		
Direct insurance	329,525,604	143,040,872
Assumed reinsurance	(809,119,195)	1,091,199,280
Change in provision for IBNR	(41,068,765)	133,000,653
Total gross change in claims liabilities	(520,662,356)	1,367,240,805

Reinsurers' share of gross change in claims liabilities as at December 31 follows:

	2018	2017
Reinsurers' share of gross change in claims liabilities		
Direct insurance	(227,734,832)	(136,077,171)
Assumed reinsurance	648,090,746	(978,884,525)
Reinsurers' share of change in provision for IBNR	29,641,468	(101,467,155)
Total reinsurers' share of gross change in claims liabilities	449,997,382	(1,216,428,851)

This note includes amounts from the discontinued operation in Note 29.

12. Operating expenses

Operating expenses for the years ended December 31 consist of:

	Notes	2018	2017
Salaries and employee benefits	22	136,912,372	127,967,244
Professional and other service fees		80,241,894	98,637,534
Electronic data processing expenses		65,510,608	78,668,188
Allocated Parent Company expenses	28	63,089,289	125,029,154
Rent	27	17,673,112	26,742,800
Depreciation and amortization	14	11,741,784	5,559,170
Communications, light and water		5,540,981	5,153,235
Transportation and travel		5,265,954	6,116,469
Repairs and maintenance		3,975,288	2,625,136
Entertainment, amusement and representation		1,906,206	1,263,213
Office supplies and printing costs		1,149,459	1,602,059
Sales and marketing		728,790	5,808,557
Fines and penalties		41,562	19,443
Others		13,216,070	8,424,894
Gross operating expenses		406,993,369	493,617,096
Less: cost recoveries	28	55,711,147	47,719,445
Operating expenses, net		351,282,222	445,897,651

Professional and other service fees include audit and legal fees.

Others consist of bank charges, shipping fees and taxes and licenses incurred during the year.

Cost recoveries pertain to expenses paid by the Company on behalf of other AIG entities. The balance for the years ended December 31 includes:

	Note	2018	2017
Salaries and employee benefits		45,835,713	36,327,468
Rent		3,724,894	4,838,490
Transportation and travel		3,023,958	3,537,340
Electronic data processing expenses		665,684	900,396
Communications, light and water		571,122	728,520
Repairs and maintenance		558,182	633,676
Depreciation and amortization		418,250	190,166
Professional and other service fees		514,869	80,429
Office supplies and printing costs		317,032	49,186
Entertainment, amusement and representation		27,216	39,672
Others		54,227	394,102
	28	55,711,147	47,719,445

This note includes amounts from the discontinued operation in Note 29.

13. Income tax

The details of provision for income tax for the years ended December 31 follow:

	2018	2017
Final tax	17,764,241	18,505,688
MCIT	-	9,368,678
Regular corporate income tax	27,426,907	-
Deferred	19,758,352	(14,739,165)
	64,949,500	13,135,201

The provision for income tax is attributable to:

	Note	2018	2017
Continuing operations		77,828,036	31,812,022
Discontinued operations	29	(12,878,536)	(18,676,821)
		64,949,500	13,135,201

The reconciliation of statutory income tax rates to effective income tax rates as at December 31 is as follows:

	2018	2017
Statutory income tax rates	30.00	30.00
Tax effects of:		
Non-deductible expense	4.85	8.45
Non-taxable income	(0.63)	(2.59)
Income already subjected to final tax	(3.67)	(18.84)
MCIT during the year	-	1.83
Effective income tax rates	30.55	18.85

The Company's net deferred income tax assets as at December 31 consist of:

	2018	2017
Deferred income tax assets on:		
Deferred reinsurance commissions	50,830,908	55,542,675
IBNR	29,835,363	33,263,552
Accrued expenses	14,666,636	4,689,824
Excess of deferred reinsurance premiums per books over tax basis	84,342,971	65,210,328
Reserve for discretionary bonus	2,759,197	4,098,632
Reserve for contingent profit commission	(3,273,125)	3,415,592
Allowance for impairment - premiums receivable	3,048,946	4,877,982
Provision for service fees and legal contingencies	1,909,159	-
Unrealized foreign exchange loss	69,692	-
Total deferred income tax assets	184,189,747	171,098,585
Deferred income tax liabilities on:		
Excess of provision for unearned premiums per tax over books	92,034,538	62,364,920
Retirement benefit asset	9,395,485	5,968,013
Deferred acquisition costs	19,750,963	18,975,769
Revaluation reserve on AFS financial assets	2,063,639	2,948,736
Unrealized foreign exchange gain	-	68,773
Total deferred income liabilities	123,244,625	90,326,211
Net deferred income tax assets	60,945,122	80,772,374

Movements in net deferred income tax assets follow:

	2018	2017
At January 1	80,772,374	69,201,987
Amounts (charged) credited to statement of income	(19,758,352)	14,739,165
Amounts charged against other comprehensive income	(68,900)	(3,168,778)
At December 31	60,945,122	80,772,374

In compliance with the Tax Reform Act of 1997, the Company shall pay the MCIT or the normal income tax, whichever is greater. Any excess of the MCIT over the normal income tax shall be carried forward annually and credited against the normal income tax for the next three succeeding taxable years. Unrecognized deferred income tax asset relating to MCIT amounts to P1.28 million as at December 31, 2018 and 2017. The MCIT will expire by December 31, 2020.

14. Property and equipment, net

The roll-forward analysis of the account for the years ended December 31 follows:

2018	EDP Equipment	Furniture and Fixtures	Leasehold Improvement	Transport Equipment	Total
Cost					
January 1	28,596,576	20,004,620	25,197,176	4,434,625	78,232,997
Additions	2,340,954	-	868,417	-	3,209,371
Retirement	(2,162,577)	(6,454,384)	(195,426)	-	(8,812,387)
	28,774,953	13,550,236	25,870,167	4,434,625	72,629,981
Accumulated depreciation and amortization					
January 1	19,732,289	13,828,296	1,029,208	3,935,531	38,525,324
Depreciation and amortization	4,774,028	1,266,074	5,202,590	499,092	11,741,784
Retirement	(2,162,577)	(6,453,611)	(195,426)	-	(8,811,614)
	22,343,740	8,640,759	6,036,372	4,434,623	41,455,494
Net book value	6,431,213	4,909,477	19,833,795	2	31,174,487

2017	EDP Equipment	Furniture and Fixtures	Leasehold Improvement	Transport Equipment	Total
Cost					
January 1	27,696,696	14,048,424	17,783,758	4,434,625	63,963,503
Additions	6,308,769	6,267,414	25,001,750	-	37,577,933
Retirement	(5,408,889)	(311,218)	(17,588,332)	-	(23,308,439)
	28,596,576	20,004,620	25,197,176	4,434,625	78,232,997
Accumulated depreciation and amortization					
January 1	22,035,156	14,004,849	16,930,625	3,303,963	56,274,593
Depreciation and amortization	3,106,022	134,665	1,686,915	631,568	5,559,170
Retirement	(5,408,889)	(311,218)	(17,588,332)	-	(23,308,439)
	19,732,289	13,828,296	1,029,208	3,935,531	38,525,324
Net book value	8,864,287	6,176,324	24,167,968	499,094	39,707,673

Depreciation and amortization as at December 31, 2018 and 2017 are included under operating expenses in the statement of comprehensive income.

15. Reinsurance assets

Details of the account at December 31 follow:

	Note	2018	2017
Reinsurance recoverable on unpaid losses	23	1,687,964,955	2,137,962,337
Deferred reinsurance premiums	23	568,699,979	554,261,120
		2,256,664,934	2,692,223,457

All reinsurance assets are expected to be collected within one year.

16. Deferred acquisition costs

The roll-forward analysis of deferred acquisition costs for the years ended December 31 follows:

	2018	2017
At January 1	63,252,562	54,201,353
Cost deferred during the year	185,761,714	163,986,173
Amortization charge for the year	(183,177,734)	(154,934,964)
At December 31	65,836,542	63,252,562

Deferred acquisition costs are to be amortized within one year from reporting date.

Amortization charge for the year includes the commission expense from the discontinued operation in Note 29.

17. Available-for-sale financial assets

(a) AFS financial assets

	2018	2017
Government debt securities		
Local currency	1,559,322,272	2,235,614,271
Equity securities		
Listed shares	303,664,869	338,076,168
Proprietary shares	92,975,697	62,915,698
	1,955,962,838	2,636,606,137

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

	Note	2018	2017
At January 1		2,636,606,137	2,711,274,043
Additions		984,770,175	511,312,028
Disposals/maturities		(1,601,490,333)	(640,258,181)
Amortization of premium	9	(5,141,654)	(8,971,477)
Fair value change recycled to profit or loss		(1,300,197)	(9,956,465)
Fair value change in other comprehensive income		(57,481,290)	73,206,189
At December 31		1,955,962,838	2,636,606,137

Impairment of AFS financial assets is nil as at December 31, 2018 (2017 - P8.3 million).

The unrealized gain in respect of change in fair value of AFS financial assets charged against equity as at December 31, 2018 amounts to P57.89 million (2017 - P51.91 million), net of tax effect of P0.89 million (2017 - P1.06 million).

Proceeds from disposals and maturities of AFS financial assets for the year ended December 31, 2018 amount to P1,599.21 million (2017 - P650.21 million).

The maturity profile of the Company's government debt securities are as follows:

	2018	2017
Due within one year	292,251,900	1,521,649,015
2-3 years	1,267,070,372	713,965,256
4-5 years	-	-
At December 31	1,559,322,272	2,235,614,271

18. Loans and receivables

The account at December 31 consists of:

	Note	2018	2017
Intercompany accounts receivable	28	55,770,133	51,325,486
Mortgage loans		2,327,917	2,405,658
Guaranteed loans		460,573	727,150
Miscellaneous receivables		1,254,542	6,919,681
		59,813,165	61,377,975

Miscellaneous receivables include emergency loan program and salary advances.

The maturity profile of loans and receivables at December 31 is as follows:

	2018	2017
Due within one year	57,499,775	58,720,266
2-3 years	460,573	727,150
4-5 years	-	-
Over 5 years	1,852,817	1,930,559
	59,813,165	61,377,975

Mortgage and guaranteed loans earn interest in 2018 ranging from 7% to 12.5% per annum (2017 - 7% to 14%) and with maturities ranging from 1 to 9 years (2017 - 1 to 20 years).

19. Insurance receivables, net

The account at December 31 consists of:

	2018	2017
Due from ceding companies	317,446,476	224,558,260
Due from brokers	252,507,337	230,657,638
Premiums receivable	25,351,468	51,510,515
Due from agents	6,204,784	3,334,122
Reinsurance recoverable on paid losses	2,914,725	3,300,148
	604,424,790	513,360,683
Allowance for impairment	(10,163,154)	(16,259,941)
	594,261,636	497,100,742

All insurance receivables are due within one year.

Movements in allowance for impairment as at December 31 follow:

	2018	2017
At January 1	16,259,941	28,352,567
Write-off of allowance for impairment	-	-
Reversal of impairment loss	(6,096,787)	(12,092,626)
At December 31	10,163,154	16,259,941

Reversal of provision is due to improvement in premium collection for both 2018 and 2017.

20. Cash and cash equivalents

The account at December 31 consists of:

	2018	2017
Cash in banks	115,411,695	154,125,695
Short-term deposits	1,044,693,291	836,799,890
	1,160,104,986	990,925,585

The cash in banks and short-term deposits have annual interest rates in 2018 ranging from 0.01% to 6.75% (2017 - 0.03% to 2.5%). Short term deposits are made for varying periods not exceeding three months depending on the immediate cash requirements of the Company.

Interest income earned from cash in banks and short-term deposits for the year ended December 31, 2018 amounts to P25.24 million (2017 - P10.22 million) (Note 9).

21. Equity

(a) Share capital

The Company's share capital as at December 31 consists of:

	2018		2017	
	Shares	Amount	Shares	Amount
Common shares - P100 par value				
Authorized	13,000,000	1,300,000,000	13,000,000	1,300,000,000
Issued and outstanding				
At beginning of the year	9,358,524	935,852,400	9,358,524	935,852,400
Issuances during the year	-	-	-	-
At end of the year	9,358,524	935,852,400	9,358,524	935,852,400

(b) Accumulated other comprehensive income

Details of and movements in Accumulated other comprehensive income for the years ended December 31 follow:

	Notes	2018	2017
Fair value reserve on available-for-sale financial assets	17		
At January 1		89,509,491	37,596,012
Fair value change recycled to profit or loss		(1,300,197)	(20,236,627)
Fair value change on available-for-sale financial assets		(57,481,290)	73,206,189
Deferred income tax effect		885,097	(1,056,083)
At December 31		31,613,101	89,509,491
Remeasurement on defined benefit plan	22		
At January 1		(24,148,790)	(29,078,412)
Remeasurement gains for the year		3,179,989	7,042,317
Deferred income tax effect		(953,998)	(2,112,695)
At December 31		(21,922,799)	(24,148,790)
		9,690,302	65,360,701

(c) Retained earnings

As at December 31, 2018, the Company has excess retained earnings over its paid-up capital.

In 2008, the SEC issued Memorandum Circular No. 11 providing the guidelines in determining the appropriate amount of retained earnings available for dividend distribution taking into consideration the effective guidelines of the SEC. On January 24, 2013, SEC issued Financial Reporting Bulletin No. 14, *Reconciliation of Retained Earnings Available for Dividend Declaration*, which prescribed adjustments as indicated in Annex 68-C of SRC Rule 68.

Consistent with the provision of the Corporation Code of the Philippines, stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-in capital.

BIR Revenue Regulations No. 2-2001 provides that insurance companies are exempted from the 10% improperly accumulated earnings tax imposed on improperly accumulated taxable income.

The amended Insurance Code provides that no domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements of the amended Insurance Code.

The Company plans to retain the excess retained earnings over its paid up capital as at December 31, 2018 of P1.1 million (2017 - P103.5 million) for the following:

- As additional reserve for future contingencies, especially for catastrophe losses;
- To comply with the more robust RBC and reserving requirements implemented by the IC effective January 1, 2017.

Management will continue to evaluate the plans to retain the excess retained earnings over its paid up capital after considering the amended regulatory capital requirements of the IC on fixed capitalization and RBC framework.

On October 8, 2018, the BOD approved the declaration of cash dividends amounting to P26.71 per share or P250 million from the unrestricted retained earnings of the Company to existing shareholders of record payable on December 18, 2018. The dividends were paid in full on December 18, 2018.

22. Employee benefits

The amounts recognized in the financial statements as at and for the years ended December 31 related to post-employment benefits are as follows:

	Note	2018	2017
Retirement benefit asset		(19,015,012)	(21,403,295)
Provisions for other post-employment benefits	26	5,431,452	5,949,518
		(13,583,560)	(15,453,777)

	2018	2017
Charged to profit or loss for:		
Retirement benefit asset	4,761,733	4,899,603
Provision for other post-employment benefits	332,237	320,488
	5,093,970	5,220,091

	2018	2017
Remeasurement gains for:		
Retirement benefit asset	(2,373,450)	(6,400,692)
Provisions for other post-employment benefits	(806,539)	(641,625)
	(3,179,989)	(7,042,317)

(a) Defined benefit retirement plans

The Company operates a defined benefit retirement plan, covering substantially all of its employees, which requires contributions to be made to an administered fund. The plan is administered by a local bank as trustee. The level of benefits provided depends on the members' length of service and their salary in the final years leading up to retirement. Plan assets held in trusts are governed by local regulations.

The amounts recognized in the statement of financial position are determined as follows:

	2018	2017
Present value of funded obligations	60,429,544	79,926,361
Fair value of plan assets	(79,444,556)	(101,329,656)
Asset in the statement of financial position	(19,015,012)	(21,403,295)

The movement in the retirement benefit obligation and plan assets for the years ended December 31 are as follows:

	Present value of obligation	Fair value of plan assets	Total
At January 1, 2018	79,926,361	(101,329,656)	(21,403,295)
Current service cost	5,992,422	-	5,992,422
Past service cost	-	-	-
Interest expense (income)	4,372,808	(5,603,497)	(1,230,689)
	10,365,230	(5,603,497)	4,761,733
Remeasurements			
Return on plan assets, excluding amounts included in interest expense	-	8,505,301	8,505,301
Gain from change in financial assumptions	(6,669,879)	-	(6,669,879)
Experience adjustments	(4,208,872)	-	(4,208,872)
	(10,878,751)	8,505,301	(2,373,450)
Benefit payments from plan	(18,983,296)	18,983,296	-
At December 31, 2018	60,429,544	(79,444,556)	(19,015,012)

	Present value of obligation	Fair value of plan assets	Total
At January 1, 2017	79,970,576	(99,872,782)	(19,902,206)
Current service cost	6,366,473	-	6,366,473
Past service cost	(320,177)	-	(320,177)
Interest expense (income)	3,840,219	(4,986,912)	(1,146,693)
	9,886,515	(4,986,912)	4,899,603
Remeasurements:			
Return on plan assets, excluding amounts included in interest expense (income)	-	(341,150)	(341,150)
Gain from change in financial assumptions	(4,783,215)	-	(4,783,215)
Experience losses	(1,276,327)	-	(1,276,327)
	(6,059,542)	(341,150)	(6,400,692)
Benefit payments from plan	(3,871,188)	3,871,188	-
At December 31, 2017	79,926,361	(101,329,656)	(21,403,295)

The significant actuarial assumptions for the years ended December 31 are as follows:

	2018	2017
Discount rate	7.00%	5.75%
Rate of salary increase	8.00%	8.00%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions at December 31 follows:

	Impact on defined benefit obligation		
2018	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by 7%	Increase by 9%
Rate of salary increase	1%	Increase by 8%	Decrease by 7%

	Impact on defined benefit obligation		
2017	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by 7%	Increase by 8%
Rate of salary increase	1%	Increase by 9%	Decrease by 8%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the statement of financial position.

There are no changes from the prior year in the methods and assumptions used in preparing the sensitivity analyses.

Plan assets comprised the following:

	2018		2017	
	Amount	%	Amount	%
Quoted				
Equity securities	9,707,441	12	11,740,247	12
Debt instruments	67,072,488	85	83,590,796	82
Unquoted				
Cash and cash equivalents	2,664,627	3	5,998,613	6
	79,444,556	100	101,329,656	100

The plan is being administered by a trustee-bank who is authorized to invest and manage the fund based on investment guidelines agreed under the trust agreement.

The Company has no transactions with the retirement fund. There are no contributions to the retirement fund for both 2018 and 2017.

The fair value of the plan assets approximates their carrying value as at December 31, 2018 and 2017. The defined benefit plan typically exposes the Company to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement obligation. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Company. However, the Company believes that due to the long-term nature of the retirement obligation and the strength of the Company itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Company's long term strategy to manage the plan efficiently.

The Company ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Company's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the Company, as necessary to better ensure the appropriate asset-liability matching.

The Company contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. There is no expected contribution to be made for the year ending December 31, 2019.

The expected maturity analysis of undiscounted retirement benefit payments as at December 31 is as follows:

	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years
2018	11,240,334	9,348,245	6,383,818	25,080,542
2017	7,755,061	12,170,977	31,840,270	21,186,163

(b) Other post-employment benefits (retirement life and medical)

The movements in the post-employment benefit obligation for the years ended December 31 are as follows:

	2018	2017
At January 1	5,949,518	6,336,185
Current service cost	-	-
Past service cost	-	-
Interest expense	332,237	320,488
	332,237	320,488
Remeasurements		
Loss from change in financial assumptions	(708,706)	(501,879)
Experience losses	(97,833)	(139,746)
	(806,539)	(641,625)
Benefit payments by the Company	(43,764)	(65,530)
At December 31	5,431,452	5,949,518

The provision for other post-employment benefits is presented in trade and other liabilities (Note 26).

The significant actuarial assumption for the years ended December 31 are as follows:

	2018	2017
Discount rate	7.00%	5.75%

The sensitivity of the post-employment benefit obligation to change in the weighted principal assumptions at December 31 follows:

	Impact on other post-employment benefit obligation		
Discount rate	Change in assumption	Increase in Assumption	Decrease in Assumption
2018	1%	Decrease by 9%	Increase by 10%
2017	1%	Decrease by 10%	Increase by 12%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the other post-employment benefits recognized within the statement of financial position.

There are no changes from the prior year in the methods and assumptions used in preparing the sensitivity analyses. The weighted average duration of the defined benefit obligation is 7.54 years (2017 - 8.68 years) as at December 31, 2018.

The expected maturity analysis of undiscounted other post-employment benefit payments as at December 31 are as follows:

	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years
2018	375,646	395,424	1,300,321	2,446,425
2017	342,948	361,710	1,198,859	2,421,057

(c) Staff costs and other employee related costs

Staff costs and other employee related costs for the years ended December 31 consist of:

	2018	2017
Wages and salaries	107,769,709	103,573,412
Social security costs	1,116,424	1,131,845
Net benefit expense	4,761,733	4,899,603
Others	23,264,506	18,362,384
	136,912,372	127,967,244

Others pertain mainly to severance pay as a result of restructuring, vacation leave credits and other post-retirement benefits.

23. Insurance contract liabilities and reinsurance assets

On December 28, 2016, the Insurance Commission (IC), through its Circular Letter (CL) No. 2016-67, issued the New Valuation Standard for Insurance Policy Reserve with effect beginning January 1, 2017 and onwards. Among others, the New Valuation Standard for Insurance Policy Reserve provides for (i) the determination of premium liabilities based on the higher of Unearned Premium Reserve (UPR) and Unearned Risk Reserve (URR); (ii) consideration of the Claims Handling Expense (CHE); (iii) consideration of Margin for Adverse Deviation (MfAD) to allow for inherent uncertainty of the best estimate of policy reserve; (iv) certification of an actuary on the calculation of the insurance policy reserve in accordance with the New Valuation Standard for Insurance Policy Reserve prescribed by the IC.

Beginning January 1, 2017, the initial year of implementation of the New Valuation Standard on Insurance Policy Reserve, the IC through its CL 2016-69 issued on December 28, 2016, has relaxed the valuation requirements in determining the Insurance Policy Reserve to consider (i) set up of premium liabilities using UPR alone. However, if the URR is higher than the UPR (net of DAC), additional reserves will be booked amounting to the difference between the URR and UPR (net of DAC); and (ii) set up MfAD to zero, instead of Company specific MfAD.

Beginning January 1, 2018, premium liabilities will be determined based on the higher of the UPR and URR and application of Company specific MfAD. The Company elected to apply the change in valuation methodology for the Company's premium liabilities retrospectively. The Company's UPR, (net of DAC) is higher than URR as at December 31, 2018 and 2017.

In 2018 and 2017, the Company has adopted certain provisions of the New Valuation Standard for Insurance Policy Reserve issued by the IC CL 2016-67 as its accounting policy for reserving, particularly the consideration of MfAD and CHE in determining its claims obligation. The Company has engaged its Regional Actuary in determining its Insurance Policy Reserve, who has considered actual historical claims data for the last 10 years, CHE of 3.5% and 50% of the Company specific MfAD (2017 - 10% MfAD) in determining its claims obligation. The 50% of the Company specific MfAD has been applied by the Company in accordance with IC CL 2018-19.

The adoption of the new reserving framework resulted to the recognition of additional claims reserve as of December 31, 2018 of P231.39 million (2017 - P252.23 million). Such change was considered a change in accounting estimate and accounted for prospectively.

Short-term non-life insurance liabilities as at December 31 are analyzed as follows:

	2018			2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Provision for claims reported and loss adjustment expenses	1,383,823,921	1,260,436,388	123,387,533	1,863,417,512	1,680,792,302	182,625,210
Provision for IBNR	526,979,776	427,528,567	99,451,209	568,048,541	457,170,035	110,878,506
Total claims reported and IBNR	1,910,803,697	1,687,964,955	222,838,742	2,431,466,053	2,137,962,337	293,503,716
Provision for unearned premiums	695,096,912	568,699,979	126,396,933	693,980,004	554,261,120	139,718,884
Total insurance contract liabilities	2,605,900,609	2,256,664,934	349,235,675	3,125,446,057	2,692,223,457	433,222,600

Provision for IBNR consists of:

	2018			2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
IBNR best estimate	295,593,295	253,453,967	42,139,328	315,818,003	262,809,822	53,008,181
MfAD	196,823,797	174,074,600	22,749,197	221,042,368	194,360,213	26,682,155
CHE	34,562,684	-	34,562,684	31,188,170	-	31,188,170
At December 31	526,979,776	427,528,567	99,451,209	568,048,541	457,170,035	110,878,506

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

	2018			2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	2,431,466,053	2,137,962,337	293,503,716	1,064,225,248	921,533,486	142,691,762
Claims incurred during the year	1,104,428,129	882,177,317	222,250,812	1,658,163,022	1,456,744,618	201,418,404
Claims paid during the year - net of salvage and subrogation	(1,584,021,720)	(1,302,533,231)	(281,488,489)	(423,922,870)	(341,782,922)	(82,139,948)
Decrease in IBNR	(41,068,765)	(29,641,468)	(11,427,297)	133,000,653	101,467,155	31,533,498
At December 31	1,910,803,697	1,687,964,955	222,838,742	2,431,466,053	2,137,962,337	293,503,716

Provision for unearned premiums is analyzed as follows:

	2018			2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	693,980,004	554,261,120	139,718,884	732,561,914	650,412,839	82,149,075
New policies written during the year	2,471,992,861	2,163,814,596	308,178,265	2,265,239,516	1,964,142,628	301,096,888
Premiums earned during the year	(2,470,875,953)	(2,149,375,737)	(321,500,216)	(2,303,821,426)	(2,060,294,347)	(243,527,079)
At December 31	695,096,912	568,699,979	126,396,933	693,980,004	554,261,120	139,718,884

All insurance liabilities are expected to be settled within one year.

24. Insurance contract liabilities and reinsurance assets - terms, assumptions and sensitivities

24.1 Terms and conditions

The major classes of general insurance written by the Company include accident and health, marine, commercial property and liability insurance. Risks under these policies usually cover 12-month duration.

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

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

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

24.2 Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. Loss development factors are established by analyzing at least 10 years of claims data and deriving the claims development trend by class of business.

24.3 Sensitivities

The general insurance claims provision is sensitive to the Company’s past claims development experiences. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claims provisions are not known with certainty at the reporting date.

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

The Company's estimation of ultimate claim liabilities may be affected largely by the shift in the development trends of losses. However, the Company believes that using statistical data over 10 years minimizes the margin of error in its estimates.

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on income and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis. It should also be stressed that these assumptions are non-linear and larger or smaller impacts cannot easily be gleamed from these results.

The sensitivity in the key assumptions being monitored by the Company is presented as follows:

	Change in	% impact on claim liability	
2018	assumption	Gross	Net
Unallocated loss adjustment expenses (ULAE)	+/- 1.00%	+/- 0.52%	+/- 4.43%
BF Adjustment	+/- 10.00%	+/- 0.67%	+/- 1.09%

	Change in	% impact on claim liability	
2017	assumption	Gross	Net
Unallocated loss adjustment expenses (ULAE)	+/- 1.00%	+/- 0.56%	+/- 4.86%
BF Adjustment	+/- 10.00%	+/- 0.54%	+/- 0.11%

24.4 Loss development triangle

Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis:

Gross reinsurance basis

	2018						
Accident year	All years prior	2013	2014	2015	2016	2017	2018
Estimate of ultimate claims costs							
At the end of accident year	8,889,188,761	1,264,760,466	491,139,110	164,892,166	269,212,332	1,577,885,418	1,157,681,175
One year later	10,407,606,247	1,378,195,637	462,769,233	351,444,835	510,117,270	1,482,855,703	-
Two years later	10,739,993,377	1,432,083,905	424,333,688	353,995,752	527,228,582	-	-
Three years later	10,767,769,067	1,443,843,254	420,721,105	345,161,977	-	-	-
Four years later	10,787,494,247	1,391,637,360	423,233,815	-	-	-	-
Five years later	10,697,942,154	1,424,924,497	-	-	-	-	-
Six years later	10,720,316,417	-	-	-	-	-	-
Seven years later	10,587,426,640	-	-	-	-	-	-
Eight years later	10,584,510,634	-	-	-	-	-	-
Nine years later	10,549,976,103	-	-	-	-	-	-
Current estimate of cumulative claims	10,549,976,103	1,424,924,497	423,233,815	345,161,977	527,228,582	1,482,855,703	1,157,681,175
Cumulative payments to date	10,507,793,799	1,315,313,513	385,638,638	332,878,367	397,887,345	1,262,199,744	325,526,525
Total gross insurance liabilities included in the statement of financial position	42,182,304	109,610,984	37,595,177	12,283,610	129,341,237	220,655,959	832,154,650
Provision for claims reported and loss adjustment expenses, gross							1,383,823,921

	2017						
Accident year	All years prior	2012	2013	2014	2015	2016	2017
Estimate of ultimate claims costs							
At the end of accident year	6,525,728,509	2,363,460,252	1,264,760,466	491,139,110	164,892,166	269,212,332	1,577,885,418
One year later	6,256,207,063	4,151,399,184	1,378,195,637	462,769,233	351,444,835	510,117,270	-
Two years later	6,564,500,484	4,175,492,893	1,432,083,905	424,333,688	353,995,752	-	-
Three years later	6,576,389,297	4,191,379,770	1,443,843,254	420,721,105	-	-	-
Four years later	6,600,300,191	4,187,194,056	1,391,637,360	-	-	-	-
Five years later	6,520,177,435	4,177,764,719	-	-	-	-	-
Six years later	6,542,551,698	-	-	-	-	-	-
Seven years later	6,409,661,921	-	-	-	-	-	-
Eight years later	6,406,745,915	-	-	-	-	-	-
Nine years later	6,374,512,099	-	-	-	-	-	-
Current estimate of cumulative claims	6,374,512,099	4,177,764,719	1,391,637,360	420,721,105	353,995,752	510,117,270	1,577,885,418
Cumulative payments to date	6,357,766,395	4,147,431,028	1,311,232,314	374,576,986	308,731,289	253,053,399	190,424,800
Total gross insurance liabilities included in the statement of financial position	16,745,704	30,333,691	80,405,046	46,144,119	45,264,463	257,063,871	1,387,460,618
Provision for claims reported and loss adjustment expenses, gross							1,863,417,512

Net reinsurance basis

	2018						
Accident year	All years prior	2013	2014	2015	2016	2017	2018
Estimate of ultimate claims costs							
At the end of accident year	2,343,868,879	199,417,876	86,981,760	43,789,264	68,362,215	166,513,503	49,144,772
One year later	2,702,882,254	228,765,271	106,045,785	99,750,930	102,503,738	342,839,679	-
Two years later	2,737,897,096	230,070,485	109,420,651	101,077,415	100,655,566	-	-
Three years later	2,755,050,951	221,887,328	105,643,195	99,036,739	-	-	-
Four years later	2,787,067,322	221,279,403	105,748,270	-	-	-	-
Five years later	2,791,015,259	222,282,040	-	-	-	-	-
Six years later	2,794,159,518	-	-	-	-	-	-
Seven years later	2,793,619,993	-	-	-	-	-	-
Eight years later	2,790,543,644	-	-	-	-	-	-
Nine years later	2,783,787,017	-	-	-	-	-	-
Current estimate of cumulative claims	2,783,787,017	222,282,040	105,748,270	99,036,739	100,655,566	342,839,679	49,144,772
Cumulative payments to date	2,778,610,595	221,120,510	105,048,697	96,280,542	74,642,408	293,900,447	10,503,351
Total net insurance liabilities included in the statement of financial position	5,176,422	1,161,530	699,573	2,756,197	26,013,158	48,939,232	38,641,421
Provision for claims reported and loss adjustment expenses, net							123,387,533

	2017						
Accident year	All years prior	2012	2013	2014	2015	2016	2017
Estimate of ultimate claims costs							
At the end of accident year	2,046,919,715	296,949,164	199,417,876	86,981,760	43,789,264	68,362,215	166,513,503
One year later	2,356,502,001	346,380,253	228,765,271	106,045,785	99,750,930	102,503,738	-
Two years later	2,384,711,705	353,185,391	230,070,485	109,420,651	101,077,415	-	-
Three years later	2,402,380,994	352,669,957	221,887,328	105,643,195	-	-	-
Four years later	2,438,206,431	348,860,891	221,279,403	-	-	-	-
Five years later	2,441,561,466	349,453,793	-	-	-	-	-
Six years later	2,444,705,725	-	-	-	-	-	-
Seven years later	2,444,166,200	-	-	-	-	-	-
Eight years later	2,441,089,851	-	-	-	-	-	-
Nine years later	2,434,772,224	-	-	-	-	-	-
Current estimate of cumulative claims	2,434,772,224	349,453,793	221,279,403	105,643,195	101,077,415	102,503,738	166,513,503
Cumulative payments to date	2,428,775,777	347,888,182	219,848,021	104,438,526	90,288,385	58,886,048	48,493,122
Total net insurance liabilities included in the statement of financial position	5,996,447	1,565,611	1,431,382	1,204,669	10,789,030	43,617,690	118,020,381
Provision for claims reported and loss adjustment expenses, net							182,625,210

25. Insurance payables

The account as at December 31 consists of:

	Note	2018	2017
Premiums due to reinsurers		407,274,382	541,289,004
Funds held for reinsurers	28	892,009,754	870,093,391
		1,299,284,136	1,411,382,395

The roll-forward analysis of insurance payables for the years ended December 31 follows:

	2018			2017		
	Premium Due to Reinsurers	Funds Held for Reinsurers	Total	Premium Due to Reinsurers	Funds Held for Reinsurers	Total
At January 1	541,289,004	870,093,391	1,411,382,395	652,117,469	843,198,199	1,495,315,668
Arising during the year	365,883,123	892,009,754	1,257,892,877	1,121,568,921	870,093,391	1,991,662,312
Utilized	(499,897,745)	(870,093,391)	(1,369,991,136)	(1,232,397,386)	(843,198,199)	(2,075,595,585)
At December 31	407,274,382	892,009,754	1,299,284,136	541,289,004	870,093,391	1,411,382,395

All insurance payables are expected to be settled within one year.

26. Trade and other liabilities

The account as at December 31 consists of:

	Notes	2018	2017
Accrued expenses		172,876,428	166,500,127
Intercompany payables	28	15,646,639	110,101,180
Provision for other post-employment benefits	22	5,431,452	5,949,518
Other liabilities		10,769,101	208,197
		204,723,620	282,759,022

Accrued expenses contain various accruals including provision for contingent profit commissions, provisions for bonuses and indirect tax payables.

Trade and other liabilities are expected to be settled within one year.

27. Lease commitments

On November 15, 2012, the Company renewed its lease contract for another 5 years beginning on January 1, 2013, whereby it is committed to pay a quarterly rental of P3.56 million, subject to a 5% escalation on the second year and 7.5% on the third year and year thereafter.

On September 21, 2017, the Company entered into a new lease agreement for 5 years beginning November 1, 2017, whereby it is committed to pay a monthly rental of P0.9 million, subject to 5% escalation on the third year and year thereafter.

Rent expense charged to operating expenses in 2018 amounts to P17.7 million (2017 - P26.7 million).

As at December 31, the minimum aggregate rental commitments for future years are as follows:

	2018	2017
Within one year	10,783,497	10,249,497
After one year but not more than five years	30,553,241	39,289,738
	41,336,738	49,539,235

28. Related party transactions and balances

The table below summarizes the Company's significant transactions and balances with its related parties.

As at and for the year ended December 31, 2018:

	Transactions	Outstanding balances	Terms and conditions
Reinsurance transactions, excluding funds held			
Parent Company	(177,667,855)	395,066,573	The outstanding balances are due 75 days after the end of each quarter. The payable are unsecured, bear no interest and payable in cash at gross amount.
Funds held for reinsurers			
Parent Company	21,916,363	892,009,754	
Interest expense from funds held for reinsurers			Funds held for reinsurers are retained within one year after inception of related reinsurance policies. The outstanding balances are unsecured, bear interest based on BSP published rate on treasury bills for over 90 days and payable in cash at gross amount.
Parent Company	32,324,772	-	
Operating expenses			
Parent Company	63,089,289	5,985,139	The Company has an existing service agreement with the Parent Company for the provision of services and allocation of shared costs and are payable in cash at gross amount. The outstanding balances are unsecured, bear no interest and are payable in cash on demand.
Entities under common control	137,903,133	9,661,500	
Other income			
Entities under common control	54,661,498	31,990,775	These arise from claims handling and management services rendered by the Company to related parties under common control. The outstanding balances are unsecured, bear no interest and collectible in cash at gross amount on demand.
Intercompany accounts receivable under Loans and receivables			
Entities under common control	(26,087,456)	23,779,358	The outstanding balances are unsecured, bear no interest and collectible in cash at gross amount on demand.

	Transactions	Outstanding balances	Terms and conditions
Salaries, allowances and other short-term benefits			
Key management personnel	74,534,477	-	Bonuses are payable within the first quarter of the following calendar year.
Retirement expense			
Key management personnel	5,073,947	-	Refer to Note 22 - Employee Benefits.
Post-retirement benefit			
Key management personnel	120,517	-	Refer to Note 22 - Employee Benefits.

As at and for the year ended December 31, 2017:

	Transactions	Outstanding balances	Terms and conditions
Reinsurance transactions, excluding funds held			
Parent Company	(87,439,484)	572,734,428	The outstanding balances are due 75 days after the end of each quarter. The payable are unsecured, bear no interest and payable in cash at gross amount.
Funds held for reinsurers			
Parent Company	26,895,192	870,093,391	Funds held for reinsurers are retained within one year after inception of related reinsurance policies. The outstanding balances are unsecured, bear interest based on BSP published rate on treasury bills for over 90 days and payable in cash at gross amount.
Interest expense from funds held for reinsurers			
Parent Company	19,574,797	-	
Operating expenses			
Parent Company	125,029,154	50,900,740	The Company has an existing service agreement with the Parent Company for the provision of services and allocation of shared costs and are payable in cash at gross amount. The Company also has existing rental contracts with entities under common control and are payable in cash at gross amount. The Company also has an existing statement of work for provision of services to other AIG entities which is fully recovered by the Company at cost. The outstanding balances are unsecured, bear no interest and are payable in cash on demand.
Entities under common control	161,433,095	59,200,440	
Other income			
Entities under common control	39,105,620	1,458,671	These arise from claims handling and management services rendered by the Company to related parties under common control. The outstanding balances are unsecured, bear no interest and collectible in cash at gross amount on demand.
Intercompany accounts receivable under Loans and receivables			
Entities under common control	44,430,820	49,866,814	The outstanding balances are unsecured, bear no interest, collectible in cash at gross amount on demand.

	Transactions	Outstanding balances	Terms and conditions
Salaries, allowances and other short-term benefits			
Key management personnel	69,333,106	-	Bonuses are payable within the first quarter of the following calendar year.
Retirement expense			
Key management personnel	4,580,840	-	Refer to Note 22 - Employee Benefits.
Post-retirement benefit			
Key management personnel	120,517	-	Refer to Note 22 - Employee Benefits.

No provisions were recognized against related party receivables as at December 31, 2018 and 2017.

29. Discontinued operation

In 2016, AIG implemented a value-based geography strategy, in which the commercial and consumer businesses globally assessed the countries where superior results can be achieved. As a result, the Company formally announced that effective July 31, 2016, the Company will no longer offer consumer insurance in the Philippines, particularly: personal accident, travel, supplemental health, lifestyle and extended warranty. All existing policies under the consumer business will continue to be serviced for the remaining period of the policy. The consumer business is reported in the current period as a discontinued operation.

Financial information relating to the discontinued operation for the years ended December 31 is set out below:

Results of operations:

	2018	2017
Gross earned premiums on insurance contracts	114,650,023	220,777,623
Reinsurer's share of gross earned premiums on insurance contracts	91,617,385	185,345,062
NET EARNED INSURANCE PREMIUMS	23,032,638	35,432,561
Commission income	37,147,252	73,672,961
TOTAL INCOME	60,179,890	109,105,522
Gross insurance claims paid	45,433,159	87,696,529
Reinsurer's share of gross insurance claims paid	(28,667,544)	(56,208,456)
Gross change in claims liabilities	8,589,615	26,296,778
Reinsurer's share of gross change in claims liabilities	(1,934,988)	(9,369,197)
NET INSURANCE CLAIMS	23,420,242	48,415,654

(forward)

	2018	2017
Operating expenses		
Salaries and employee benefits	28,533,402	41,943,632
Allocated Parent Company expenses	13,148,206	40,980,619
Professional and other service fees	16,722,917	32,330,277
Electronic data processing expenses	13,652,824	25,784,953
Other operating expenses	1,152,081	5,111,724
	73,209,430	146,151,205
Commission expense	4,417,752	12,213,704
Interest expense on funds held for reinsurers	1,294,012	1,452,806
TOTAL INSURANCE CLAIMS AND OTHER EXPENSES	102,341,436	208,233,369
LOSS BEFORE INCOME TAX	(42,161,546)	(99,127,847)
PROVISION FOR INCOME TAX	(12,878,536)	(18,676,821)
LOSS FROM DISCONTINUED OPERATION	(29,283,010)	(80,451,026)

Other operating expenses pertain mainly to sales and marketing, rent, utilities and other office expenses.

Cash flow information:

	2018	2017
Net cash used in operating activities	(97,438,387)	(207,169,785)
Net cash used in investing activities	-	-
Net cash used in financing activities	-	-
NET DECREASE IN CASH GENERATED BY DISCONTINUED OPERATION	(97,438,387)	(207,169,785)

30. Supplementary information required by the Bureau of Internal Revenue ("BIR")

Below is the additional information required by Revenue Regulations No. 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Output value-added tax (VAT)

Output VAT declared for the year ended December 31, 2018 and the revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT		
Premiums (Non-life)	1,323,144,848	158,777,382
Zero-rated		
Premiums (Non-life)	751,954,698	-
VAT exempt	108,889,100	-
	2,183,988,646	158,777,382

The gross revenues shown above are based on gross receipts of the Company for VAT purposes while gross revenues in statement of income are measured in accordance with the policy in Note 3.3.2.

Zero-rated sales are premiums on insurance policies issued to PEZA-registered entities.

(ii) Input VAT

Movements in input VAT for the year ended December 31, 2018 follow:

	Amount
Beginning balance	7,797,606
Add: Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	53,054
Capital goods subject to amortization	357,418
Services lodged under cost of goods sold	14,580,764
Commissions for brokers	9,758,990
Services lodged under other accounts	-
Claims for tax credit/refund and other adjustments	(26,905,053)
Ending Balance	5,642,779

The above input VAT are presented as part of other assets in the statement of financial position.

(iii) Documentary stamp tax

Documentary stamp taxes paid and accrued for the year ended December 31, 2018 consist of:

	Amount
Insurance policies	210,732,006
Others	596,880
	211,328,886

Accrued documentary stamp taxes of P9.8 million as at December 31, 2018 are included within Accrued expenses under Trade and other liabilities in the statement of financial position. The documentary stamp taxes are passed on to policyholders.

(iv) All other local and national taxes

All other local and national taxes for the year ended December 31, 2018 consist of:

	Amount
Fire service taxes	20,185,726
Municipal taxes	4,862,291
Premium tax	1,877,361
Sanitary, garbage, health fee and fire safety	14,760
Community tax	10,500
Mayor's permit	5,000
Business tax	700
	26,956,338

The above local and national taxes are lodged under Operating expenses except for premium tax, fire service taxes and municipal taxes which are passed on to policyholders.

(v) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31 consist of:

	2018		
	Paid	Accrued	Total
Expanded withholding tax	19,708,722	1,046,311	20,755,033
Withholding tax on compensation	27,576,237	2,132,185	29,708,422
Final withholding tax	9,132,025	38,655,621	47,787,646
Fringe benefit tax	2,992,316	818,199	3,810,515
	59,409,300	42,652,316	102,061,616

Accrued withholding taxes are presented as part of Accrued expenses under Trade and other liabilities in the statement of financial position.

(vi) Tax assessments

Taxable years 2017, 2016, and 2015 are open tax years as at December 31, 2018. The Company has not received Preliminary and Final Assessment Notices on the open tax years.

(vii) Tax cases

There are no pending tax cases as at December 31, 2018.

(viii) Others

The Company did not have transactions that are subject to excise taxes, custom duties and tariff fees.