

WESTERN GUARANTY CORPORATION

11th Floor ETY Building, 484 Quintin Paredes St., Binondo, Manila

FINANCIAL STATEMENTS

December 31, 2018



西 聯 保 險 有 限 公 司
WESTERN GUARANTY CORPORATION

Securities and Exchange Commission

Secretariat Building, PICC Complex
Roxas Boulevard, Metro Manila

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of WESTERN GUARANTY CORPORATION is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein 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 the cease operations, or has no realistic alternative but to do so.


The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the stockholders or members.

J.A. BANARIA AND COMPANY, the independent auditor, appointed by the Members, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.


CLARITA N. CHUA
Treasurer


CHOA SIU TIN
President


ATTY. LEVY EDWIN C. ANG
Chairman of the Board

Signed this 12th day of April 2019



西 聯 保 險 有 限 公 司
WESTERN GUARANTY CORPORATION

STATEMENT OF MANAGEMENT RESPONSIBILITY

FOR ANNUAL INCOME TAX RETURN

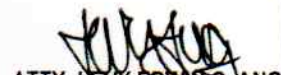
The management of WESTERN GUARANTY CORPORATION is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. The management is likewise responsible for all information and representations contained in the financial statements accompanying The Annual Income Tax Return covering the same reporting period. Furthermore, the Management responsible for all information and representation contained in all the other tax returns filed for the reporting period, including, but not limited to the value added tax returns, withholding tax returns, and any and all other tax returns.

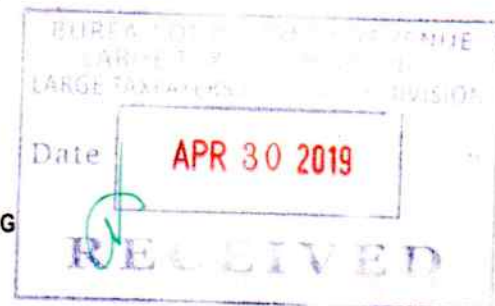
In this regard, management affirms that the attached Audited Financial Statement for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of WESTERN GUARANTY CORPORATION complete and correct in all material respects. Management likewise affirms that:

- (i) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (ii) Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (iii) WESTERN GUARANTY CORPORATION has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


CLARITA N. CHUA
Treasurer


CHOA SIU TIN
President


ATTY. LEVY EDWIN S. ANG
Chairman of the Board



Signed this 12th day of April 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders

WESTERN GUARANTY CORPORATION
11th Floor ETY Building, 484 Quintin Paredes St.
Binondo, Manila

Opinion

We have audited the financial statements of WESTERN GUARANTY CORPORATION (the Company), which comprise the statement of financial position as of December 31, 2018, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.



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.

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.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

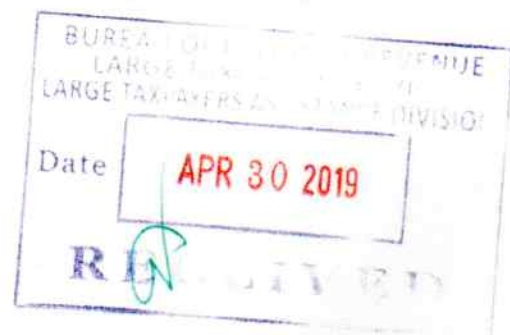
Our audit was conducted for forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 17 to the financial statements and the list of applicable reporting standards are presented for purposes of filing with the Bureau of Internal Revenue and compliance to Securities and Exchange Commission regulation and are not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

For the firm:



JOSE ARTEMIO A. BANARIA
Managing Partner
TIN 102-752-550
PRC Lic. No. 30659 until June 17, 2019
BIR AN 07-000715-002-2016, until Nov. 24, 2019
IC AN SP-2016-005-O, until Jul 19, 2019
SEC AN C-814-A, until May8, 2019
PTR 7446294, January 10, 2019 Quezon City

April 4, 2019



WESTERN GUARANTY CORPORATION
STATEMENT OF FINANCIAL POSITION
As of December 31

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents, <i>note 5</i>	P 173,727,953	P 113,293,212
Receivables, <i>note 6</i>	558,529,611	412,953,263
Other current assets, <i>note 7</i>	9,156,810	9,633,138
Total Current Assets	741,414,373	535,879,613
Noncurrent Assets		
Investments, <i>note 9</i>	414,827,926	434,320,475
Property and equipment, <i>note 10</i>	130,062,041	108,564,642
Deferred tax assets	1,270,755	-
Other assets, <i>note 8</i>	117,910,855	137,042,299
Total Noncurrent Assets	664,071,577	679,927,416
TOTAL ASSETS	P 1,405,485,950	P 1,215,807,029
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable & accrued expenses, <i>note 11</i>	90,224,010	94,692,374
Income tax payable	17,992,626	2,461,425
Due to reinsurers, <i>note 2(y)</i>	15,895,814	22,699,583
Claims payable, <i>note 2(x)</i>	150,569,789	65,916,798
Reserve for unearned premiums, <i>note 2(z)</i>	275,705,474	277,593,718
Total Current Liabilities	550,387,713	463,363,899
TOTAL LIABILITIES	550,387,713	463,363,899
EQUITY		
Share capital, <i>note 13</i>	350,000,000	350,000,000
Other reserves	157,487,836	126,150,624
Retained earnings	347,610,402	276,292,506
TOTAL EQUITY	855,098,238	752,443,130
TOTAL LIABILITIES AND EQUITY	P 1,405,485,950	P 1,215,807,029

WESTERN GUARANTY CORPORATION
Suite 508 BPI Office Condominium Building, Plaza Cervantes, Binondo, Manila

STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31

	2018	2017
UNDERWRITING INCOME		
Premiums retained, <i>note 15</i>	P 610,731,665	P 535,035,335
Increase in reserve for unexpired risk	(21,058,298)	(29,071,972)
Premiums earned	589,673,367	505,963,363
UNDERWRITING DEDUCTIONS		
Losses & expenses, <i>note 16.1</i>	(261,988,848)	(250,620,986)
Policy acquisition cost	(88,342,784)	(100,324,951)
Total Underwriting Deductions	(350,331,632)	(350,945,937)
NET UNDERWRITING INCOME	239,341,735	155,017,425
INVESTMENT AND OTHER INCOME, <i>note 15</i>	11,426,604	8,272,366
NET UNDERWRITING AND INVESTMENT INCOME	250,768,338	163,289,791
GENERAL AND ADMINISTRATIVE EXPENSES, <i>note 16.2</i>	(153,733,634)	(107,370,706)
PROFIT BEFORE INCOME TAX PROVISION	97,034,704	55,919,085
PROVISION FOR INCOME TAX, <i>note 17</i>	(25,716,809)	(14,294,060)
NET PROFIT	71,317,895	41,625,025
OTHER COMPREHENSIVE INCOME, <i>note 9 & 10</i>	31,337,212	-
TOTAL COMPREHENSIVE INCOME	P 102,655,108	P 41,625,025

WESTERN GUARANTY CORPORATION

Suite 508 BPI Office Condominium Building, Plaza Cervantes, Binondo, Manila

STATEMENT OF CASH FLOWS

For the year ended December 31

	2018	2017
OPERATING ACTIVITIES		
Profit before tax	₱ 97,034,704	₱ 55,919,085
Adjustments for:		
Depreciation, <i>note 10</i>	4,456,647	7,796,474
Interest income	(9,893,380)	(7,386,872)
Dividend income	(171,941)	(148,429)
Gain on sale of available for sale investments	(1,246,688)	(736,917)
Fire loss recovery	28,884,195	-
Profit before working capital changes	119,063,538	55,443,341
Changes in working capital:		
Receivables	(145,576,348)	(31,544,000)
Other current assets	476,329	(3,014,070)
Accounts payable & accrued expenses	(4,468,364)	50,256,258
Due to reinsurers	(6,803,769)	(24,011,784)
Claims payable	84,652,991	(7,834,709)
Reserve for unearned premiums	(1,888,244)	15,860,466
Cash flows from operation	45,456,131	55,155,501
Income tax paid	(10,185,608)	(41,158,082)
Net cash provided by/(used in) operating activities	35,270,523	13,997,420
INVESTING ACTIVITIES		
Interest income received	9,893,380	7,386,872
Dividend income received	171,941	148,429
Acquisition of Investments	(44,939,054)	(74,094,644)
Proceeds on sale of available for sale investments	62,292,442	34,015,634
Acquisition of Property and equipment, <i>note 10</i>	(21,385,934)	(42,698,145)
Disposals of property and equipment	-	(153,765)
Other assets	19,131,444	20,401,091
Net cash provided by/(used in) investing activities	25,164,218	(54,994,527)
FINANCING ACTIVITIES		
Proceeds from issuance of capital, <i>note 13</i>	-	50,000,000
Net cash provided by financing activities	-	50,000,000
Net cash flows during the year	60,434,741	9,002,893
Cash and cash equivalents at 1 January	113,293,212	104,290,319
Cash and cash equivalents at 31 December, <i>note 5</i>	₱ 173,727,953	₱ 113,293,212

WESTERN GUARANTY CORPORATION

Suite 508 BPI Office Condominium Building, Plaza Cervantes, Binondo, Manila

Statements of Changes in Equity

For the years ended December 31

	Share capital, note 13	Other Reserves			Retained earnings	Total
		Reserve for fluctuation of AFS financial assets	Revaluation reserves note 9 & 10	Contributed surplus		
Balances at 1 January 2018	₱ 350,000,000	₱ -	₱ 125,800,624	₱ 350,000	₱ 276,292,506	₱ 752,443,131
Increase in market value of properties	-	-	34,302,307	-	-	34,302,307
Profit for the year	-	-	-	-	71,317,895	71,317,895
Fair value adjustment during the year, net of tax	-	(2,965,094)	-	-	-	(2,965,094)
Balances at December 31, 2018	₱ 350,000,000	₱ (2,965,094)	₱ 160,102,931	₱ 350,000	₱ 347,610,402	₱ 855,098,238
Balances at 1 January 2017	₱ 300,000,000	₱ -	₱ 125,800,624	₱ 350,000	₱ 234,667,481	₱ 660,818,105
Issuance of share capital	50,000,000	-	-	-	-	50,000,000
Increase in market value of properties	-	-	-	-	-	-
Profit for the year	-	-	-	-	41,625,025	41,625,025
Correction of prior period's error	-	-	-	-	-	-
Balances at December 31, 2017	₱ 350,000,000	₱ -	₱ 125,800,624	₱ 350,000	₱ 276,292,506	₱ 752,443,130

WESTERN GUARANTY CORPORATION
Reconciliation of Retained Earnings Available for Dividend Declaration
For the years ended December 31

	2018	2017
Unappropriated Retained Earnings, beginning	₱ 276,292,506	₱ 234,667,480
Adjustments	-	-
Unappropriated Retained Earnings, as adjusted, beginning	276,292,506	234,667,480
Net Income based on the face of AFS	71,317,895	41,625,025
Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture	-	-
Unrealized foreign exchange gain – net (except those attributable to Cash and Cash Equivalents)	-	-
Unrealized actuarial gain	-	-
Fair value adjustment	-	-
Fair value adjustment of Investment Property resulting to gain	-	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-	-
Non-actual losses		
Depreciation on revaluation increment (after tax)	-	-
Loss on fair value adjustment of investment property (after tax)	-	-
Net Income Actual/Realized	71,317,895	41,625,025
Unappropriated Retained Earnings, as adjusted, ending	₱ 347,610,402	₱ 276,292,506

1 General information

WESTERN GUARANTY CORPORATION (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on August 31, 1964 with SEC Reg. No. 25659. The Company insure houses, tenements, merchandise and all other property and effects, real or personal against loss or damage by fire, storm, earthquake shock, fire resulting from earthquake accident or otherwise, and to carry on the ordinary business of fire insurance in all of the aforesaid branches.

The company's registered office address which is also its principal office at 11th Floor ETY Bldg. . 484 Quintin Pparedes St., Binondo, Manila

2 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 all the years presented, unless otherwise stated.

a. Statement of Compliance

The accompanying financial statements have been prepared in accordance with the recognition, measurement and disclosure principles that are consistent with Philippine Financial Reporting Standards (PFRS). This is the first financial statements prepared in accordance with PFRS. The transition to full PFRS does not results to adjustments except for the effect of PFRS 9 as discussed in the succeeding paragraphs.

The accompanying financial statements have been prepared on a historical cost basis, except for financial instruments which have been measured at fair value through profit or loss, at fair value through other comprehensive income (FVTOCI), and amortized cost.

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 financial statements are presented in "Philippine Peso" (₱), which is the company's functional and presentation currency. All values are in absolute amounts unless otherwise indicated.

b. Adoption of new and revised Standards

New and amended PFRS Standards that are effective for the current year

Impact of initial application of PFRS 9 Financial Instruments

In the current year, the Company has applied PFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other PFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of PFRS 9 allow an entity not to restate comparatives. The Company has not elected to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Company adopted consequential amendments to PFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and any changes to prior years related thereto has been adjusted to beginning balance of the retained earnings.

PFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied PFRS 9 in accordance with the transition provisions set out in PFRS 9.

a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of PFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of PFRS 9 to instruments that continue to be recognized as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018.

All recognized financial assets that are within the scope of PFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortized cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and
- the Company may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Company has not designated any debt investments amortized cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment.

When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

The directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of PFRS 9 has had the following impact on the Company's financial assets as regards their classification and measurement:

- the Company's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and

were measured at cost at each reporting date under PAS 39 have been designated as at FVTOCI. The change in fair value on these equity instruments continues to be accumulated in the investment revaluation reserve;

- there is no change in the measurement of the Company's investments in equity instruments that are held for trading; those instruments were and continue to be measured at FVTPL;
- financial assets classified as held-to-maturity and loans and receivables under PAS 39 that were measured at amortized cost continue to be measured at amortized cost under PFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

None of the other reclassifications of financial assets have had any impact on the Company's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

b) Impairment of financial assets

In relation to the impairment of financial assets, PFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under PAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, PFRS 9 requires the Company to recognize a loss allowance for expected credit losses on:

- i. Debt investments measured subsequently at amortized cost or at FVTOCI;
- ii. Lease receivables;
- iii. Trade receivables and contract assets; and
- iv. Financial guarantee contracts to which the impairment requirements of PFRS 9 apply.

In particular, PFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. PFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Because the Company has not elected to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognized on the date of initial application of PFRS 9 (i.e. 1 January 2018), the directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 January 2017 should the company elected to restate comparatives.

There is no additional credit loss allowance as at 1 January 2018 has been recognized against retained earnings against the respective asset.

The reconciliation between the ending provision for impairment in accordance with PAS 39 to the opening loss allowance determined in accordance with PFRS 9 for the above financial instruments on 1 January 2018 is disclosed in their respective notes.

c) Classification and measurement of financial liabilities

A significant change introduced by PFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, PFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an

accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under PAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of PFRS 9 has had no impact on the classification and measurement of the Company's financial liabilities.

d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

PFRS 9 requires hedging gains and losses to be recognized as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under PAS 1 Presentation of Financial Statements and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorised as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. This is consistent with the Company's practice prior to the adoption of PFRS 9.

When a forward contract is used in a cash flow hedge or fair value hedge relationship, the Company has designated the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument.

The application of the PFRS 9 hedge accounting requirements has had no other impact on the results and financial position of the Company for the current and/or prior years. Please refer to note 62(c) for detailed disclosures regarding the Company's risk management activities.

e) Disclosures in relation to the initial application of PFRS 9

There were no financial liabilities which the Company had previously designated as at FVTPL under PAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of PFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of PFRS 9.

f) Impact of initial application of PFRS 9 on financial performance

The application of PFRS 9 has had no impact on the cash flows of the Company.

Impact of application of PFRS 15 Revenue from Contracts with Customers

In the current year, the Company has applied PFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. PFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in PFRS 15 to deal with specific scenarios.

Details of the new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied PFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in PFRS 15 or for modified contracts in PFRS 15 but using the expedient in allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

PFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Company has adopted the terminology used in PFRS 15 to describe such balances.

The Company's accounting policies for its revenue streams are disclosed in detail in succeeding paragraphs. Apart from providing more extensive disclosures for the Company's revenue transactions, the application of PFRS 15 has not had a significant impact on the financial position and/or financial performance of the Company.

In the current year, the Company has applied a number of amendments to PFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

PFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions

The Company has adopted the amendments to PFRS 2 for the first time in the current year. The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - a. the original liability is derecognized;
 - b. the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
 - c. any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

PAS 40 (amendments) Transfers of Investment Property

The Company has adopted the amendments to PAS 40 Investment Property for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in PAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

Annual Improvements to PFRS Standards 2014 – 2016 Cycle

Amendments to PAS 28 Investments in Associates and Joint Ventures

The Company has adopted the amendments to PAS 28 included in the Annual Improvements to PFRS Standards 2014–2016 Cycle for the first time in the current year. The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

New and revised PFRS Standards in issue but not yet effective

At the date of authorization of these financial statements, The Company has not applied the following new and revised PFRS Standards that have been issued but are not yet effective.

PFRS 16 Leases

PFRS 17 Insurance Contracts

Amendments to PFRS 9 Prepayment Features with Negative Compensation

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

Annual Improvements to PFRS Standards 2015–2017 Cycle Amendments to PFRS 3 Business Combinations, PFRS 11 Joint Arrangements, PAS 12 Income Taxes and PAS 23 Borrowing Costs

Amendments to PAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

PFRS 10 Consolidated Financial Statements and PAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

IFRIC 23 Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

General impact of application of PFRS 16 Leases

PFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. PFRS 16 will supersede the current lease guidance including PAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of PFRS 16 for the Company will be 1 January 2019.

In contrast to lessee accounting, PFRS 16 substantially carries forward the lessor accounting requirements in PAS 17.

Impact of the new definition of a lease

The Company will make use of the practical expedient available on transition to PFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with PAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. PFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Company will apply the definition of a lease and related guidance set out in PFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of PFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in PFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Company.

Impact on Lessee Accounting

Operating leases

PFRS 16 will change how the Company accounts for leases previously classified as operating leases under PAS 17, which were off-balance sheet.

On initial application of PFRS 16, for all leases (except as noted below), the Company will:

- a) Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under PAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under PFRS 16, right-of-use assets will be tested for impairment in accordance with PAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets the Company will opt to recognize a lease expense on a straight-line basis as permitted by PFRS 16.

As at 31 December 2018, the Company has no non-cancellable operating lease commitments.

Under PAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under PFRS 16 would be to reduce the cash generated by operating activities by ₱0- and to increase net cash used in financing activities by the same amount.

Finance leases

The main differences between PFRS 16 and PAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. PFRS 16 requires that the Company recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by PAS 17. On initial application the Company will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Company's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognized in the Company's consolidated financial statements.

Impact on Lessor Accounting

Under PFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, PFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under PFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under PAS 17).

PFRS 17 Insurance Contracts

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4 Insurance Contracts.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The implementation of the Standard is likely to bring significant changes to an entity's processes and systems, and will require much greater co-ordination between many functions of the business, including finance, actuarial and IT.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The directors of the Company do not anticipate that the application of the Standard in the future will have an impact on the Company's consolidated financial statements.

Amendments to PFRS 9 Prepayment Features with Negative Compensation

The amendments to PFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of PFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's consolidated financial statements.

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

The amendment clarifies that PFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying PFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by PAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with PAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of PFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's consolidated financial statements.

Annual Improvements to PFRS Standards 2015–2017 Cycle Amendments to PFRS 3 Business Combinations, PFRS 11 Joint Arrangements, PAS 12 Income Taxes and PAS 23 Borrowing Costs

The Annual Improvements include amendments to four Standards.

PAS 12 Income Taxes

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

PAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

PFRS 3 Business Combinations

The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

PFRS 11 Joint Arrangements

The amendments to PFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's consolidated financial statements.

Amendments to PAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). PAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under PAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to PAS 19 are first applied. The amendments to PAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's consolidated financial statements.

PFRS 10 Consolidated Financial Statements and PAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to PFRS 10 and PAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the PASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Company's consolidated financial statements in future periods should such transactions arise.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a Company; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's consolidated financial statements.

Basis of accounting

Financial instruments

Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Company may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated

future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance. Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired. Interest income is recognized in profit or loss and is included in the "finance income – interest income" line item.

(i) Debt instruments classified as at FVTOCI

The corporate bonds held by the Company are classified as at FVTOCI. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (is) above) are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(ii) Equity instruments designated as at FVTOCI

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investment's revaluation reserve. The

cumulative gain or loss is not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with PFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' line item in profit or loss.

The Company has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of PFRS 9.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Company has designated its debt instruments as at FVTPL due to the current nature of the investment of 12 months.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Company, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Company of financial assets or financial liabilities or both, which is managed and

- its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Company is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and PFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Company that are designated by the Company as at FVTPL are recognized in profit or loss.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss (note 11) for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

c. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

d. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Recoverability of specific receivables is evaluated based on the best available facts and circumstances, the length of the Company's relationship with its debtors, the debtors' payment behavior and known market factors. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated to be uncollectible using expected credit losses approach.

A provision for impairment of trade receivable is stabled when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

e. Goodwill

Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 January 2010, the Company's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired and, in the case of business combinations completed on or after 1 January 2010, the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2010, cost comprised the fair value of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Changes in the estimated value of contingent consideration arising on business combinations completed by this date were treated as an adjustment to cost and, in consequence, resulted in a change in the carrying value of goodwill.

For business combinations completed on or after 1 January 2010, cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. For business combinations completed on or after 1 January 2010, direct costs of acquisition are recognized immediately as an expense.

Goodwill is capitalized as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

f. Impairment of non-financial assets (excluding inventories, investment properties and deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest Company of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs'). Goodwill is allocated on initial recognition to each of the Company's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognized in other comprehensive income. An impairment loss recognized for goodwill is not reversed.

g. Associates

Where the Company has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognized in the

statement of financial position at cost. The share of post-acquisition profits and losses is recognized in the consolidated statement of comprehensive income, except that losses in excess of the Company's investment in the associate are not recognized unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Company and its associates are recognized only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

h. Joint ventures

Jointly controlled entities are included in the financial statements using proportionate consolidation. The share of each of the jointly controlled entity's assets, liabilities, income and expenses are combined on a line-by-line basis with those of the Company.

Profits and losses arising on transactions between the Company and jointly controlled entities are recognized only to the extent of unrelated investors' interests in the entity. The investor's share in the jointly controlled entity's profits and losses resulting from these transactions is eliminated against the asset or liability of the jointly controlled entity arising on the transaction.

The Company includes the assets it controls its share of any income and the liabilities and expenses of jointly controlled operations and jointly controlled assets in accordance with the terms of the underlying contractual arrangement.

i. Foreign currency

Transactions entered into by the Company in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognized in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

Exchange gains and losses arising on the retranslation of monetary available for sale financial assets are treated as a separate component of the change in fair value and recognized in profit or loss. Exchange gains and losses on non-monetary available for sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognized in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognized profit or loss in Company's separate financial statements on the translation of long-term monetary items forming part of net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognized in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

j. Share Capital

Share Capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. The costs of acquiring Company's own shares are shown as a deduction from equity attributable to the Company's equity holders until the shares are cancelled or reissued. When such shares are subsequently sold or reissued, any consideration received, net of directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

k. Reserve for fluctuation in market value of asset

When fluctuation in value is permanent, any gain or loss resulting from such fluctuation will be recognized in the income statements in the year that the permanent fluctuation is determined.

l. Contingency surplus

Additional cash contributions by the company's stockholders, which will be converted to capital stock, to provide adequate capital in accordance with the requirement of the Insurance Commission.

m. Retained earnings

Includes all current and prior period results as disclosed in the income statements for each accounting period, reduced by the amounts of dividends declared.

n. Earnings per Share

Basic earnings per share is determined by dividing net income for the year by the weighted average number of common shares outstanding, after retroactive adjustments for any stock dividends declared.

o. Borrowing costs

Interest incurred on the bank loan used to fund the construction of the Company's fixed assets is being capitalized as part of its cost, net of interest received on cash drawn down yet to be expended. The Company does not incur any other interest costs that qualify for capitalization.

p. Retirement benefits

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate. Under this plan, the company pays contributions based on the employees' monthly salaries. The company however is covered under Republic Act No. 7641, The Philippine Retirement Law, which provides for its qualified employees a defined benefit minimum guarantee. The minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA 7641.

Accordingly, the company accounts for its retirement obligation under the higher of the defined benefits obligation relating the minimum guarantee and the obligation arising from the DC plan.

Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on plan assets and the effect of the assets ceiling, if any, are recognized immediately in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The company recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

q. Leases

The company account for its leases as follows:

- As Lessee

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

The company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes 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.

r. Property, plant and equipment

Items of property, plant and equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Land and buildings are subsequently carried at fair value, based on periodic valuations by a professionally qualified valuer. These revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognized in profit or loss.

Land is not subject to depreciation. Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the asset as follows:

• Building	30 years
• Office Equipment	5 years
• Data Processing Equipment	5 years
• Furniture and Fixture	5 years
• Transportation Equipment	6 years

At the date of revaluation, the accumulated depreciation on the revalued property is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The excess depreciation on revalued buildings, over the amount that would have been charged on a historical cost basis, is transferred from the revaluation reserve to retained earnings when land and buildings are expensed through the statement of comprehensive income (e.g. through depreciation, impairment). On disposal of the asset the balance of the revaluation reserve is transferred to retained

earnings.

s. Investment property

Investment property is measured initially at acquisition cost. Subsequently, investment property is stated at fair value, including transaction costs as determined by independent appraisers. The carrying amounts recognized in the financial position reflect the prevailing market conditions at the balance sheet date. Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognized in the other comprehensive income as Surplus from Investment Property. Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the income statement in the year of retirement or disposal.

Rent receivable is spread on a straight-line basis over the period of the lease. Where an incentive (such as a rent free period) is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset as a result of recognizing rental income on this basis.

t. Externally acquired intangible assets

Externally acquired intangible assets are initially recognized at cost and subsequently amortized on a straight-line basis over their useful economic lives.

Intangible assets are recognized on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

In-process research and development programmes acquired in such combinations are recognized as an asset even if subsequent expenditure is written off because the criteria specified in the policy for development costs below are not met.

The intangibles that may be recognized by the Company, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
• Licenses and trademarks	10 years	Multiple of estimated revenues and profits
• Non-contractual customer relationships	2-4 years	Estimated discounted cash flow
• Contractual relationships	Term of contract	Estimated discounted (up to 5 years) cash flow

u. Internally generated intangible assets (development costs)

Expenditure on internally developed products is capitalized if it can be demonstrated that:

- i) it is technically feasible to develop the product for it to be sold;
- ii) adequate resources are available to complete the development;
- iii) there is an intention to complete and sell the product;
- iv) the Company is able to sell the product;
- v) sale of the product will generate future economic benefits; and
- vi) expenditure on the project can be measured reliably.

Capitalized development costs are amortized over the periods the Company expects to benefit from selling the products developed. The amortization expense is included within the administrative expenses in the

statement of comprehensive income.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the statement of comprehensive income as incurred.

v. Income Taxes

Under the Republic Act No. 9337 ("RA 9337"), certain sections of the National Internal Revenue Code of 1997 were amended and signed into law on May 24, 2005 and become effective beginning November 1, 2005. One of the major changes brought about by RA 9337 that is relevant to the Company is the Income Tax Rate is increased from 32% to 35% starting November 1, 2005 until December 31, 2008 and will be reduced to 30% beginning January 1, 2009.

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement, because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

w. Dividends

Dividends are recognized when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting or when the law mandates its declaration.

x. Claim cost recognition

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

The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claims costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

y. Due to Reinsurers/ceding company

Premium claims and commission due in respect of reinsurances accepted and reinsurances ceded whether directly or through brokers.

z. Reserves for unearned premiums

Minimum amount required by law to be set up as security for the benefits of the policyholders.

aa. Provisions, Contingent Liabilities and Contingent Assets

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

bb. Treasury shares

Consideration paid/received for the purchase/sale of treasury shares is recognized directly in equity. The cost of treasury shares held is presented as a separate reserve (the "treasury share reserve"). Any excess of the consideration received on the sale of treasury shares over the weighted average cost of the shares sold is credited to retained earnings.

cc. Non-current assets held for sale and disposals

Non-current assets are classified as held for sale when:

- they are available for immediate sale;
 - management is committed to a plan to sell;
 - it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
 - an active programme to locate a buyer has been initiated;
 - the asset or disposal Company is being marketed at a reasonable price in relation to its fair value; and
 - a sale is expected to complete within 12 months from the date of classification.
- non-current assets classified as held for sale are measured at the lower of:
- their carrying amount immediately prior to being classified as held for sale in accordance with the Company's accounting policy; and
 - fair value less costs to sell.

Following their classification as held for sale, non-current assets are not depreciated.

The results of operations disposed during the year are included in the statement of comprehensive income up to the date of disposal.

dd. Revenue and Cost 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 measured reliably. The following are the source of revenue of the Company:

Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at balance sheet date are accounted for as Unearned Premiums and presented in the liability section of the balance sheet. The related reinsurance premiums ceded that pertain to the unexpired periods at balance sheet date are accounted for as Ceded Reinsurance Premiums shown as part of assets in the balance sheet. The net changes in these accounts between balance sheet dates are charged or credited to income.

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset. Interest income from bank deposits is recognized on a time-proportion basis on the principal outstanding and at the rate applicable.

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

Other income is recognized when earned regardless of when received.

Costs and expenses are recognized when incurred regardless when paid. Finance costs are reported on accrual basis.

Claims expense is recognized upon payment of approved claims adjusted by all claims received and not yet recognized as of the end of the reporting period.

ee. Events After the Balance Sheet Date

The Company identifies subsequent events as events that occurred after the balance sheet date but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Company's financial position at the balance sheet date are reflected in the financial statements.

Events that are not adjusting events are disclosed in the notes to the financial statements when material.

ff. Significant accounting judgments and estimates

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Critical Judgments in Applying Accounting Policies

These are the critical judgment apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amount recognized in the financial statements.

(1) Held-to-maturity financial assets

The directors have reviewed its held-to-maturity financial assets in light of its capital maintenance and liquidity requirements and have confirmed the Company's positive intention and ability to hold those assets to maturity.

(2) Deferred Taxation on Investment Properties

The directors reviewed the company's investment property portfolios and concluded that none of the company's investment properties are held under a business model whose objective it to

consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the presumption set out in the amendments to PAS 12 is not rebutted. The application of the amendments has resulted in the company not recognizing any deferred taxes on changes in fair value.

- Estimates and assumptions

- (1) Valuation of investment property and freehold land and buildings

The Company obtains valuations performed by external valuers in order to determine the fair value of its investment properties. These valuations are based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

- (2) Estimating future benefit payments and premiums arising from long term insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality expected, adjusted where appropriate to reflect the Company's own experience.

For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for certain age groups in which the company has significant exposure to mortality risk.

For long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature, estimates are made in two stages. Estimates of future deaths, voluntary terminations, investment returns and administration expenses are made at the inception of the contract and from the assumption used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. These assumptions are "locked in" for the duration of the contract. New estimates are made each subsequent year in order to determine whether the previous liabilities are adequate in the light of these latest estimates. If the liabilities are considered adequate, the assumptions are not changed. If they are not adequate, the assumptions are changed to reflect the best estimates. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognized, while significant deterioration in estimates is immediately recognized to make the liabilities adequate.

- (3) Estimating useful lives of property, plant and equipment

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

(4) Impairment of goodwill

The Company is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows.

(5) Fair value of financial instruments

The Company determines the fair value of financial instruments that are not quoted, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

(6) Pension assumptions

The costs, assets and liabilities of the defined benefit schemes operating by the Company are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions are set out in note 14. The Company takes advice from independent actuaries relating to the appropriateness of the assumptions. Changes in the assumptions used may have a significant effect on the consolidated statement of comprehensive income and the statement of financial position.

(7) Legal proceedings

The Company reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment. (See note x)

(8) Income taxes

The Company is subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made

(9) Estimation of Allowance for Probable Losses

Recoverability of specific receivables is evaluated based on the best available facts and circumstances, the length of the Company's relationship with its debtors, the debtors' payment behavior and known market factors. These specific reserves are reevaluated and adjusted as additional information received affects the amount estimated to be uncollectible.

3 Financial instruments - Risk management

The Company is exposed through its operations to the following financial risks:

1. Credit risk
2. Fair value or cash flow interest rate risk
3. Other market price risk
4. Liquidity risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

1. Trade receivables
2. Cash and cash equivalents
3. Investments in quoted and unquoted equity securities
4. Trade and other liabilities
5. Claims payable
6. Due to reinsurers

A summary of the financial instruments held by category is provided below:

a) Financial Assets

	Held to maturity (in P'000)		Loans and receivable (in P'000)		Available for sale (in P'000)	
	2018	2017	2018	2017	2018	2017
Cash and cash equivalents	-	-	173,728	113,293	-	-
Receivables	-	-	558,530	412,953	-	-
Investment in bonds and treasury notes	231,451	246,114	-	-	-	-
Equity investment	-	-	-	-	30,513	36,193
Total	231,451	246,114	732,258	526,246	30,513	36,193

b) Financial Liabilities

	Level 1		Level 2		Level 3		Total	
	2018 (in P'000)	2017 (in P'000)	2018 (in P'000)	2017 (in P'000)	2018 (in P'000)	2017 (in P'000)	2018 (in P'000)	2017 (in P'000)
Financial assets								
Derivative financial assets (fair value through profit or loss)	30,513	36,193	-	-	-	-	30,513	36,193
Cash and cash equivalents	173,728	113,293	-	-	-	-	173,728	113,293
HTM investments	231,451	246,114	-	-	-	-	231,451	246,114
Receivables	-	-	-	-	558,530	412,953	558,530	412,953
Total	435,692	395,600	-	-	558,530	412,953	994,222	808,553

The fair value of the unlisted securities is based on expected cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted. Interest rate has no material fluctuations during 2018 and 2017.

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings. Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board receives monthly reports from the Company's Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Company's internal auditors also review the risk management policies and processes and report their findings to the Board of Directors.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Generally, the maximum credit exposure of the company is the carrying amount of the financial assets as summarized as follows:

	Notes	2018	2017
Cash and cash equivalents	6	₱ 173,727,953	₱ 113,293,212
Receivables	7	558,529,611	412,953,263
Investment in bonds and treasury notes	10	231,451,006	246,114,090
Equity investment	11	30,513,118	36,192,583
Total		₱ 994,221,688	₱ 808,553,148

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk from credit sales. It is Company policy to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

The Company's management consider that all the above financial assets that are not impaired or past due for each reporting periods are of good credit quality.

Market risk

Market risk arises from the Company's use of interest bearing and tradable financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Fair value and cash flow interest rate risk

The Company's interest rate risk is associated with interest-bearing receivables and cash and cash equivalents, and interest-bearing borrowings, on the other. If the interest is variable, it presents the Company with a cash flow interest rate risk. If the interest rate is fixed, there is a fair value interest rate risk. The Company mitigates the cash flow interest rate risk to the extent possible through the use of interest rate swaps, under which interest liabilities based on a variable rate are converted into fixed rates. The Company does not use interest rate swaps

under which fixed-rate interest liabilities are converted into variable rates in order to hedge the fair value interest rate risk.

The analysis of the cash flow interest rate risk takes into account cash and cash equivalents, the debt position and the usual fluctuations in the Company's working capital requirements. In addition, alternatives are being studied and hedges are being considered. Under Company policy, cash flow interest rate risks with regard to long-term borrowings (mainly bank financing) are largely hedged by interest swaps. As a result, the Company is not entirely insensitive to movements in interest rates. At year-end 2016 and 2015 the Company has no interest bearing loans and borrowings. The part not covered consists almost entirely of short-term financing and current account positions. If the interest rates had been an average of 100 basis points higher or lower during 2017, the Company's net result after tax (assuming that all other variables remained equal) would have been about NIL (2016: approx. NIL).

Other market price risk

The Company holds some strategic equity investments in other companies where those complement the Company's operations (see note 11). The directors believe that the exposure to market price risk from this activity is acceptable in the Company's circumstances.

Liquidity risk

Liquidity risk arises from the Company's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days. The Company also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances and (as noted above) the value of the Company's investments in corporate bonds. At the end of the financial year, these projections indicated that the Company expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down to overdraft.

The liquidity risk of each Company entity is managed centrally by the Company treasury function. Each operation has a facility with Company treasury, the amount of the facility being based on budgets. The budgets are set locally and agreed by the board in advance, enabling the Company's cash requirements to be anticipated. Where facilities of Company entities need to be increased, approval must be sought from the Company finance director. Where the amount of the facility is above a certain level, agreement of the board is needed.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	Up to 3 months	between 3 and 12 months	between 1 to 2 years	over 2 years
At 31 December 2018	(in P'000)	(in P'000)	(in P'000)	(in P'000)
Accounts and other liabilities	90,224	-	-	-
Claims payable	-	150,570	-	-
Due to reinsurers	-	15,896	-	-
Reserve for unearned premiums	-	275,705	-	-
Total	90,224	442,171	-	-

At 31 December 2017	Up to 3 months (in P'000)	between 3 and 12 months (in P'000)	between 1 to 2 years (in P'000)	over 2 years (in P'000)
Accounts and other liabilities	94,692	-	-	-
Claims payable	-	65,917	-	-
Due to reinsurers	-	22,700	-	-
Reserve for unearned premiums	-	277,594	-	-
Total	94,692	366,211	-	-

Capital Disclosures

The Company monitors "adjusted capital" which comprises all components of equity (i.e. share capital, share premium, non-controlling interest, retained earnings, and revaluation reserve) other than amounts in the cash flow hedging reserve.

The Company's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the debt to adjusted capital ratio. This ratio is calculated as net debt adjusted capital as defined above. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents.

Due to recent market uncertainty, the Company's strategy is to preserve a strong cash base and achieve a debt-to-adjusted-capital ratio. The objective of this strategy is to secure access to finance at reasonable cost by maintaining a high credit rating. The debt-to-adjusted-capital ratios at 31 December 2018 and at 31 December 2017 were as follows:

	2018 (in P'000)	2017 (in P'000)
Total debt	532,395	460,902
Cash and cash equivalents	173,728	113,293
Net debt	358,667	347,609
Total equity	855,098	752,443
Debt to adjusted capital ratio (%)	42%	46%

4 Fair value hierarchy

The financial assets and liabilities as of 31 December 2018 and 2017 are grouped into the fair value hierarchy as presented in the following table.

Financial assets	Level 1		Level 2		Level 3		Total	
	2018 (in P'000)	2017 (in P'000)	2018 (in P'000)	2017 (in P'000)	2018 (in P'000)	2017 (in P'000)	2018 (in P'000)	2017 (in P'000)
Derivative financial assets (fair value through profit or loss)	30,513	36,193	-	-	-	-	30,513	36,193
Cash and cash equivalents	173,728	113,293	-	-	-	-	173,728	113,293
HTM investments	231,451	246,114	-	-	-	-	231,451	246,114
Receivables	-	-	-	-	558,530	412,953	558,530	412,953
Total	435,692	395,600	-	-	558,530	412,953	994,222	808,553

Financial liabilities	2018	2017	2018	2017	2018	2017	2018	2017
Accounts and other liabilities	-	-	-	-	94,692	44,436	94,692	44,436
Loans payable	-	-	-	-	-	-	-	-
Claims payable	-	-	-	-	65,917	73,752	65,917	73,752
Due to reinsurers	-	-	-	-	22,700	46,711	22,700	46,711
Total	-	-	-	-	183,309	164,899	183,309	164,899

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counter parties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2' otherwise, it is included in Level 3.

5 Cash and cash equivalents

Cash and cash equivalents include the following components as of December 31:

	2018	2017
Cash on hand	P 100,000	P 80,000
Commission fund	1,515,000	1,125,000
Cash in banks	147,574,082	88,338,258
Emergency fund	405,000.00	0.00
Short-term deposits	24,133,871	23,749,954
TOTAL	P 173,727,953	P 113,293,212

Cash in banks generally earns interest at respective bank rates.

6 Receivables

The accounts that were classified as loans and receivable are as follows:

	2018	2016
Premiums in course of collections	₱ 400,347,371	₱ 274,906,070
Due from general agents & brokers	-	23,033
Due from ceding companies & reinsurers	3,843,603	3,109,646
Funds held by ceding companies	382,557	578,533
Loss Reserved Fund	3,061,427	6,804,692
Surety losses recoverable	14,079,630	14,079,630
Reinsurance recoverable	136,815,023	81,907,659
Total	₱ 558,529,611	₱ 381,409,262

The fair values of trade and other receivables classified as loans and receivables are not materially different to their carrying values.

There is no provision for impaired receivables that has been recognized for the years 2018 and 2017 because the management believed that the amounts are collectible.

7 Other current assets

This account is composed of the following:

	2018	2017
Accrued investment income	₱ 1,382,642	₱ 1,334,704
Accounts receivable	7,774,168	8,298,434
Total	₱ 9,156,810	₱ 9,633,138

Other classes of assets included within other current assets do not contain impaired assets.

8 Other assets

This account consists of the following:

	2018	2017
Deferred acquisition cost	₱ 59,563,157	₱ 55,305,945
Deferred reinsurance premiums	53,568,494	76,515,036
Deferred Input Tax	-	-
Plan asset	2,379,204	2,821,318
Mortgage loans	2,400,000	2,400,000
Total	₱ 117,910,855	₱ 137,042,299

Real estate mortgage loans represent mortgages extended to officers and employees with 10 to 20 years term at 0% interest rate.

Investments

This account consists of the following:

	2018	2017
Investment properties	₱ 152,797,894	₱ 151,947,894
Available for sale - at market value	30,513,118	36,192,583
Government securities	231,451,006	246,114,090
Security fund	65,908.00	65,908.00
	<u>₱ 414,827,926</u>	<u>₱ 434,320,475</u>

- Investment properties represent real properties owned by the company held for capital appreciation located at Antipolo Rizal.

The investment properties were valued on regular intervals on an open market basis by qualified valuers. There is currently obligation to construct or develop a portion of the investment.

At 31 December 2018 and 2017, there were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal, if any. The amount of fair value adjustments amounted to ₱850,000 and ₱0.00 for the year 2018 and 2017, respectively.

- The fair value of quoted securities is based on published market prices. The fair values of the unquoted securities are based costs less any impairment losses.

Reconciliation of the carrying amounts of available-for-sale investments is presented below.

	2018	2017
Balances at 1 January	₱ 36,192,583	₱ 39,918,148
Additions during the year (net)	-	2,919,833
Fair value adjustments	(4,235,849)	-
Disposals	(1,443,616)	(6,645,398)
Balances at 31 December	<u>₱ 30,513,118</u>	<u>₱ 36,192,583</u>

The fair value of quoted securities is based on published market prices. The fair values of the unquoted securities are based costs less any impairment losses. Fair value adjustments is reported in the other comprehensive income net of applicable taxes.

- Held-to-maturity investments represent treasury notes and investments in bonds on various financial institutions and private companies with terms of 5 to 30 years at respective interest rates.

Reconciliation of the carrying amounts of held-to-maturity investments is presented below.

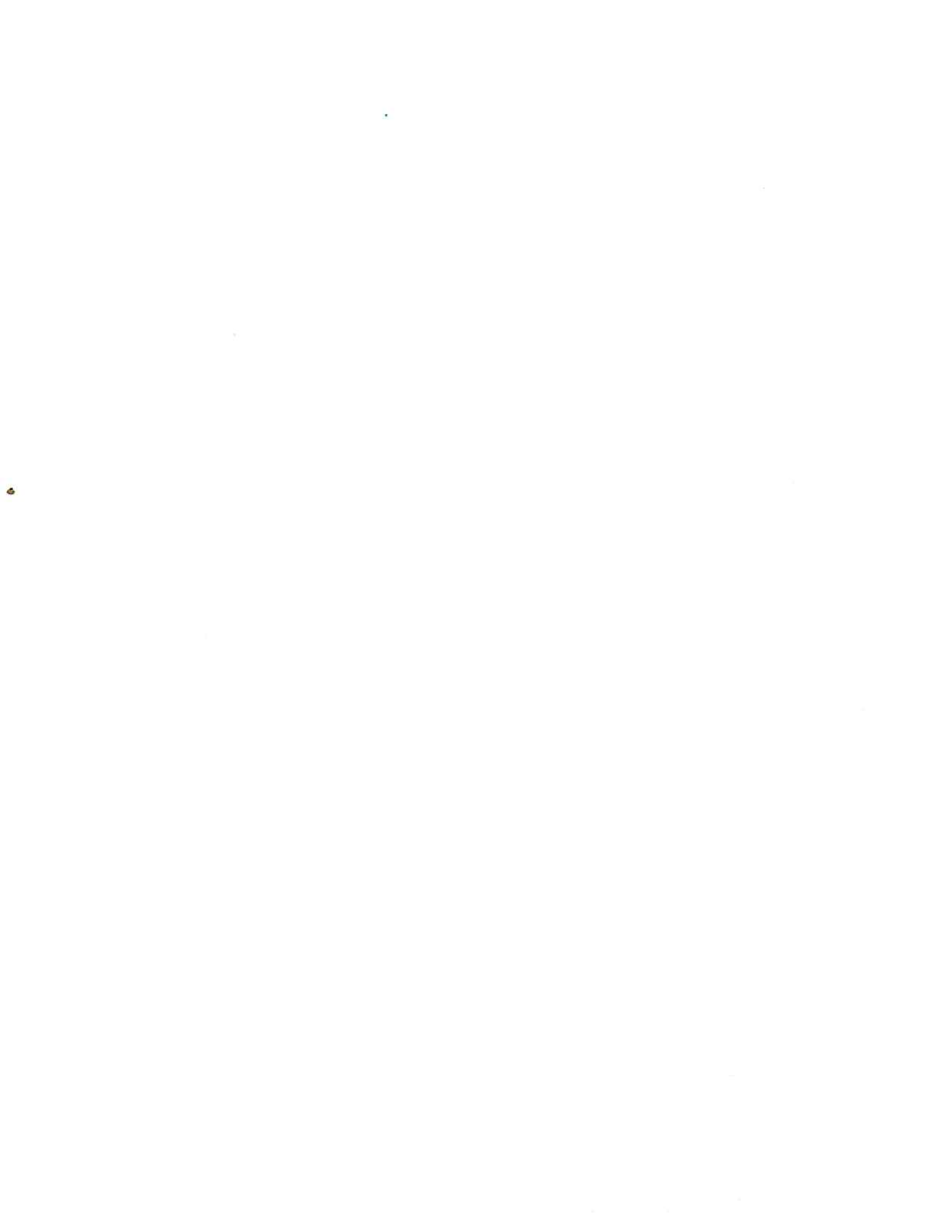
	2018	2017
Balances at 1 January	₱ 246,114,090	₱ 201,572,598
Additions during the year (net)	44,939,054	71,174,811
Disposals	(59,602,138)	(26,633,319)
Balances at 31 December	<u>₱ 231,451,006</u>	<u>₱ 246,114,090</u>

10 Property and equipment

The details of Property and equipment are as follows:

2018	EDP Equipment	Furniture & Fixtures	Automobile	Building and Building Improvements	Office Equipment	Leasehold Improvements	Total
Costs:							
Balances as at January 1	P 9,617,515	P 3,532,038	P 33,392,477	P 111,469,020	P 2,536,600	P -	P 160,547,650
Acquisitions during the year	6,998,342	434,315	745,000	1,484,134	1,917,206	9,806,938	21,385,934
Fair value adjustments	-	-	-	33,452,307	-	-	34,302,307
Reversal during the year (note 21)	-	-	-	(65,854,965)	-	-	(66,704,965)
Balances as at December 31	16,615,857	3,966,353	34,137,477	80,550,495	4,453,806	9,806,938	149,530,927
Accumulated Depreciation:							
Balances as at January 1	13,431,377	2,298,481	10,588,028	32,741,954	2,118,442	-	61,178,282
Depreciation for the year	994,895	78,023	3,339,248	-	44,481	-	4,456,647
Reversals during the year (note 21)	(9,195,273)	(2,298,481)	-	(32,741,954)	(1,930,336)	-	(46,166,044)
Balances as at December 31	5,230,999	78,023	13,927,276	-	232,588	-	19,468,885
Net book value	P 11,384,858	P 3,888,331	P 20,210,201	P 80,550,495	P 4,221,219	P 9,806,938	P 130,062,041

	EDP Equipment	Furniture & Fixtures	Automobile	Building and Building Improvements	Office Equipment	Leasehold Improvements	Total
At Net book values:							
Balances as at January 1	(3,813,861)	1,233,557	22,804,449	78,727,066	418,158	-	99,369,368.67
Acquisitions	6,998,342	434,315	745,000	1,484,134	1,917,206	9,806,938	11,578,997
Depreciation	(994,895)	(78,023)	(3,339,248)	-	(44,481)	-	(4,456,647)
Impairments	-	-	-	-	-	-	-
Disposals/reversal during the year (note 21)	9,195,273	2,298,481	-	(33,963,011)	1,930,336	-	(20,538,921)
Balances as at December 31	P 11,384,858	P 3,888,331	P 20,210,201	P 46,248,189	P 4,221,219	P 9,806,938	P 85,952,797



The normal retirement age is 60 with' regardless of length of service. The plan also provides for a late retirement after reaching the age of 60 subject to terms and conditions stated in the plan.

As of December 31, the company's plan assets and retirement benefit obligation were as follows:

	2018	2017
Retirement fund	₱ 39,131,487	₱37,545,842
Retirement benefits obligation	36,752,283	34,724,524
Net plan asset	₱ 2,379,204	₱ 2,821,318

During 2018, ₱2,027,759 additional contribution to the fund has been made, (2017: ₱3,074,896). The latest actuarial valuation made with regards to retirement obligation was for the year 2012.

13 Share capital

Capital structure of the Company is summarized as follows:

Authorized	Number	Amount
Common shares of ₱100.00 par value	10,000,000	₱ 1,000,000,000
Preferred shares	-	-
Total	10,000,000	₱ 1,000,000,000
Subscribed		
Common shares of ₱100.00 par value		
At 1 January	4,250,000	₱ 425,000,000
Subscription during the year	-	-
Purchase of own shares	-	-
At 31 December	4,250,000	₱ 425,000,000
Issued and fully paid		
Common shares of ₱100.00 par value		
At 1 January	3,500,000	₱ 350,000,000
Payments during the year	-	-
Purchase of own shares	-	-
At 31 December	3,500,000	₱ 350,000,000

During a special meeting of stockholders held at the principal office of the company on July 31, 2017, at which meeting, the stockholders represent at least two-thirds (2/3) of the outstanding capital stock in person or by proxy, approved the increase of the corporation's authorized capital stock from Five Hundred Million Pesos divided into Five Million shares with par value of One Hundred Pesos per share to One Billion Pesos divided into Ten Million shares with a par value of One Hundred Pesos per share. Of the Five Hundred Million Pesos increase in authorized capital, One Hundred Twenty Five Million Pesos has been actually subscribed by the subscribers and Fifty Million Pesos has been actually paid on said subscription.

14 Surplus

This account consists of the following:

	2018	2017
Revaluation reserves	₱160,102,930	₱ 125,800,624
Contributed surplus	350,000	350,000
Total	₱160,452,930	₱ 126,150,624

15 Revenues

The sources of revenues are as follows:

	2018	2017
Gross premiums	₱ 708,934,437	₱ 673,771,051
Return premiums	-	-
Net premium written	(98,202,772)	(138,735,716)
Net premiums retained	₱ 610,731,665	₱ 535,035,335

Investment and other income consist of the following:

	2018	2017
Interest income	₱ 9,893,380	₱ 7,386,872
Dividend income	171,941	148,429
Gain on sale of available for sale investments	1,246,688	736,917
Other miscellaneous income	114,595	148
Total	₱ 11,426,604	₱ 8,272,366

16 Expenses

16.1 Losses & expenses

	2017	2016
Motor Car	₱ 177,854,317	₱ 166,246,278
Fire	33,395,772	24,823,616
Personal Accident	8,426,917	9,023,297
Loss Adjustments Expenses	2,070,020	414,665
RI losses	726,099	305,470
Miscellaneous Casualty	7,591,477	21,266,525
Marine	244,062	110,799
Micro	31,234,394	28,133,538
Bonds	445,790	296,800
Total	₱ 261,988,848	₱ 250,620,986

16.2 General and administrative expenses

	2018	2017
Salaries & allowances	₱ 49,634,999	₱ 41,477,495
Transportation	13,977,969	7,710,806
Miscellaneous	12,221,124	9,491,503
Depreciation	4,456,647	7,796,474
Representation expense	8,098,937	4,751,526
Advertising & promotion	9,477,432	4,255,850
Repairs & maintenance	10,827,646	7,428,881
Professional fees	2,846,162	1,313,239
Employee benefits	2,679,968	2,112,141
Office supplies	7,039,841	6,730,369
Communication	4,235,554	3,440,995
SSS, HDMF & Pag-ibig	2,670,598	2,076,497
Rent	11,155,974	2,661,781
Electricity & water	2,561,840	748,718
Other taxes & licenses	1,372,099	1,715,575
Association & pool dues	1,465,400	758,751
Interest and bank charges	1,018,690	670,196
Insurance	2,689,904	2,229,910
Fire loss (note 21)	5,302,851	-
Total	₱ 153,733,634	₱ 107,370,706

For the year ending December 31, 2018, the total compensation paid to key officers and employees amounted to ₱11,214,136.

17 **Taxes**

The computation of tax expense attributable to continuing operation is illustrated below:

	2018	2017
Profit before income tax provision	₱ 97,034,704	₱ 55,919,085
Income Subject to Final Tax		
Interest Income	(9,893,380)	(7,386,872)
Dividend income	(171,941)	(148,429)
Gain on sale of available for sale investments	(1,246,688)	(736,917)
Taxable Income	85,722,696	47,646,867
Rate	30%	30%
Basic Corporate Income Tax	₱ 25,716,809	₱ 14,294,060

The income tax due shall be the higher of basic corporate income tax and the minimum corporate income tax.

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

1. The output tax and vatable sales declared during the year amounted to ₱ 45,617,700 and ₱380,147,497, respectively.

2. The amount of input tax claimed during the year is summarized as follows:

Beginning of the year	P -
Current year's domestic purchases	-
Capital goods subject to amortization	-
Capital goods not subject to amortization	-
Goods other than capital goods	-
Services lodge under other accounts	19,457,160
Input tax claimed during the year	<u>(19,457,160)</u>
Balance at 31 December	<u><u>P -</u></u>

3. The company's taxes and licenses under operating expense account for the year is as follows:

Permit and licenses	P 426,537
Real estate tax	584,892
Others	1,080
Total	<u><u>P 1,012,509</u></u>

4. The Company's withholding taxes accrued/paid for the year is as follows:

	2018	2017
Expanded withholding	P 12,118,999	P 12,948,654
Documentary stamp tax	41,584,005	41,273,164
Withholding tax at source	4,144,733	5,313,897
Percentage tax	775,880	2,031,695
Final tax	103,459	90,319
TOTAL	<u><u>P 58,727,076</u></u>	<u><u>P 61,657,730</u></u>

18 Leases

The company has non-cancellable lease agreement with Enrique T. Yuchengco, Inc. located at Yuchengco Building, 484 Quintin Paredes St., Binondo, Manila for two (2) years. The minimum lease rental payments are summarized as follows:

Within one year	P 8,453,630
Within two years but not more than five years	<u>6,575,045</u>
Total	<u><u>P15,028,675</u></u>

19 **Earnings per share**

	2018	2017
Numerator		
Profit for the year and earnings used in basic EPS	₱ 71,317,895	₱ 41,625,025
Interest on convertible debts (net of tax)	-	-
Earnings used in diluted EPS	₱ 71,317,895	₱ 41,625,025
Denominator		
Weighted average number of share used in basic EPS	3,000,000	3,000,000
Effects of convertible debts	-	-
Employee share option	-	-
Weighted average number of share used in diluted EPS	3,000,000	3,000,000
Basic Earnings per share	₱ 23.77	₱ 32.82
Diluted Earnings per share	₱ 23.77	₱ 32.82

20 **Legal claims**

Various legal claims were brought against the Company during the year. Management considers these claims to be unjustified and the probability that they will require settlement at the Company's expense to be remote. This evaluation has been backed up by the Company's legal counsel.

As of December 31, 2017, management is of the opinion that losses, if any, from these commitments and contingencies will not have a material effect on the Company's financial statements. Losses, if any, will be recognized when these are actually incurred, determined and quantified. None of these contingencies are discussed in detail so as not to seriously prejudice the Company's position in the related disputes.

21 **Other significant matters**

On January 13, 2015, the Insurance Commission has issued Circular Letter No. 2015-02-A requiring all non-life insurance companies to have at least Two Hundred and Fifty Million Pesos (₱250,000,000.00) net worth. The minimum net worth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

December 31, 2016	₱ 550,000,000
December 31, 2019	₱ 900,000,000
December 31, 2022	₱ 1,300,000,000

21 **Other Matters**

On May 28, 2018, the head office of the company located at BPI Condominium Bldg., Plaza Cervantes corner Juan Luna Street, Binondo Manila was affected and damage by fire.

22 **Approval of financial statements**

The Company's financial statements as of and for the years ended December 31, 2018 and 2017 were authorized for issuance by the Board of Directors (BOD) on April 12, 2019.

Supplementary Schedule Required Under SRC Rule 68, as amended

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		√		
Conceptual Framework Phase A: Objectives and qualitative characteristics		√		
PFRSs Practice Statement Management Commentary				
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	√		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate		√	
	Amendment to PFRS 1: Additional Exemptions for First-time Adopters		√	
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7: Disclosures for First-time Adopters		√	
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters		√	
	Amendments to PFRS 1: Government Loans		√	
	Amendments to PFRS 1: Deletion of Short-Term Exemptions for First-Time Adopters		√	
PFRS 2	Share-based Payment		√	
	Amendments to PFRS 2: Vesting Conditions and Cancellations		√	
	Amendments to PFRS 2: Group Cash-settled Share-based Payments Transactions		√	
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions		√	
PFRS 3 (Revised)	Business Combinations		√	
PFRS 4	Insurance Contracts	√		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts		√	
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts	√		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations		√	
	Amendment to PFRS 5: Changes in Methods of Disposal		√	
PFRS 6	Exploration for and Evaluation of Mineral Resources			√

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendment to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	√		
	Amendment to PFRS 7: Improving Disclosures about Financial Instruments	√		
	Amendment to PFRS 7: Disclosures - Transfers of Financial Assets	√		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	√		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	√		
	Amendments to PFRS 7: Servicing contracts	√		
PFRS 8	Operating Segments	√		
	Financial Instruments	√		
PFRS 9	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures			
	Consolidated Financial Statements		√	
PFRS 10	Amendments to PFRS 10, PFRS 12, and PAS 27: Consolidation for Investment Entities			√
	Amendments to PFRS 10 and PAS 28: Sale or contribution of Assets between an Investor and its Associate of Joint Venture			√
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception		√	
PFRS 11	Joint Arrangements	√		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	√		
PFRS 12	Disclosure of Interests in Other Entities	√		
	Amendments to PFRS 10, PFRS 12, and PAS 27: Consolidation for Investment Entities	√		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception	√		
	Amendments to PFRS 12: Clarification of the Scope of the Standard	√		
PFRS 13	Fair Value Measurement	√		
PFRS 14	Regulatory Deferral Accounts			√
PFRS 15	Revenue from Contracts with Customers	√		
	Amendments to PFRS 15: Clarifications to PFRS 15	√		
PFRS 16	Leases			√

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	√		
	Amendment to PAS 1: Capital Disclosures	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	√		
	Amendments to PAS 1: Financial Statement Disclosures	√		
PAS 2	Inventories			√
PAS 7	Statement of Cash Flows	√		
	Amendments to PAS 7: Disclosure Initiative	√		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	√		
PAS 10	Events after the Reporting Period	√		
PAS 11	Construction Contracts			√
PAS 12	Income Taxes	√		
	Amendments to PAS 12: Deferred Tax: Recovery of Underlying Assets	√		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	√		
PAS 16	Property, Plant and Equipment	√		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	√		
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			√
PAS 17	Leases			√
PAS 18	Revenue	√		
PAS 19 (Revised)	Employee Benefits	√		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	√		
	Amendments to PAS 19: Contributions from Employees or Third Parties	√		
	Amendments to PAS 19: Discount rate: regional market issue	√		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			√
PAS 21	The Effects of Changes in Foreign Exchange Rates	√		
	Amendment to PAS 21: Net Investment in a Foreign Operation			√
PAS 23 (Revised)	Borrowing Costs	√		
PAS 24 (Revised)	Related Party Disclosures	√		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	√		
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	√		
	Amendments to PFRS 10, PFRS 12, and PAS 27: Consolidation for Investment Entities	√		

	Amendments to PAs 27: Equity Method in Separate Financial Statements	√		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	√		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception	√		
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value		√	
	Amendments to PFRS 10 and PAS 28: Sale or contribution of Assets between an Investor and its Associate or Joint Venture		√	
PAS 29	Financial Reporting in Hyperinflationary Economies		√	
PAS 32	Financial Instruments: Disclosure and Presentation	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation		√	
	Amendments to PAS 32: Classification of Rights Issues		√	
	Amendment to PAS 32: Offsetting Financial Assets and Liabilities	√		
PAS 33	Earnings per Share	√		
PAS 34	Interim Financial Reporting		√	
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'		√	
PAS 36	Impairment of Assets	√		
	Amendments to PAS 36: Recoverable Amount Disclosures		√	
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	√		
PAS 38	Intangible Assets			√
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	√		
PAS 40	Investment Property	√		
	Amendments to PAS 40: Transfers of Investment Property			√
PAS 41	Agriculture			√
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			√
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities		√	
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments			√