ASIANLIFE
& GENERAL ASSURANCE CORPORATION
A member of Maybank

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Asianlife and General Assurance Corporation (the Company) 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 to 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.

SGV & Co., the independent auditor appointed by the stockholders, has audited 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.

Kamaludin Bin Ahmad
Chairman of the Board

Manuel N. Tordesillas
Chief Executive Officer

Modesta P. Mammuad
Chief Financial Officer

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	1	0	1	5	5	9	2

COMPANY NAME

ASIANLIFE AND GENERAL ASSURANCE CORPORATION

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

3rd Floor, Morning Star Center Sen. Gil J. Puyat Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
www.asianlife.com.ph	890-1758	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
11	March 15	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Modesta P. Mammuad	mpmammuad@asianlife.com.ph	890-1758	0917-8669427

CONTACT PERSON's ADDRESS

3rd Floor, Morning Star Center, Sen. Gil J. Puyat Avenue, Makati City

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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Philippines

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
AsianLife and General Assurance Corporation
3rd Floor, Morning Star Center
Sen. Gil J. Puyat Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of AsianLife and General Assurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years 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 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue is presented by the management of AsianLife and General Assurance Corporation in a separate schedule. Revenue Regulations 15-2010 requires the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule No. 68, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
SEC Accreditation No. 0926-AR-2 (Group A),
June 16, 2016, valid until June 16, 2019
Tax Identification No. 178-486-666
BIR Accreditation No. 08-001998-81-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 7332600, January 3, 2019, Makati City

February 21, 2019

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 25 2019
RECEIVED

ASIANLIFE AND GENERAL ASSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31 2018	2017
ASSETS		
Cash and cash equivalents (Notes 6 and 25)	**₱943,737,667**	₱485,296,989
Short-term investments (Note 6)	**–**	155,000,000
Insurance receivables (Note 7)	**75,105,868**	43,415,232
Reinsurance assets (Note 7)	**136,130,514**	56,713,481
Financial assets (Notes 8 and 25)		
At fair value through other comprehensive income (FVOCI)	**1,439,607,972**	–
Available-for-sale (AFS)	**–**	304,703,847
At fair value through profit or loss (FVPL)	**243,601,036**	1,394,386,081
Loans and receivables	**–**	170,746,077
At amortized cost	**147,177,974**	–
Accrued interest receivable (Notes 6 and 8)	**11,780,250**	8,861,679
Due from related parties (Note 24)	**–**	127,217
Segregated fund assets (Note 11)	**168,881,187**	90,144,250
Property and equipment - net (Note 9)	**15,374,814**	10,945,555
Intangible assets - net (Note 9)	**13,047,575**	17,293,925
Deferred tax assets (Note 23)	**23,698,974**	20,779,369
Other assets (Notes 10 and 25)	**29,801,016**	30,230,906
	₱3,247,944,847	₱2,778,644,608
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 11 and 25)	**₱883,839,704**	₱778,581,617
Accounts payable and other liabilities (Notes 12 and 25)	**384,798,188**	340,290,619
Insurance payables (Note 13)	**119,534,335**	59,415,547
Due to related parties (Note 24)	**11,476,466**	7,980,245
Segregated fund liabilities (Note 11)	**168,881,187**	90,144,250
Income tax liability (Note 23)	**–**	3,041,770
Net pension liability (Note 21)	**1,637,771**	9,583,289
Total Liabilities	**1,570,167,651**	1,289,037,337
Equity		
Capital stock - issued and outstanding (Note 14)		
Common stock	**1,161,720,830**	1,161,720,830
Preferred stock	**5,005,960**	5,005,960
Contributed surplus (Note 14)	**39,784,362**	39,784,362
Other comprehensive income (loss)		
Unrealized losses on financial assets at FVOCI (Note 8)	**(55,616,041)**	–
Unrealized losses on AFS financial assets (Note 8)	**–**	(804,360)
Actuarial gains on pension liability (Note 21)	**6,053,863**	81,956
Remeasurement of life insurance reserves (Note 11)	**(817,182)**	(9,841,891)
Retained earnings	**521,645,404**	303,660,414
Total Equity	**1,677,777,196**	1,499,607,271
	₱3,247,944,847	₱2,778,644,608

See accompanying Notes to Financial Statements.

ASIANLIFE AND GENERAL ASSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
INCOME		
Gross premiums on insurance contracts	**₱3,096,528,383**	₱2,735,015,939
Reinsurers' share of gross premiums on insurance contracts	**(65,683,355)**	(17,217,402)
Net insurance premiums (Note 15)	**3,030,845,028**	2,717,798,537
Interest income (Note 16)	**94,697,227**	70,945,056
Fair value gains on financial assets at FVPL (Note 8)	**–**	6,137,021
Service fees (Note 16)	**54,824,739**	34,471,777
Others (Note 16)	**13,493,548**	7,298,180
	163,015,514	118,852,034
	3,193,860,542	2,836,650,571
EXPENSES		
Underwriting Expenses		
Net benefits and claims incurred on insurance contracts (Note 17)	**1,887,773,533**	1,744,827,803
Expenses for the acquisition of insurance contracts (Note 18)	**528,403,111**	452,675,582
Net change in insurance contract liabilities (Note 11)	**128,449,046**	65,167,212
	2,544,625,690	2,262,670,597
Other Expenses		
General and administrative (Note 19)	**307,170,163**	317,128,540
Fair value losses on financial assets at FVPL - net (Note 8)	**28,697,032**	–
Interest (Notes 11 and 12)	**50,639**	277,233
	335,917,834	317,405,773
	2,880,543,524	2,580,076,370
INCOME BEFORE INCOME TAX	**313,317,018**	256,574,201
PROVISION FOR INCOME TAX (Note 23)	**88,061,470**	80,943,170
NET INCOME	**225,255,548**	175,631,031
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of financial assets at FVOCI during the year (Note 8)	**(51,068,949)**	–
Changes in fair value of AFS financial assets during the year (Note 8)	**–**	3,971,560
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains on pension liability - net of tax effect (Note 21)	**5,971,907**	2,812,608
Remeasurement of life insurance reserves (Note 11)	**9,024,709**	(10,031,870)
	(36,072,333)	(3,247,702)
TOTAL COMPREHENSIVE INCOME	**₱189,183,215**	₱172,383,329

See accompanying Notes to Financial Statements.

ASIANLIFE AND GENERAL ASSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock - Issued and Outstanding (Note 14)			Other Comprehensive Income (Loss)					
	Common Stock	Preferred Stock	Contributed Surplus (Note 14)	Unrealized Gains (Losses) on FVOCI Financial Assets (Notes 3 and 8)	Unrealized Gains (Losses) on AFS Financial Assets (Notes 3 and 8)	Actuarial Losses on Pension Liability (Note 21)	Remeasurement of life insurance reserves (Note 11)	Retained Earnings (Notes 3 and 14)	Total
As at January 1, 2018									
As previously reported	**₱1,161,720,830**	**₱5,005,960**	**₱39,784,362**	**₱–**	**(₱804,360)**	**₱81,956**	**(₱9,841,891)**	**₱303,660,414**	**₱1,499,607,271**
Impact of adoption of PFRS 9	**–**	**–**	**–**	**(4,547,092)**	**804,360**	**–**	**–**	**(6,369,485)**	**(10,112,217)**
As at January 1, 2018, as restated	**1,161,720,830**	**5,005,960**	**39,784,362**	**(4,547,092)**	**–**	**81,956**	**(9,841,891)**	**297,290,929**	**1,489,495,054**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**225,255,548**	**225,255,548**
Other comprehensive income	**–**	**–**	**–**	**(51,068,949)**	**–**	**5,971,907**	**9,024,709**	**–**	**(36,072,333)**
Total comprehensive income	**–**	**–**	**–**	**(51,068,949)**	**–**	**5,971,907**	**9,024,709**	**225,255,548**	**189,183,215**
Cumulative preferred stock dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(901,073)**	**(901,073)**
As at December 31, 2018	**₱1,161,720,830**	**₱5,005,960**	**₱39,784,362**	**(₱55,616,041)**	**₱–**	**₱6,053,863**	**(₱817,182)**	**₱521,645,404**	**₱1,677,777,196**
As at January 1, 2017	₱494,994,040	₱5,005,960	₱39,784,362	₱–	(₱4,775,920)	(₱2,730,652)	₱189,979	₱603,332,921	₱1,135,800,690
Net income	–	–	–	–	–	–	–	175,631,031	175,631,031
Other comprehensive income	–	–	–	–	3,971,560	2,812,608	(10,031,870)	–	(3,247,702)
Total comprehensive income	–	–	–	–	3,971,560	2,812,608	(10,031,870)	175,631,031	172,383,329
Increase in capital stock	666,726,790	–	–	–	–	–	–	–	666,726,790
Cash dividend	–	–	–	–	–	–	–	(475,303,538)	(475,303,538)
As at December 31, 2017	₱1,161,720,830	₱5,005,960	₱39,784,362	₱–	(₱804,360)	₱81,956	(₱9,841,891)	₱303,660,414	₱1,499,607,271

See accompanying Notes to Financial Statements.

ASIANLIFE AND GENERAL ASSURANCE CORPORATION

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱313,317,018**	₱256,574,201
Adjustments for:		
Fair value losses (gains) on financial assets at FVPL (Note 8)	**28,697,032**	(6,137,021)
Depreciation and amortization (Notes 9 and 22)	**9,544,730**	10,765,732
Interest expense	**50,639**	277,233
Increase in segregated fund liabilities	**78,736,937**	68,345,477
Net change in insurance contract liabilities (Note 11)	**128,449,048**	65,167,212
Recovery from financial assets at amortized cost/loans and receivables (Note 8)	**(219,667)**	(1,595,559)
Investment write-off (Note 8)	**–**	234,754
Write-off of financial assets at amortized cost/loans and receivables (Note 8)	**796,209**	800,353
Interest income (Note 16)	**(94,697,227)**	(70,945,056)
Operating income before working capital changes	**464,674,719**	323,496,326
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at amortized cost	**(55,882,366)**	(64,696,856)
Segregated fund assets	**(78,736,937)**	(68,345,477)
Other assets	**429,890**	415,736
Premiums due and uncollected	**(27,242,840)**	(1,727,089)
Increase (decrease) in:		
Insurance contract liabilities	**(14,166,251)**	77,438,767
Accounts payable and other liabilities	**103,812,149**	114,949,715
Premium deposit fund	**(85,401)**	393,965
Net pension liability	**585,778**	952,195
Net cash generated from operations	**393,388,741**	382,877,282
Interest paid	**(52,101)**	(254,330)
Income taxes paid	**(93,736,135)**	(79,065,488)
Net cash provided by operating activities	**299,600,505**	303,557,464
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**100,092,814**	72,658,142
Proceeds from:		
Disposal and maturities of financial assets at FVOCI (Note 8)	**965,076,581**	–
Disposal of financial assets at FVPL (Note 8)	**313,855,790**	1,176,259,293
Disposal of short term investments	**155,000,000**	–
Salary loans	**27,117,658**	47,334,074
Disposal and maturities of AFS financial assets (Note 8)	**–**	6,020,440
Acquisitions of:		
Intangible assets (Note 9)	**(1,214,052)**	–
Property and equipment (Note 9)	**(8,513,587)**	(3,882,159)
Financial assets at FVPL (Note 8)	**(356,296,459)**	(1,699,208,829)
Financial assets at FVOCI (Note 8)	**(997,681,231)**	–

(Forward)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 25 2019
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	Years Ended December 31	
	2018	2017
Acquisitions of:		
Salary loans	**(₱40,311,701)**	(₱31,140,668)
AFS financial assets (Note 8)	–	(155,763,747)
Short-term investment	–	(155,000,000)
Net cash provided by (used in) investing activities	**157,125,813**	(742,723,454)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in amounts in due to related parties	**₱3,496,221**	₱2,516,300
Decrease in amounts in due from related parties	**127,217**	375,964,631
Dividends paid to stockholders	–	(474,537,626)
Proceeds from issuance of stocks	–	666,726,790
Net cash from financing activities	**3,623,438**	570,670,095
NET INCREASE IN CASH AND CASH EQUIVALENTS	**460,349,756**	131,504,105
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**485,296,989**	353,792,884
IMPACT OF PFRS 9 ADOPTION (Note 3)	**(1,909,078)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱943,737,667**	₱485,296,989

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 25 2019
RECEIVED

ASIANLIFE AND GENERAL ASSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. **Corporate Information**

AsianLife and General Assurance Corporation (ALGA or the "Company") was incorporated on October 4, 2010 as successor-in-interest of a corporate entity which also bears the same name as the Company, ALGA, with SEC No. 14341 (the "Old ALGA"), the corporate term of which expired on August 22, 2008.

The Company's primary purpose is to carry on the business of insurance upon lives of individuals and the business of non-life insurance; to grant contract of insurance and reinsurance providing for all risks, hazards, guarantees and contingencies to which life, accidents or health insurance is applicable and to grant or effect assurance of all kinds of payment of money by way of single payment or by several payments, or by any person of immediate or referred annuities upon the death of or upon reaching a given age by any person or persons subject or not such death or age requirement or happening of any contingency or event dependent upon human life or upon a fixed or given date.

On September 25, 2013, Maybank ATR KimEng Financial Corporation (formerly ATR KimEng Financial Corporation) which owned 95.24% of the outstanding common stock and wa deemed the parent company of ALGA sold all its 95.24% ownership interest over ALGA shares to its affiliate, Maybank ATR KimEng Capital Partners, Inc. (MATRKECP). MATRKECP, an investment house with trust license, is a domestic corporation owned by MaybankKimEng Holdings Limited (MAKEHL) and ATR Holdings, Inc. (ATRH). ATRH is a domestic corporation, while MAKEHL is a conglomerate whose shares are listed in the Singapore Stock Exchange. The Insurance Commission approved the sale on October 17, 2013.

On December 1, 2014, ATRH sold the Company's preferred shares representing 50.30% voting interest of the latter to Etiqa International Holdings Sdn. Bhd (EIHSB), a subsidiary of Maybank in Malaysia.

On the same date, MATRKECP and Etiqa executed a Joint Voting Agreement (JVA), which provided that Etiqa shall vote all of its shares in the Company on any and all matters requiring the resolution of the shareholders of the Company in such manner as MATRKECP. The JVA shall be effective unless terminated by mutual agreement by MATRKECP and Etiqa. The Insurance Commission approved the transfer of shares on April 10, 2015. This JVA was terminated in 2016.

On December 20, 2016, the Board of Directors and Stockholders of the Company approved a resolution approving the amendment of the Articles of Incorporation to increase the authorized common stock from 49,499,404 common shares with par value of ₱10 per share to 124,499,404 common shares with par value of ₱10 per share (see Note 14). This resulted to an increase in authorized capital stock from ₱500,000,000 to ₱1,250,000,000. The increase in capital stock was endorsed by theInsurance Commission (IC) last January 3, 2017 and was approved by the Securities and Exchange Commission last August 31, 2017.

On June 1 and June 8, 2017, EIHSB infused additional capital amounting to ₱330,000,000 and ₱305,000,000, respectively, totaling ₱635,000,000 corresponding to 63,500,000 common shares (see Note 14).

On June 14, 2017, E-marc Consultants, Inc. infused additional capital amounting to ₱31,726,790 corresponding to 3,172,679 common shares (see Note 14).

As of December 31, 2017 and 2018, EIHSB owns 38.20% common shares of the total outstanding and issued common shares of ALGA and 30.10% preferred shares with 28.36% common shares owned by MATRKECP and 3.33% owned by E-MARC Consultants, Inc.

The ultimate parent company of ALGA is Malayan Banking Berhad of Malaysia.

The Company's registered office address, which is also its principal place of business, is 3rd Floor, Morning Star Center, Sen. Gil J. Puyat Avenue, Makati City.

2. Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) financial assets, and segregated fund assets which are carried at fair value.

The financial statements are presented in Philippine Peso (₱) which is the Company's functional currency. All values are rounded to the nearest peso, unless otherwise indicated.

Statement of Compliance
The Company's financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  The Company currently does not have any share-based compensation program. Therefore, the amendments do not have any impact on the Company's financial statements.

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are applicable to the Company since its activities are predominantly connected with insurance. However, the Company opted to adopt PFRS 9 on January 1, 2018 as per mandate of the EIHSB.

- PFRS 9, *Financial Instruments*

  PFRS 9, *Financial Instruments* replaces PAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  The Company applied PFRS 9 using the modified retrospective approach with an initial application date of January 1, 2018. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other components of equity.

  The effect of adopting PFRS 9 as at January 1, 2018 follows:

		Effect of PFRS 9 adoption		
	As previously reported	Classification and measurement (a)	Impairment (b)	As restated
ASSETS				
Cash and cash equivalents	₱485,296,989	₱–	(₱1,260,540)	₱484,036,449
Short-term investments	155,000,000	–	(648,538)	154,351,461
Financial assets				1,861,632,866
Financial assets at FVPL	1,394,386,081	(1,164,528,681)	–	229,857,400
Financial assets at FVOCI	–	1,469,232,528	–	1,469,232,528
Available-for-sale	304,703,847	(304,703,847)	–	–
Financial assets at amortized cost	–	170,746,077	(8,203,139)	162,542,938
Loans and receivables	170,746,077	(170,746,077)	–	–
TOTAL ASSETS		–	(10,112,217)	
LIABILITIES AND EQUITY				
Liabilities	₱–	₱–	₱–	₱–
Total Liabilities	–	–	–	–
Equity				
Unrealized losses on financial assets at FVOCI	–	(11,094,651)	6,547,559	(4,547,092)
Unrealized losses on AFS financial assets	(804,360)	804,360	–	–
Retained earnings	303,660,414	10,290,291	(16,659,776)	297,290,929
Total Equity		–	(10,112,217)	
TOTAL LIABILITIES AND EQUITY		₱–	(₱10,112,217)	

The nature of these adjustments are described below:

(a) Classification and measurement

Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments, contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, January 1, 2018.

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

- Government debt securities and corporate debt securities under investment management agreement (IMA) with ATRAM Trust Corporation classified as financial assets at fair value through profit and loss (FVPL) as at December 31, 2017 were reclassified and measured at fair value through other comprehensive income (FVOCI) beginning January 1, 2018. The Company expects not only to hold the assets to collect contractual cash flows, but also to sell for managing liquidity requirements. As a result of the change in classification, the ₱7,785,826 unrealized losses previously recognized in profit and loss were reclassified from "Retained earnings" to "Other comprehensive income" as part of unrealized losses on financial assets at FVOCI.

- Mutual funds and Unit investment trust funds (UITFs) under investment management agreement (IMA) classified as fair value through profit and loss as at December 31, 2017 retained its classification as at January 1, 2018.

- Government debt securities held by the Company classified as AFS financial assets as at 31 December 31, 2017 were reclassified and measured at fair value through OCI beginning January 1, 2018.

- Loans and receivables which includes DepEd loans, salary loans, mortgage loans, accounts receivables and other receivables as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These were reclassified and measured as financial assets at amortized cost beginning January 1, 2018.

- Listed equity securities and proprietary shares held by the Company classified as ""Available for sale" as at December 31, 2017 were reclassified and measured at fair value through profit and loss beginning January 1, 2018. As a result of the change in classification, the corresponding ₱252,268 "Unrealized losses on AFS financial assets" was adjusted to "Retained earnings".

- Mutual funds and Unit investment trust funds (UITFs) held by the Company classified as "Available-for-sale" as at December 31, 2017 were reclassified and measured as equity instruments designated at fair value through profit and loss beginning January 1, 2018. As a result of this change, the ₱2,252,197 "Unrealized losses on AFS financial assets" was transferred to "Retained earnings".

In summary, the Company had the reclassifications as at January 1, 2018:

PAS 39 Measurement Category	As of December 31, 2017	PFRS 9 Measurement Category as of January 1, 2018 Fair Value through profit and loss	Amortized Cost	Fair Value through OCI
At Fair Value through Profit and Loss				
Government debt securities (under IMA)	₱1,193,324,547	₱–	₱–	₱1,193,324,547
Mutual funds and UITFs (under IMA)	201,061,534	201,061,534	–	–
Available-for-Sale (AFS)				
Government debt securities (non-IMA)	275,907,981	–	–	275,907,981
Mutual funds and UITFs (non-IMA)	28,208,262	28,208,262	–	–
Listed equity and proprietary shares	587,604	587,604	–	–
Loans and Receivables	170,746,077	–	170,746,077	–
	₱1,869,836,005	**₱229,857,400**	**₱170,746,077**	**₱1,469,232,528**

The impact of the reclassification to components of equity follows:

PAS 39 Measurement Category	As of December 31, 2017	PFRS 9 Measurement Category as of January 1, 2018 Retained Earnings	Unrealized gains (losses) on AFS Financial Assets	Unrealized gains (losses) on FVOCI Financial Assets
At Fair Value through Profit and Loss				
Government debt securities (under IMA)	₱7,785,826	₱7,785,826	₱–	(₱7,785,826)
Available-for-Sale (AFS)				
Government debt securities (non-IMA)	3,308,825	-	3,308,825	(3,308,825)
Mutual funds and UITFs (non-IMA)	2,252,197	2,252,197	(2,252,197)	-
Listed equity and proprietary shares	252,268	252,268	(252,268)	-
	₱13,599,116	**₱10,290,291**	**₱804,360**	**(₱11,094,651)**

(b) Impairment

The adoption of PFRS 9 has fundamentally changed the Company's computation and accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECL for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of PFRS 9, the Company recognized additional impairment for "Cash equivalents and short-term investments", "Loans and receivables" and "Government debt securities" which resulted in a decrease in Retained earnings as at January 1, 2018, as shown below:

Set out below is the reconciliation of the ending impairment allowances in accordance with PAS 39 to the opening loss allowances determined in accordance with PFRS 9:

Type of Financial Asset	Allowance for impairment under PAS 39 as at 31 December 2017	Effect of PFRS 9 adoption	ECL under PFRS 9 as at 1 January 2018
Cash equivalents and short-term investments (Note 6)	₱–	(₱1,909,078)	(₱1,909,078)
Financial assets at amortized cost/loans and receivables (Note 8)	(2,984,469)	(8,203,139)	(11,187,608)
Financial assets at FVOCI (Note 8)			
Government debt securities (under IMA)	–	(5,200,928)	(5,200,928)
Government debt securities (non-IMA)	–	(1,346,631)	(1,346,631)
	(₱2,984,469)	**(₱16,659,776)**	**(₱19,644,245)**

The impact of additional impairment following the expected credit loss (ECL) approach to components of equity is as follows:

	Decrease in	
	Retained Earnings	Unrealized losses on FVOCI Financial Assets
Cash equivalents and short-term investments	(₱1,909,078)	₱–
Financial assets at amortized costs	(8,203,139)	–
Financial assets at FVOCI		
Government debt securities (under IMA)	(5,200,928)	5,200,928
Government debt securities (non-IMA)	(1,346,631)	1,346,631
	(₱16,659,776)	**₱6,547,559**

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 18, Revenue and related interpretations and it applies with limited exceptions, to all revenue from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers.

  PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customer. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

  The Company adopted PFRS 15 using the modified retrospective method of adoption on January 1, 2018. The impact to the financial statements has been assessed to be not significant since majority of the revenues of the Company comes from Insurance which has been specifically scoped out of PFRS 15.

  The effect of transition on the current period has not been disclosed as the standard provides an optional practical expedient.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

  The Company does not have investments and associates and joint ventures. Therefore, these amendments do not have any impact on the Company's financial statements.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

  The Company does not have investment properties. Therefore, these amendments do not have any impact on the Company's financial statements.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its financial statements upon adoption of this interpretation.

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

  At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Day 1 impact of adopting PFRS 16 in the January 1, 2019 statement of financial position of the Company is assessed to be as follows:

	January 1, 2019
Assets	
Increase in right-of-use assets	₱27,932,260
Liabilities	
Increase in financial lease obligation	₱27,932,260

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
    - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
    - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
    - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2022

- PFRS 17, *Insurance Contracts*

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

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

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2022, with comparative figures required. Early application is permitted. The Company is currently assessing the impact of adopting PFRS 17.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

4. Summary of Significant Accounting Policies

Revenue Recognition

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all direct business arrangements and as an agent in all it's ceded out businesses. The following specific recognition criteria must also be met before revenue is recognized:

Premiums Revenue - Life

Premiums arising from life insurance contracts are generally recognized as income when received and on the issue date which coincides with the effective date of the insurance policies for the first year premiums.

For the renewal business, premiums are recognized as income when still in-force and in the process of collection based on actuarial methods and assumptions. Renewal premiums from life insurance contracts are recognized as revenue payable by the policyholder. Receivables are recorded at the date when payments are due. Premiums are shown before deduction of commissions and reinsurers' share on gross premiums.

Premiums Revenue - Nonlife

Gross insurance written premiums from non-life insurance comprise the total premiums receivable for the whole covered period provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year.

The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums as part of "Insurance Contract Liabilities" in the statement of financial position. The net changes in these accounts between each end of reporting periods are recognized in profit or loss.

Service and network fees
Service and network fees are recognized when earned normally upon performance of the service and fulfillment of the Company's obligation for the issuance of health cards to give network access to the policyholders.

Third party administration fee
Revenue is recognized when earned, which is upon the performance of the obligation for administration (based on the terms of the contract) of policyholder's medical and health expenses. This is considered to be satisfied upon actual processing of the client's utilization.

Interest income
For all interest-bearing financial assets measured at amortized cost, interest income is recognized using the effective interest method. The effective interest rate (EIR) exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset. The change in carrying amount is recorded as interest income for the period.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

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

<u>Benefits, Claims and Expenses Recognition</u>

Benefits and claims - Life
Benefits and claims consist of benefits and claims paid to policyholders as well as changes in the valuation of insurance contract liabilities and reserve for policyholders' dividends. These are recorded when notices of claims have been received and dividends have been incurred or when policies reach maturity. For unpaid benefits, a liability is recognized for the estimated cost of all claims made but not settled as of reporting date less reinsurance recoveries. Provision is also made for the cost of claims incurred as of reporting date but not reported (IBNR) until after the reporting date based on the Company's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in profit or loss in the statement of comprehensive income of subsequent years. Unpaid benefits to life policies form part of policy and contract claims payable included in "Insurance Contract Liabilities" in the statement of financial position.

Benefits and claims - Nonlife
Benefits and claims for Non-life include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Direct costs and expenses - Life
Commissions and other expenses for the acquisition of insurance contracts are expensed as incurred.

Direct costs and expenses - Nonlife
Commissions are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as "Deferred acquisition cost" in the assets section of the statement of financial position. Starting 2016, commissions are recognized as expense when paid.

General and administrative expenses
General and administrative expenses constitute costs of administering the business. These are recognized when incurred.

Interest expense
Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized in profit or loss in the statement of comprehensive income as it accrues and is calculated using the effective interest method. Accrued interest is credited to the liability account every policy anniversary date.

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

Premiums Due and Uncollected
Premiums due and uncollected are recognized when due and measured on initial recognition at the fair value of the consideration to be received. The carrying value of premiums due and uncollected is reviewed for impairment whenever events or circumstances indicate the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss in the statements of comprehensive income.

Premiums due and uncollected are derecognized following the derecognition criteria for financial instruments.

Financial instruments prior to January 1, 2018 (PAS 39)

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

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

The classification depends on the purpose for which the instruments were acquired or incurred and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments issued by the Company are classified as equity in accordance with the substance of the contractual arrangement. Any interest, dividends, realized and unrealized gains and losses from financial instruments or a component considered as a financial liability are recognized in profit or loss in the statements of comprehensive income. Distributions to holders of financial instruments classified as equity are treated as owner-related and thus charged directly to equity.

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

Financial assets and financial liabilities at FVPL are recorded in the statements of financial position at fair value, with any changes in fair value recognized in profit or loss under "Unrealized gains (losses) on financial assets at FVPL" in the statements of comprehensive income.

Financial assets or financial liabilities are allowed to be designated by management on initial recognition in this category when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be bifurcated.

As of December 31, 2017, the Company recognized all of its investment securities under Investment Management Agreement (IMA) account as FVPL financial assets.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not held for trading.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included as part of interest income in the statements of comprehensive income, losses arising from the impairment of such loans and receivables are charged to current operations.

Financial assets included under this category include cash and cash equivalents, short term investment, premiums due and uncollected, loans and receivables, accrued interest receivable, due from related parties and "performance bond, reserve fund, security fund and deposits" (included under "Other assets" account in the statements of financial position).

AFS Financial Assets
AFS financial assets are those investments which are designated as such or do not qualify to be classified as designated as at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These include equity investments, mutual fund investments and other debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. Interest earned on holding AFS financial assets are reported as interest income using the effective interest method. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Unrealized gains (losses) on AFS financial assets" (net of tax, where applicable) in other comprehensive income in the equity section of the statements of financial position. When the security is disposed of, the cumulative gains or losses previously recognized in equity is recognized in profit or loss in the statements of comprehensive income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses. Dividends earned on holding AFS financial assets are recognized in profit or loss in the statements of comprehensive income when the right of payment has been established.

As of December 31, 2017, the Company recognized all of its non-IMA securities as AFS financial assets.

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

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

Loans and receivables
For loans and receivables, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed accounts, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, credit and payment status and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of the loan's carrying amount over its net realizable value, based on the present value of the estimated future cash flows therefrom. The present value of the estimated future cash flows is discounted at the loan's original EIR. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

The carrying amount of an impaired loan is reduced to its net realizable value through the use of an allowance account. Any impairment loss determined is charged to profit or loss in the statement of comprehensive income. If, in a subsequent period, the amount of the allowance for impairment decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to profit or loss, to the extent that the resulting carrying value of the asset does not exceed its carrying value had no impairment loss been recognized.

AFS financial assets carried at fair value
In case of equity securities classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. Where there is objective evidence of impairment, the cumulative loss lodged under equity, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in other comprehensive income, is transferred to profit or loss. Impairment losses on equity securities are not reversed through statement of comprehensive income but directly to equity as part of other comprehensive income.

In the case of AFS debt securities, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original EIR on the reduced carrying amount of the asset and is recorded as part of interest income in profit or loss for the period. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss in the statement of comprehensive income to the extent that the resulting carrying value of the security does not exceed its carrying value had no impairment loss been recognized.

AFS financial assets carried at cost
If there is an objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the current market rate of return for a similar security.

Financial instruments starting January 1, 2018 (PFRS 9)

Initial recognition and measurement
Under PFRS 9, financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of loans and other receivables, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in three categories:

- Financial assets at fair value through OCI
- Financial assets at amortized cost
- Financial assets at fair value through profit or loss

Financial assets at fair value through OCI

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, 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.

Financial assets included within the FVOCI category are initially recognized and subsequently measured at fair value. Movements in the carrying amount should be recorded through OCI, except for the recognition of impairment gains or losses on debt securities, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. Where the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss for debt securities and from OCI to retained earnings for equity securities.

The Company's debt instruments at fair value through OCI are composed of investments in government debt securities and corporate bonds. It includes both those directly held by the company and those under investment management agreement (IMA) with ATRAM Trust Corporation.

Financial assets at amortized cost
The company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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 (SPPI) on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The company's financial assets at amortized cost includes DepEd Loans, Salary Loans, Mortgage Loans, Accounts receivable, and other receivables.

Financial assets at fair value through profit or loss
Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes listed equity and proprietary shares, as well as investments in mutual funds and unit investment trust funds (UITFs) both held by the Company and those under its account (IMA account) managed by ATRAM Trust Corporation.

Reclassification
Once the initial classification has been determined, PFRS9 provides guidance on when an entity should reclassify a (group of) financial instrument(s).

PFRS 9 establishes that, if cash flows are realized in a way that is different from the entity's expectations at the date that management assessed the business model, this fact does not give rise to a prior period error in the entity's financial statements (in accordance with PAS 8).

Reclassifications should be accounted for only when an entity changes its business model for managing financial assets. Changes to the business model are expected to be infrequent; the change is determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and should be evident to external parties. A change in an entity's business model will occur when an entity either begins or ceases to perform an activity that is significant to its operations.

Reclassifications should be accounted for prospectively from the reclassification date. An entity should not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

Impairment
In accordance with PFRS 9, the company now assesses the impairment of financial assets based on a forward-looking expected credit loss ("ECL") model instead of the incurred loss model. The ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. This applies to financial assets measured at amortized cost or at FVOCI, loans and cash equivalents held by the company.

ECL would be recognized from the point at which financial assets are originated or purchased. A 12 months ECL must be recognized initially for all assets subject to impairment. The measurement of expected loss will involve increased complexity and judgment that include:

(i) Determining a significant increase in credit risk since initial recognition

    The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-months ECLs and one that is based on lifetime ECLs. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition. The company applies a three-stage approach based on the change in credit quality since initial recognition:

Stage 1 – includes financial instruments that have not had a significant increase in credit risk ("SICR") since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month ECL are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

Stage 2 – includes financial instruments that have had a SICR since initial recognition but do not have objective evidence of impairment. For these assets, lifetime ECL is recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Stage 3 – includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

(ii) Forward looking information and ECL measurement

The amount of credit loss recognized is based on forward looking estimates that reflect current and forecast credit conditions. The Forward looking adjustment is interpreted as an adjustment for the expected future economic conditions, as indicated by different macroeconomic factors and/or expert experienced in credit judgment. A forward looking ECL calculation is based on an accurate estimation of current and future probability of default ("PD"), exposure of default ("EAD"), loss given default ("LGD") and discount factors.

Fair Value Measurement

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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

<u>Other Financial Liabilities</u>
Issued financial instruments or their components, which are not classified as FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial instrument to the holder or lender, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

After initial measurement, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. The amortization is included as part of interest expense for the period. This category includes the Company's accounts payable and other liabilities (except government and statutory liabilities), due to related parties, premium deposit fund, and "claims payable and policyholders' dividends" (included under "Insurance Contract Liabilities" account in the statements of financial position).

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, thus, the related assets and liabilities are presented on a gross basis in the statements of financial position.

<u>Reinsurance</u>
Contracts entered into by the Company with reinsurers which compensate the Company for losses on one or more contracts insured by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are classified as insurance contracts. Income from reinsurance contracts are classified within "Reinsurers' share of gross premiums on insurance contracts" in the statements of comprehensive income. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits recoverable by the Company under its reinsurance contracts are recognized as reinsurance assets. These assets consist of amounts due from reinsurers classified within "Loans and receivables" account in the statements of financial position. Due to reinsurers for reinsurance contracts are recognized as an expense upon recognition of premiums on the related insurance contract, classified within "Accounts payable and other liabilities" account in the statements of financial position. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with terms of each reinsurance contract.

The Company assesses its reinsurance assets for impairment at least annually. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in profit or loss in the statement of comprehensive income. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for financial assets.

Receivables and payables related to insurance contracts
Receivables and payables related to insurance contracts sold are recognized when due.

Derecognition of Financial Assets and Liabilities

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

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

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

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

Related Party Transactions

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, amortization and any impairment loss. The initial cost of property and equipment comprises its purchase price and other costs directly attributable to bringing the asset to its working condition and location for its intended use.

Depreciation and amortization is computed using the straight-line method over the estimated useful life (EUL) of the assets. Leasehold improvements are amortized over the EUL of the improvements or the term of the related lease, whichever is shorter. The EUL of the different categories of property and equipment are as follows:

	Years
Office furniture, fixtures and equipment	3 - 5
Leasehold improvements	5
Transportation equipment	5
Software	5

Subsequent costs are included in the asset's carrying amount or are recognized as asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to current operations when incurred.

The asset's residual values, useful lives, and depreciation and amortization method are reviewed at each reporting date and adjusted, if appropriate, to ensure that these factors and assumptions are consistent with the expected pattern of consumption of future economic benefits embodied in the asset.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in statement of comprehensive income in the period when the asset is derecognized.

Impairment of Nonfinancial Assets

The Company assesses whether there is any indication that its nonfinancial assets such as its investment in a subsidiary and property and equipment may be impaired. When an indicator of impairment exists (or when an annual impairment testing for an asset is required), the Company estimates the recoverable amount of the impaired asset. The recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An impairment loss is charged to profit or loss in the period when it arises, consistent within the function of impaired assets.

For nonfinancial assets, an assessment is made at every reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying value does not exceed the carrying value that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Insurance Contract Liabilities - Life

Legal policy reserves represent the accumulated total liability for policies in-force at the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life and non-life insurance policies in-force as of reporting date. For life insurance, the reserves are calculated using actuarial methods and assumptions as approved by the Insurance Commission, subject to the liability adequacy test. As of December, 31, 2018, the insurance contract liabilities for life policies is measured using the GPV valuation.

A number of life insurance contracts issued by the Company include discretionary participation feature. This feature entitles policyholders to policy dividends whose amounts and timing of payments are under the discretion of the Company. The Company's policy dividends are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under "Net benefits and claims incurred on insurance contracts" account in the statements of comprehensive income with the corresponding liability recognized under the "Insurance contract liabilities" account in the statements of financial position.

Liability adequacy test

At each reporting date, a liability adequacy test is performed for the insurance contract liabilities. In performing this test, current best estimates of future cash flows and claims handling and administration expenses, as well as investment income from the asset backing such liabilities, are used. Any deficiency is immediately charged against profit or loss (Note 11).

Long-term insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Insurance Contract Liabilities - Non-Life

For non-life insurance, insurance contract liabilities are recognized when the contract are entered into and the premiums are recognized. The reserves for non-life insurance contracts is calculated using the 24th method. The proportion of written premiums, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method.

Unit Linked Insurance Contracts

The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contracts links payment to insurance investment funds set-up by the Company with the consideration received from the policyholders. As allowed by PFRS 4, *Insurance Contracts*, the Company chose not to unbundle the investment portion of its unit-linked products. Premiums received from the issuance of unit-linked insurance contracts pertaining to the insurance portion are recognized as premium revenue.

The Company withdraws from the consideration received from the policyholders administrative and cost of insurance charges in accordance with the provisions of the unit-linked insurance contracts.

After deduction of these charges, the remaining amounts in fund assets are equal to the surrender value of the unit-linked policies, and can be withdrawn anytime.

The investment returns on the insurance investment funds belong to policyholders and the Company does not bear the risk associated with these assets (outside of guarantees offered). Accordingly, investment income earned and expenses incurred by these funds and payments to policyholders are reflected directly in the "Segregated fund assets and Segregated fund liabilities" accounts in the statements of financial position. Such changes have no effect on the Company's results of operations.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Product Classification

The Company issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes having to pay benefits on the occurrence of an insured event such as death, accident or disability. The Company may also transfer insurance risk on insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Insurance contracts may contain a premium and capital fund rider that entitles the policyholder to receive additional benefits based on the Company's investment performance. These contracts are recorded as financial liabilities under "Premium deposit fund" account in the statements of financial position. Local statutory regulation sets out a limitation on the accumulation of fund deposits and contributions.

Pension Cost

Defined benefit plan

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit (PUC) method.

Defined benefit costs comprise the following:
(a) Service cost;
(b) Net interest on the net defined benefit liability or asset; and
(c) Remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Company's right to be reimbursed of some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Bonus plans
The Company recognizes a liability and an expense for 13th month and mid-year bonus based on a formula that takes into consideration the employee's current monthly salary. The Company recognizes a provision when contractually obligated.

Vacation and sick leave benefits
The employees earn fifteen (15) days each of vacation and sick leave after one (1) year of service with the Company which can be computed upon separation. Computation is based on the employee's monthly basic salary at the time of separation.

In subsequent years, the employees are compensated with fifteen (15) days each of vacation leave and sick leave annually. At each calendar year, unused vacation leave credits are forfeited and unused sick leave credits are computed. The Company recognizes a liability as a result of the unused entitlement of leave credits as at the reporting date.

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

Income Tax
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute this amount are those that are enacted or substantively enacted as at the reporting date.

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

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

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

Equity
Capital stock consists of common and preferred shares classified as equity. When the Company issues shares in excess of par, the excess is recognized as contributed surplus. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

Contributed surplus represents the contribution of the stockholders of the Company in addition to the paid-up capital stock in order to comply with the pre-licensing and capital requirements as provided under the Code.

Retained earnings represent accumulated earnings of the Company less dividends declared.

Foreign Currency Transactions and Translation
The functional and presentation currency of the Company is the Philippine Peso. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the Company's profit or loss.

Provisions
Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of comprehensive income net of any reimbursement.

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

The Company makes judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, and disclosures of contingent assets and liabilities, if any, within the next financial year. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

Judgments

Product classification
The Company has determined that the policies it issues have significant insurance risk and therefore meets the definition of an insurance contract and are accounted for as such.

Classification of financial asset
As discussed in Note 2, beginning January 1, 2018, the Company classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Company performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

In performing the SPPI test, the Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

Operating leases - Company as the lessee
The Company has entered into contracts of lease for its head office and the office spaces of its branches, which it considers as operating lease.

The Company has determined that all the significant risks and rewards of ownership of these properties are retained by the lessor. The contracts of lease are considered as operating leases by the Company since these do not transfer substantially all the risks and rewards incidental to ownership (Note 22).

Estimates and Assumptions

Life
Estimate of the ultimate liability arising from claims made under insurance contracts
Estimate of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for such claims. The primary sources of uncertainties are the frequency of claims due to contingencies covered and the timing of benefit payments.

Estimation of claims takes into account several factors such as industry average mortality experience, with adjustments to reflect Company's historical experience.

Estimate of future benefit payments and premiums arising from long-term insurance contracts
Estimates of future benefit payments depend on the expectations of future benefit payments for contingencies covered, the major ones being death and endowment benefits. The Company based

these estimates on mortality and other contingency tables approved by the Insurance Commission as well as future investment earnings rate of the assets backing up these liabilities, subject to the maximum rate provided under the Insurance Code of the Philippines (Insurance Code). These are also subject to liability adequacy test.

Source of uncertainty in the estimation of future claim payments
Although the Company has taken necessary steps to mitigate the uncertainty in the estimation of future benefit payments and premium receipts, it is still subject to the unpredictability of changes in mortality levels. The Company adopts the standard mortality table in assessing future benefit payments and premium receipts as approved by the Insurance Commission.

The liability under the insurance contracts includes provisions for IBNR claims and provisions for claims in course of settlement as of reporting date. The IBNR provision is based on historical experience and is subject to a high degree of uncertainty.

Reinsurance - assumptions and methods
The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under loans and receivables.

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and, thus, a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent on any reinsurance contract.

Nonlife
Estimate of the ultimate liability arising from claims made under insurance contracts
For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision.

The method of determining such estimates and establishing reserve are continually reviewed and updated. Changes in estimates of claims cost resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period the estimates are made.

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgment are used to assess the extent to which past trends may not apply in the future, for example, one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. But since this is the first year of non-life business of the Company, average market experience is used.

Legal policy reserves
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to

subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums as part of Insurance contract liabilities and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

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

Liability Adequacy Test (LAT)
LAT is performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims. Any inadequacy is immediately charged to profit or loss by establishing a provision for loss arising from the liability adequacy tests.

Impairment of financial assets under PAS 39

(i) *AFS debt and equity securities*
The Company determines that AFS debt and equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. The Company treats 'significant' generally as 20.00% or more of the original cost of investment, and 'prolonged', greater than six (6) months. In making this judgment, the Company evaluates among other factors, the normal volatility in share price of similar equity securities.

In addition, in the case of unquoted equity securities, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

The carrying values of AFS financial assets amounted to ₱304.7 million as of December 31, 2017 (see Note 8).

(ii) *Loans and receivables*
The Company reviews its receivables on a periodic basis to assess impairment of receivables at an individual and collective level. In assessing for impairment, the Company determines whether there is any objective evidence indicating that there is a measurable decrease in the estimated future cash flows of its loans and receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or industry-wide or local economic conditions that correlate with defaults on receivables. These factors include, but are not limited to age of balances, financial status of counterparties, payment

behavior and known market factors. The Company reviews the age and status of receivables, and identifies individually significant accounts that are to be provided with allowance.

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

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

Loans and receivables, net of allowance for impairment losses, amounted to ₱170.7 million as of December 31, 2017 (see Note 8). The allowance for impairment on loans and receivables amounted to ₱3.0 million as of December 31, 2017 (see Note 8).

Impairment of financial assets under PFRS 9

(i) *Debt Instruments measured at Fair Value through OCI*

Impairment for financial assets at FVOCI follows the general model (considering PD, LGD, and EAD) in computing for the required allowance based on the increase in credit risk which in turn is dependent on the "staging" of the debt instrument.

In accordance to the "three stage" approach, all newly purchased financial assets shall be classified in Stage 1, except for credit impaired financial assets. It will move from Stage 1 to Stage 2 when there is significant increase in credit risk ("SICR"), and Stage 2 to Stage 3 when there is a an objective evidence of impairment.

The carrying values of financial assets at FVOCI mounted to ₱1,439.6 million and ₱1,469.2 million as of December 31, 2018 and January 1, 2018, respectively (see Notes 3 and 8). The allowance for impairment on financial assets at FVOCI amounted to ₱7.5 million and ₱6.5 million as of December 31, 2018 and January 1, 2018, respectively (see Notes 3 and 8).

(ii) *Financial assets at Amortized cost*

For financial assets at amortized cost, specifically for loans to DepEd employees, a risk sensitive model is used, with computed loss rates based on historical data for Stage 1 and Stage 2. For stage 3 accounts, the loss rate is based on the LGD rate as PD is assumed 100%.

Financial assets at amortized cost, net of allowance for impairment losses, amounted to ₱147.2 million and ₱162.5 million as of December 31, 2018 and January 1, 2018, respectively (see Notes 3 and 8). The allowance for impairment amounted to ₱10.2 million and ₱11.2 million as of December 31, 2018 and January 1, 2018, respectively (see Notes 3 and 8).

(iii) *Premiums due and uncollected*

No impairment allowance is provided for premiums due and uncollected as the Company has a policy to suspend and lapse the accounts which remain unpaid over 90 days. The lapsed account can still be reinstated provided that unpaid premiums are settled.

(iv) *Cash equivalents*

The impairment allowance computation for Cash equivalents is a product of PD, LGD and EAD.

PD (Probability of default)

Probability of default ("PD") provides an estimate of the likelihood that a borrower will be unable to meet its debt obligation or default over a particular time horizon, usually in the course of 1 year.

ECL computations under PFRS 9 requires 12-month and lifetime PD estimations. The 12-month ECL is based on the probability of default occurring in the 12-month after the reporting date. The lifetime ECL is calculated by adding the 12-month ECL with the expected loss arising from a default occurring in each subsequent year throughout the expected life of the financial instruments.

In order to recognize lifetime ECL, a PD term structure was constructed using a statistical approach (or external data depending on data availability). PFRS 9 also requires the application of forward-looking adjustments into the PD computation to reflect future macroeconomic scenarios.

LGD (Loss Given Default)

Loss given default ("LGD") is defined as the percentage of exposure the Company might lose in case the borrowers default. These losses are usually shown as a percentage of Exposure at Default ("EAD"), and depend, amongst others, on the type and amount of collateral as well as the types of borrower and the expected proceeds from the work-out of the assets. The LGD takes on values from 0 to 1, where an LGD of 0 indicates that the overdue balance has been fully recovered and an LGD of 1 indicates complete loss of the EAD.

EUL of property and equipment and intangible assets
The Company reviews annually the EUL of property and equipment and intangible assets based on the period over which the asset is expected to be available for use. It is possible that future results of operations could be materially affected by the changes in the estimates. A reduction in the EUL of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

The related balances follow (Note 9):

	2018	2017
Property and equipment - cost	**₱71,273,638**	₱62,760,051
Accumulated depreciation	**55,898,824**	51,814,496
Depreciation and amortization	**4,084,328**	4,988,243

	2018	2017
Intangible assets - cost	**₱30,754,693**	₱29,540,641
Accumulated depreciation	**17,707,118**	12,246,716
Depreciation and amortization	**5,460,402**	5,777,489

Impairment of nonfinancial asset
The Company assesses impairment on non-financial assets which pertain to property and equipment, intangible and other assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the required assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. The recoverable amount is estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs.

As of December 31, 2018 and 2017, the carrying value of non-financial asset amounted to ₱28.4 million and ₱28.2 million, respectively (see Note 9).

Recognition of deferred tax assets
The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available against which all or part of the tax benefits can be utilized. However, there is no absolute assurance that sufficient taxable income will be generated in the near foreseeable future to allow all or part of the recognized deferred tax assets to be utilized.

As of December 31, 2018 and 2017, deferred tax assets amounted to ₱23.7 million and ₱20.8 million, respectively (see Note 23).

Pension and other retirement benefits
The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

As of December 31, 2018 and 2017, net pension liability amounted to ₱1.6 million and ₱9.6 million, respectively (see Note 21).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 21.

Contingencies
The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with external and internal legal

counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position as of reporting date.

6. Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents

This account consists of:

	2018	2017
Cash on hand	**₱130,000**	₱128,000
Cash in banks	**376,783,689**	183,901,709
Cash equivalents	**569,074,334**	301,267,280
	945,988,023	485,296,989
Less allowance for impairment	**2,250,356**	–
	₱943,737,667	₱485,296,989

Cash in banks and cash equivalents earn annual interest ranging from 0.25% to 5.5% in 2018 and from 0.25% to 2.0% 2017. Cash equivalents are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates.

Interest income from cash in banks and cash equivalents amounted to ₱19.3 million and ₱10.4 million in 2018 and 2017, respectively (see Note 16). Accrued interest amounted to ₱1.3 million and ₱0.5 million in 2018 and 2017, respectively.

Short-term investments
Short term investments consist of time deposits with maturity of more than three (3) months but less than one (1) year from date of placement amounting to nil and ₱155.0 million as of December 31, 2018 and 2017, respectively, which earned interest up to 2.0%.

Interest income earned on Short term investments amounted to nil in 2018 and ₱1.1 million in 2017 (see Note 16). Accrued interest amounted to nil and ₱0.9 million as of December 31, 2018 and 2017, respectively.

Based on management's assessment, an allowance for impairment has been recognized for the Company's cash equivalents. The rollforward analysis of the impairment allowance is presented below:

At January 1, 2018 (Note 3)	₱1,909,078
Provision (Note 19)	341,278
At December 31, 2018	₱2,250,356

7. Insurance Receivables and Reinsurance Assets

Insurance receivables

Insurance receivables consist of:

	2018	2017
Premiums due and uncollected	**₱63,715,686**	₱36,472,847
Reinsurance recoverable on paid losses	**11,390,182**	6,942,385
	₱75,105,868	₱43,415,232

Premiums due and uncollected consist of premiums already billed by the Company to its clients, but remain unpaid at the end of reporting period. These are booked net of the unearned portion based on policy period.

Reinsurance recoverable on paid losses presented in pertain to the amount of claims paid in excess of the retention limit that should only be covered by the Company. These are recoverable from the reinsurers.

As of December 31, 2018 and 2017, the management assessed that no allowance for impairment is required for premiums due and uncollected since the Company has a policy to suspend and lapse the policies with premiums receivable which remains unpaid for over 90 days.

Reinsurance assets

Reinsurance assets pertain to reinsurance recoverable for unpaid losses. These are the amount of claims incurred in excess of the retention limit that should only be covered by the Company and is recoverable from the reinsurer.

Reinsurance assets amounted to ₱136.1 million and ₱56.7 million as of December 31, 2018 and 2017, respectively.

8. Financial Assets

The Company's financial assets are summarized as follows:

	2018	2017
Financial assets at FVOCI	**₱1,439,607,972**	₱–
AFS financial assets	–	304,703,847
Financial assets at FVPL	**243,601,036**	1,394,386,081
Financial assets at amortized cost	**147,177,974**	–
Loans and receivables	–	170,746,077
	₱1,830,386,982	₱1,869,836,005

The assets included in each of the categories above are detailed below:

(a) As of December 31, the financial assets at Fair Value through OCI follow:

	2018
Government debt securities	₱1,247,381,550
Corporate debt securities	192,226,422
	₱1,439,607,972

A significant portion of the investments in government and corporate debt securities are managed by ATRAM Trust Corporation under an investment management agreement (IMA), with no guaranteed rate of return. These investments under IMA amount to ₱1,148.6 million and nil as of December 31, 2018.

An analysis of the cost vs. market value for financial assets at FVOCI follow:

	2018
Market value	₱1,439,607,972
Cost	1,498,070,112
Unrealized losses on financial assets at FVOCI	(58,462,140)
Deferred tax	2,846,099
Unrealized losses on financial assets at FVOCI recognized in equity	(₱55,616,041)

The "Unrealized losses on financial assets at FVOCI" is recognized in the equity section of the statements of financial position while the movements thereof are shown as part of "Other comprehensive income" in the statements of comprehensive income.

The roll forward analysis of unrealized losses on financial assets at FVOCI for the year ended December 31, 2018 is as follows:

At January 1	(₱4,547,092)
Other comprehensive income:	
Change in fair value of FVOCI – net of tax effect	(50,106,815)
Provision for impairment	(962,134)
At December 31	(₱55,616,041)

The movements in financial assets at FVOCI for the year ended December 31, 2018 follow:

At January 1	₱1,469,232,528
Additions	997,681,231
Disposals/maturities/redemptions	(965,076,581)
Change in fair value during the year	(52,952,914)
Provision for impairment	(962,134)
Amortization of premium	(8,314,158)
Written off	–
	₱1,439,607,972

Interest income earned from financial assets at FVOCI amounted to ₱65.3 million in 2018 (see Note 16). Accrued interest income amounted to ₱10.5 million as of December 31, 2018.

An allowance for impairment has been recognized for financial assets at FVOCI. The rollforward analysis follows:

At January 1, 2018	₱6,547,560
Provision (Note 19)	962,134
At December 31, 2018	₱7,509,694

As of December 31, 2018, government debt securities and corporate debt securities amounting ₱291.0 million were designated as restricted investments and maintained with the Bureau of Treasury in accordance with the provisions of the Insurance Commission as security for the benefit of the Company's policyholders and creditors. Security fund is maintained in accordance with Chapter V Sections 378 to 385 of the Insurance Code. The amount of such fund is determined by and deposited with the Insurance Commission and its purpose is to pay valid claims against insolvent insurance companies.

(b) As of December 31, 2017 AFS financial assets follow:

Government debt securities	₱275,907,981
Mutual funds	28,208,262
Listed equity securities	137,604
Proprietary shares	450,000
	₱304,703,847

An analysis of the cost vs. market value for AFS financial assets as of December 31, 2017 follow:

Market value	₱304,703,847
Cost	305,508,207
Unrealized losses on AFS financial assets	(₱804,360)

The "Unrealized losses on AFS financial assets" is recognized in the equity section of the statements of financial position while the movements thereof are shown as part of "Other comprehensive income" in the statements of comprehensive income.

The rollforward analysis of unrealized losses on AFS financial assets for the year ended December 31, 2017 is as follows:

At January 1	(₱4,775,920)
Changes in fair value of AFS financial assets	3,971,560
At December 31	(₱804,360)

The movements in AFS financial assets for the year ended December 31, 2017 follow:

At January 1	₱154,458,011
Additions	155,763,747
Disposals/maturities/redemptions	(6,020,440)
Change in fair value during the year	3,971,560
Amortization of premium	(3,225,277)
Written off	(243,754)
At December 31	₱304,703,847

Interest income earned from AFS financial assets amounted to ₱8.5 million in 2017 (see Note 16). Accrued interest income amounted to ₱3.0 million as of December 31, 2017.

As of December 31 2017, government debt securities amounting ₱275.9 million were designated as restricted investments and maintained with the Bureau of Treasury in accordance with the provisions of the Insurance Commission as security for the benefit of the Company's policyholders and creditors. Security fund is maintained in accordance with Chapter V Sections 378 to 385 of the Insurance Code. The amount of such fund is determined by and deposited with the Insurance Commission and its purpose is to pay valid claims against insolvent insurance companies.

(c) As of December 31 the financial assets at FVPL follow:

	2018	2017
Mutual funds	**₱165,378,746**	₱198,061,534
Government debt securities	**31,860,247**	1,196,324,547
Unit investment trust fund	**42,962,810**	–
Listed equity securities	**78,953**	–
Proprietary shares	**3,320,280**	–
	₱243,601,036	₱1,394,386,081

A portion of the investments in government debt securities, mutual funds and unit investment trust funds are managed by ATRAM Trust Corporation under an investment management agreement, with no guaranteed rate of return. These investments under IMA amount to ₱31.8 million and ₱1,391.4 million as of December 31, 2018 and 2017, respectively.

Breakdown of trading gains (losses) on financial assets at FVPL follows:

	2018	2017
Realized losses	**(₱5,588,874)**	(₱9,356,535)
Unrealized gains (losses)	**(23,108,158)**	15,493,556
	(₱28,697,032)	₱6,137,021

The movements in financial assets at FVPL for the year ended December 31 follows:

	2018	2017
At January 1, as previously reported	**₱1,394,386,081**	₱865,299,524
Effect of PFRS 9 adoption	**1,164,528,681**	–
At January 1, as restated	**229,857,400**	865,299,524
Additions	**356,296,459**	1,699,208,829
Disposals	**(319,444,665)**	(1,185,615,828)
Unrealized gains (losses)	**(23,108,158)**	15,493,556
At December 31	**₱243,601,036**	₱1,394,386,081

Interest income earned from financial assets at FVPL amounted to ₱1.4 million and ₱26.5 million in 2018 and 2017, respectively (Note 16). Accrued interest income amounted to nil and ₱4.5 million as of December 31, 2018 and 2017, respectively.

(d) Loans and receivables as of December 31, 2017 follow:

Receivable from third party administration	₱58,943,238
Salary loans	50,386,655
Due from policyholders	17,080,079
Policy loans	14,995,043
Mortgage loans	14,858,688
Accounts receivable	10,810,760
Other receivables	6,656,083
	173,730,546
Less allowance for impairment	2,984,469
	₱170,746,077

Salary loans represent loans to Company's employees, DepEd teachers and private institution employees with annual interest rates of 5.70% to 8.40% in 2017. These loans have terms ranging from six (6) to thirty-six (36) months and are collected through salary deductions and subsequently remitted to the Company. The noncurrent portion of the salary loans amounted to ₱43.7 million as of December 31, 2017. Interest income earned from salary loans amounted to ₱14.1 million in 2017 (see Note 16).

The Company has an existing Memorandum of Agreement (MOA) on Automatic Payroll Deduction System with the Department of Education (DepEd) that allows it to engage in lending operations with DepEd teachers and personnel as borrowers. The Company's DepEd Teacher's Salary Loan accreditation for lending has been approved on June 26, 2012 which shall be effective for a period of five (5) years. MOA with DepEd expired last June 2017 and was renewed monthly until October 2017 only. The new Terms and Conditions of the APDS Accreditation (TCAA) with DepEd was signed and approved in June 2018 with effectivity up to December 31, 2020, renewable every 3 years. The DepEd, however, may anytime revoke this TCAA for cause.

The rollforward analysis of salary loans for 2017 follows:

At January 1	₱66,580,061
Additions	31,140,668
Collections	(47,334,074)
At December 31	₱50,386,655

Receivable from third party administration clients represent amounts initially paid by the Company for billings made by medical providers for availments of covered employees under TPA arrangement. This is normally due within fifteen (15) days from date billed to TPA clients.

Accounts receivable consist mostly of receivables from employees, brokers, and SSS.

Due from policyholders pertains to the excess of the amount paid by the Company over the benefits of the claimant. The Company pays the entire amount incurred by the claimant during hospitalization and bills the claimant for the excess.

Mortgage loans as of December 31, 2017 consist of:

Chattel mortgage (car loans)	
Director, officers and employees	₱14,204,722
Real estate mortgage (housing loans)	
Third party individuals	653,966
	₱14,858,688

Housing and car loans to officers and employees are collectible over a period of five (5) to fifteen (15) years through salary deduction. These loans bear an annual interest ranging from 0%-8.4% depending on the position of the employee. Interest income earned amounted to ₱0.2 million in 2017 (see Note 16). The noncurrent portion of the mortgage loans amounted to ₱10.1 million as of December 31, 2017.

Other receivables consist of advances to officers, employees and agents and miscellaneous advances.

Policy loans pertain to loans issued to insurance policyholders. These loans are collateralized with the cash surrender value of the policyholders' insurance policy. The annual interest rate on policy loans in 2018 and 2017 is fixed at 10.00%. Interest income earned amounted to ₱2.6 million in 2017 (see Note 16). The policyholders may repay the policy loans any time during the effectivity of the policy and if unpaid upon surrender or maturity, the policy loan will be deducted from the surrender or maturity benefits.

The changes in allowance for impairment on financial assets at amortized cost/loans and receivables are as follows:

	Salary loans	Accounts Receivable	Total
At December 31, 2016	₱4,397,465	₱982,916	₱5,380,381
Recovery (Note 16)	(1,595,559)	–	(1,595,559)
Write-off	(800,353)	–	(800,353)
At December 31, 2017	**₱2,001,553**	**₱982,916**	**₱2,984,469**

(e) Financial assets at amortized cost as of December 31, 2018 follow:

Salary loans	₱63,580,698
Receivable from third party administration	24,079,115
Due from policyholders	20,011,348
Accounts receivable	14,819,312
Policy loans	13,349,153
Mortgage loans	11,608,975
Other receivables	9,901,105
	157,349,706
Less allowance for impairment	10,171,732
	₱147,177,974

Salary loans represent loans to Company's employees, DepEd teachers and private institution employees with annual interest rates of 5.70% to 8.40% in 2018. These loans have terms ranging from six (6) to thirty-six (36) months and are collected through salary deductions and subsequently remitted to the Company. The noncurrent portion of the salary loans amounted to ₱41.2 million as of

December 31, 2018. Interest income earned from salary loans amounted to ₱6.3 million in 2018 (see Note 16).

The Company has an existing Memorandum of Agreement (MOA) on Automatic Payroll Deduction System with the Department of Education (DepEd) that allows it to engage in lending operations with DepEd teachers and personnel as borrowers. The Company's DepEd Teacher's Salary Loan accreditation for lending has been approved on June 26, 2012 which shall be effective for a period of five (5) years. MOA with DepEd expired last June 2017 and was renewed monthly until October 2017 only. The new Terms and Conditions of the APDS Accreditation (TCAA) with DepEd was signed and approved in June 2018 with effectivity up to December 31, 2020, renewable every 3 years. The DepEd, however, may anytime revoke this TCAA for cause.

The rollforward analysis of salary loans for 2018 follow:

At January 1	₱50,386,655
Additions	40,311,701
Collections	(27,117,658)
At December 31	₱63,580,698

Receivable from third party administration clients represent amounts initially paid by the Company for billings made by medical providers for availments of covered employees under TPA arrangement. This is normally due within fifteen (15) days from date billed to TPA clients.

Accounts receivable consist mostly of receivables from employees, brokers, and SSS.

Due from policyholders pertains to the excess of the amount paid by the Company over the benefits of the claimant. The Company pays the entire amount incurred by the claimant during hospitalization and bills the claimant for the excess.

Mortgage loans as of December 31, 2018 consist of:

Chattel mortgage (car loans)	
Director, officers and employees	₱10,955,009
Real estate mortgage (housing loans)	
Third party individuals	653,966
	₱11,608,975

Housing and car loans to officers and employees are collectible over a period of five (5) to fifteen (15) years through salary deduction. These loans bear an annual interest ranging from 0%-8.4% depending on the position of the employee. Interest income earned amounted to ₱0.3 million in 2018 (see Note 16). The noncurrent portion of the mortgage loans amounted to ₱7.1 million as of December 31, 2018.

Other receivables consist of advances to officers, employees and agents and miscellaneous advances.

Policy loans pertain to loans issued to insurance policyholders. These loans are collateralized with the cash surrender value of the policyholders' insurance policy. The annual interest rate on policy loans in 2018 and 2017 is fixed at 10.00%. Interest income earned amounted to ₱2.1 million in 2018 (see Note 16). The policyholders may repay the policy loans any time during the effectivity of the policy and if unpaid upon surrender or maturity, the policy loan will be deducted from the surrender or maturity benefits.

The changes in allowance for impairment on financial assets at amortized cost/loans and receivables are as follows:

	Salary loans	Accounts Receivable	Total
At January 1, 2018	**₱10,160,075**	**1,027,533**	**11,187,608**
Recovery (Note 16)	(175,050)	(44,617)	(219,667)
Write-off	(796,209)	–	(796,209)
At December 31, 2018	**₱9,188,816**	**₱982,916**	**₱10,171,732**

9. **Property and Equipment and Intangible Assets**

The rollforward analyses of Property and Equipment follow:

2018

	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Transportation Equipment	Total
Cost					
At January 1	₱48,063,897	₱11,089,298	₱–	₱3,606,856	₱62,760,051
Additions	3,050,374	59,500	5,403,713	–	8,513,587
At December 31	51,114,271	11,148,798	5,403,713	3,606,856	71,273,638
Accumulated Depreciation					
At January 1	37,839,775	10,806,778	–	3,167,943	51,814,496
Depreciation/amortization (Note 22)	3,633,327	92,927	–	358,074	4,084,328
At December 31	41,473,102	10,899,705	–	3,526,017	55,898,824
Net Book Value	₱9,641,169	₱249,093	₱5,403,713	₱80,839	₱15,374,814

2017

	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Transportation Equipment	Total
Cost					
At January 1	₱44,460,553	₱10,810,483	₱–	₱3,606,856	₱58,877,892
Additions	3,603,344	278,815	–	–	3,882,159
At December 31	48,063,897	11,089,298	–	3,606,856	62,760,051
(Forward)					
Accumulated Depreciation					
At January 1	₱33,731,660	₱10,683,701	₱–	₱2,410,892	₱46,826,253
Depreciation/amortization (Note 22)	4,108,115	123,077	–	757,051	4,988,243
At December 31	37,839,775	10,806,778	–	3,167,943	51,814,496
Net Book Value	₱10,224,122	₱282,520	₱–	₱438,913	₱10,945,555

Fully depreciated assets still in use amounted to ₱33.9 million and ₱25.8 million as of December 31, 2018 and 2017, respectively. There are no temporary idle property and equipment items.

The rollforward analysis of intangible assets follows:

	2018	2017
Cost		
At January 1	**₱29,540,641**	₱29,540,641
Additions	**1,214,052**	–
At December 31	**30,754,693**	29,540,641
Accumulated Amortization		
At January 1	**₱12,246,716**	₱6,469,227
Amortization (Note 22)	**5,460,402**	5,777,489
At December 31	**17,707,118**	12,246,716
Net Book Value	**₱13,047,575**	₱17,293,925

Intangible assets consist of computer software used in the Company's operations.

10. Other Assets

This account consists of:

	2018	2017
Creditable withholding taxes	**₱10,148,827**	₱–
Performance bond	**8,193,422**	13,212,711
Prepayments	**5,688,952**	9,346,829
Rental deposits (Note 22)	**4,123,090**	3,261,337
Reserve fund	**581,384**	581,384
Security fund	**221,082**	221,082
Miscellaneous	**844,259**	3,607,563
	₱29,801,016	₱30,230,906

Creditable withholding taxes consists of the amount withheld arising from premium collections to be claimed as a deduction from income tax liability. These are available for offset against income tax due.

Performance bond consists of amounts paid by the Company to hospital network providers in compliance with certain group insurance policy contracts. These bonds will be recovered upon termination of the policy contracts and after all claims and benefits accruing to the contracts have been settled.

Prepayments include advance payments made by the Company relative to documentary stamps as well as for Computer Maintenance contracts.

Reserve fund consists of contingency funds which are maintained to defray claims of the insurance pools business of the Company.

Security fund is maintained in accordance with Chapter V Sections 378 to 385 of the Insurance Code. The amount of such fund is determined by and deposited with the Insurance Commission and its purpose is to pay valid claims against insolvent insurance companies.

Miscellaneous assets mainly includes advance payment made to suppliers for ongoing projects.

11. Insurance Contract Liabilities

This account consists of:

	2018	2017
Legal policy reserves	₱556,460,950	₱460,152,449
Claims payable	289,180,905	303,028,763
Non-Life insurance reserves	35,436,926	12,321,090
Policyholders' dividends	2,760,923	3,079,315
	₱883,839,704	₱778,581,617

Life Insurance Liabilities
Insurance contract liabilities may be analyzed as follows:

2018	Gross	Reinsurance	Net
Reserves for ordinary life insurance	₱85,509,047	₱108,897	₱85,400,150
Reserves for group life policies	83,659,753	–	83,659,753
Reserves for group accident and health policies	387,401,047	–	387,401,047
At December 31	₱556,569,847	₱108,897	₱556,460,950

2017	Gross	Reinsurance	Net
Reserves for ordinary life insurance	₱94,866,502	₱130,408	₱94,736,094
Reserves for group life policies	47,703,283	–	47,703,283
Reserves for group accident and health policies	317,713,072	–	317,713,072
At December 31	₱460,282,857	₱130,408	₱460,152,449

The movements in legal policy reserves in 2018 and 2017 are as follow:

2018	Gross	Reinsurance	Net
At January 1	₱460,282,855	₱130,406	₱460,152,449
Net change in legal policy reserves:			
New business, reinstatement and change in policy year	2,266,613,636	–	2,266,613,636
Released by death and other terminations and supplementary contracts	(2,170,326,644)	(21,509)	(2,170,305,135)
	96,286,992	(21,509)	96,308,501
At December 31	₱556,569,847	₱108,897	₱556,460,950

2017	Gross	Reinsurance	Net
At January 1	₱370,150,675	₱131,373	₱370,019,302
Net change in legal policy reserves:			
New business, reinstatement and change in policy year	1,659,588,525		1,659,588,525
Released by death and other terminations and supplementary contracts	(1,569,456,345)	(967)	(1,569,455,378)
	90,132,180	(967)	90,133,147
At December 31	₱460,282,855	₱130,406	₱460,152,449

The movements in the legal policy reserves due to change in discount rates are recorded under "Remeasurements of life insurance reserves". The rollforward analysis of this account follows:

	2018	2017
At January 1	**(₱9,841,891)**	₱189,979
Arising during the year	**9,024,709**	(10,031,870)
At December 31	**(₱817,182)**	(₱9,841,891)

The breakdown in claims payable and IBNR provision follow:

	2018	2017
Hospitalization claims payable	**₱158,989,307**	₱227,503,809
Death claims payable	**115,458,006**	65,301,999
Policy and contract claims payable (non-life)	**13,903,891**	8,202,800
Maturities payable	**829,701**	2,020,155
	₱289,180,905	₱303,028,763

The movements in claims payable and IBNR provision follow:

	2018	2017
At January 1	**₱303,028,763**	₱224,240,451
Payments during the year	**(1,752,558,011)**	(1,558,292,476)
Provisions during the year	**1,738,710,153**	1,637,080,788
At December 31	**₱289,180,905**	₱303,028,763

Non-Life Insurance Liabilities
Short-term non-life insurance liabilities may be analyzed as follows:

	2018	2017
Provision for IBNR	**₱13,903,891**	₱8,202,800
Reserve for unearned premiums	**35,436,926**	12,321,090
Total Insurance Contract Liabilities	**₱49,340,817**	₱20,523,890

Provisions for IBNR may be analyzed as follows:

	2018	2017
At January 1	**₱8,202,800**	₱480,045
Claims paid	**(15,360,323)**	(3,286,939)
Claims incurred	**21,061,414**	11,009,694
At December 31	**₱13,903,891**	₱8,202,800

Reserve for unearned premiums for 2018 and 2017 may be analyzed as follows:

	2018	2017
At January 1	**₱12,321,090**	₱2,992,834
New policies written during the year	**64,223,303**	21,179,676
Premiums earned during the year	**(41,107,467)**	(11,851,420)
At December 31	**₱35,436,926**	₱12,321,090

Change in legal policy reserves in 2018 and 2017 may be broken down as follow:

	2018	2017
Movements in legal policy reserves	**₱96,308,501**	₱90,133,147
Movements in legal policy reserves non-life provisions for claims reported and IBNR	**23,115,836**	9,328,256
Movements in legal policy reserves - change in discount rates	**9,024,709**	(10,031,870)
Remeasurement of life insurance reserves - NPV to GPV	**–**	(24,262,321)
	₱128,449,046	₱65,167,212

The movements in policyholders' dividends in 2018 and 2017 follow:

	2018	2017
At January 1	**₱3,079,315**	₱3,428,860
Payments during the year	**(1,245,251)**	(978,234)
Policyholders' dividends	**926,859**	628,689
At December 31	**₱2,760,923**	₱3,079,315

Interest expense on policyholders' dividends amounted to nil in 2018 and ₱124,758 in 2017.

Segregated Fund Assets / Segregated Fund Liabilities
In 2016, the Company started commercial issuance of unit-linked insurance contracts where the payments to policyholders are linked to investment funds set up by the Company. As of December 31, 2018, the Company has five (5) PHP and three (3) USD insurance investment funds (IIFs), namely: Philippine Balanced Fund (PHP), Equity Opportunity Fund (PHP), Fixed Income Fund (PHP), Global Technology Feeder Fund (PHP), Asia Equity Opportunity Feeder Fund (PHP), Global Equity Opportunity Feeder Fund (USD), Global Allocation Feeder Fund (USD) and Global Total Return Bond Feeder Fund (USD).

As of December 31, 2018 and 2017, the details of this account are as follows:

	2018	2017
Peso Funds		
Philippine balanced fund	**₱62,364,411**	₱60,872,841
Equity opportunity fund	**56,727,052**	26,116,007
Asia equity opportunity feeder fund	**26,916,851**	–
Fixed income fund	**5,268,345**	3,155,402
Global technology feeder fund	**77,438**	–
	151,354,097	90,144,250
Dollar Funds		
Global equity opportunity feeder fund	**8,588,021**	–
Global allocation feeder fund	**7,150,837**	–
Global total return bond feeder fund	**1,788,232**	–
	17,527,090	–
	₱168,881,187	₱90,144,250

The breakdown of net assets in segregated funds as of December 31, 2018 follow:

Peso Funds

	Philippine Balanced Fund	Equity Opportunity Fund	Fixed Income Fund	Global Technology Feeder Fund	Asia Equity Opportunity Feeder Fund	Total
Cash and cash equivalents	₱956,360	₱998,186	₱1,011,737	₱1,007,164	₱1,000,898	₱4,974,345
Mutual funds	66,537,300	60,198,914	–	–	–	126,736,214
Accum. market gains/(losses) – mutual Funds	(4,050,059)	(3,403,275)	–	–	–	(7,453,334)
Unit investment trust fund (UITF)	–	–	5,278,058	74,888	27,172,101	32,525,047
Accum. market gains/(losses) – UITF	–	–	(14,020)	(3,562)	(243,149)	(260,731)
Accrued trust fee payable	(79,190)	(66,773)	(7,430)	(1,052)	(12,999)	(167,444)
Net assets	63,364,411	57,727,052	6,268,345	1,077,438	27,916,851	156,354,097
Less: Seed capital	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	5,000,000
Segregated fund liabilities	₱62,364,411	₱56,727,052	₱5,268,345	₱77,438	₱26,916,851	₱151,354,097

Dollar Funds

	Global Equity Opportunity Feeder Fund	Global Allocation Feeder Fund	Global Total Return Bond Feeder Fund	Total
Cash and cash equivalents	₱1,020,155	₱1,020,155	₱1,020,155	₱3,060,465
Unit investment trust fund (UITF)	9,661,489	7,734,680	1,769,268	19,165,437
Accum. market gains/(losses) – UITF	(1,063,232)	(557,056)	28,012	(1,592,276)
Accum. FX gains/(losses) – UITF	(17,370)	(37,020)	(25,740)	(80,130)
Accrued trust fee payable	(13,021)	(9,922)	(3,463)	(26,406)
Net assets	9,588,021	8,150,837	2,788,232	20,527,090
Less seed capital	1,000,000	1,000,000	1,000,000	3,000,000
Segregated fund liabilities	₱8,588,021	₱7,150,837	₱1,788,232	₱17,527,090

The breakdown of net assets in segregated funds as of December 31, 2017 is as follows:

Peso Funds

	Balanced Fund	Equity Opportunity Fund	Fixed Income Fund	Total
Cash and cash equivalents	₱887,740	₱930,728	₱979,071	₱2,797,539
Investment in mutual Funds	60,278,856	24,089,858	–	84,368,714
Accum. market gains/(losses) – mutual funds	767,798	2,126,397	–	2,894,195
Investment in unit investment trust fund (UITF)	–	–	3,179,662	3,179,662
Accum. market gains/(losses) – UITF	–	–	2,002	2,002
Accrued trust fee payable	(61,553)	(30,976)	(5,333)	(97,862)
Net assets	61,872,841	27,116,007	4,155,402	93,144,250
Less: Seed capital	1,000,000	1,000,000	1,000,000	3,000,000
Segregated fund liabilities	₱60,872,841	₱26,116,007	₱3,155,402	₱90,144,250

The rollforward analyses of net assets in segregated funds as of December 31, 2017 and 2018 is as follows:

2018

	At January 1	Subscriptions	Redemptions/ Surrenders/ Withdrawals	Change in fair value	At December 31
Peso Funds					
Philippine balanced fund	₱60,872,841	₱7,822,905	(₱2,026,536)	(₱4,304,799)	₱62,364,411
Equity opportunity fund	26,116,007	36,406,324	(135,456)	(5,659,823)	56,727,052
Fixed income fund	3,155,402	2,278,825	(180,000)	14,118	5,268,345
Global technology feeder fund	–	81,000	–	(3,562)	77,438
Asia equity opportunity feeder fund	–	27,160,000	–	(243,149)	26,916,851
	90,144,250	73,749,054	(2,341,992)	(10,197,215)	151,354,097

(Forward)

	At January 1	Subscriptions	Redemptions/ Surrenders/ Withdrawals	Change in fair value	At December 31
Dollar Funds					
Global equity opportunity feeder fund	₱–	₱9,651,252	₱–	(₱1,063,231)	₱8,588,021
Global allocation feeder fund	–	7,707,893	–	(557,056)	7,150,837
Global total return bond feeder fund	–	1,760,220	–	28,012	1,788,232
	-	19,119,365	-	(1,592,275)	17,527,090
	₱90,144,250	₱92,868,419	(₱2,341,992)	(₱11,789,490)	₱168,881,187

2017

	At January 1	Subscriptions	Redemptions/ Surrenders/ Withdrawals	Change in fair value	At December 31
Peso Funds					
Philippine Balanced Fund	₱12,013,916	₱47,975,299	(₱16,000)	₱899,626	₱60,872,841
Equity Opportunity Fund	7,075,478	15,992,760	–	3,047,769	26,116,007
Fixed Income Fund	2,709,379	402,064	–	43,959	3,155,402
Global Technology Feeder Fund	–	–	–	–	–
Asia Equity Opportunity Feeder Fund	–	–	–	–	–
	21,798,773	64,370,123	(16,000)	3,991,354	90,144,250
Dollar Funds					
Global Equity Opportunity Feeder Fund	₱–	₱–	₱–	₱–	₱–
Global Allocation Feeder Fund	–	–	–	–	–
Global Total Return Bond Feeder Fund	–	–	–	–	–
	–	–	–	–	–
	₱21,798,773	₱64,370,123	(₱16,000)	₱3,991,354	₱90,144,250

Sensitivities

Life Insurance Contracts
The analysis below is performed for a reasonable possible movement in key assumptions, related to mortality and discount rate, with all other assumptions held constant, on the statement of comprehensive income and statement of changes in equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

The assumptions that have the greatest effect on the 2018 and 2017 statements of financial position, statements of comprehensive income and statements of changes in equity are listed below:

Mortality

2018

	Change in Assumptions	Increase/ (Decrease) in Net Liabilities	Increase/ (Decrease) in Profit Before Tax	Increase/ (Decrease) in Equity
Mortality	10.00%	₱1,317,389	(₱1,317,389)	(₱922,172)
	-10.00%	(1,297,290)	1,297,290	908,103
Discount rate	-1.00%	8,712,601	(8,712,601)	(6,098,821)

2017	Change in Assumptions	Increase/ (Decrease) in Net Liabilities	Increase/ (Decrease) in Profit Before Tax	Increase/ (Decrease) in Equity
Mortality	+10.00%	₱609,840	(₱609,840)	(₱426,888)
	-10.00%	(344,044)	344,044	240,831
Discount rate	-1.00%	8,060,850	(8,060,850)	(5,642,595)

MfAD

2018	MfAD	Increase/ (Decrease) in Net Liabilities (from Unpadded Reserves)	Increase/ (Decrease) in Profit Before Tax	Increase/ (Decrease) in Equity
Lapse	-50.00%	₱2,537,375	(₱2,537,375)	(₱1,776,163)
Mortality	10.00%	1,052,160	(1,052,160)	(736,512)
Interest	-10.00%	3,279,649	(3,279,649)	(2,295,754)
Expense	50.00%	3,068,065	(3,068,065)	(2,147,646)
Total MfAD		₱9,937,250	(₱9,937,250)	(₱6,956,074)

12. **Accounts Payable and Other Liabilities**

This account consists of:

	2018	2017
Accounts payable	**₱179,696,768**	₱142,438,096
Accrued expenses	**84,752,771**	71,821,228
Client deposits	**36,854,091**	44,887,733
Due to policyholders	**21,240,229**	28,180,399
Life insurance deposit	**20,906,362**	18,297,548
Taxes payable	**20,143,342**	13,633,394
Commissions payable	**15,327,142**	14,571,845
Premium deposit fund	**1,978,167**	2,063,568
Bank loans payable	–	990,134
Miscellaneous	**3,899,316**	3,406,674
	₱384,798,188	₱340,290,619

Accounts payable represent billings for medical fees, dental fee, annual physical examination, and third party administration which are payable on demand. This account also includes unreleased and outstanding checks.

Accrued expenses pertain mostly to accruals for bonus which is payable the following year; as well as accruals for employee benefits, commission, professional and legal fees and utilities.

Client deposits pertain to unidentified bank credits as of the reporting period and are subject for clearing the following period.

Due to policyholders represent health/medical claims for the group health insurance products. The Company requires a benefits payment notice (BPN) from Philhealth to file the related claims on due to policyholders.

Life insurance deposits represent deposits paid by policyholders in advance are applied to pay premiums or other policyholder obligations.

Taxes payable includes withholding tax and premium tax payable.

Commissions payable refer to accrual for obligations to brokers, referrers and agents which pertain to their commissions, overrides and service fees.

Premium deposit fund pertain to funds held for policyholders with annual interest ranging from 4.00% to 6.00%. Premium deposit fund amounted to ₱2.0 million and ₱2.1 million as of December 31, 2018 and 2017, respectively. Interest expense charged against income amounted to nil in 2018 and ₱0.1 million in 2017.

Bank loans payable pertain to bank auto loans relative to car plan benefits given by the Company to entitled employees. The bank loans are secured by the vehicles and interest bearing at annual rates of 9.31%. As of December 31, 2018, the bank loans payable balance has been paid in full. Interest expense incurred bank loans amounted to ₱50,639 and ₱152,475 in 2018 and 2017, respectively.

Miscellaneous includes unearned interest from policy loans.

13. Insurance Payables

Insurance payables pertain to unpaid reinsurance premiums of the Company to another insurer. As of December 31, 2018 and 2017, insurance payables amounted to ₱119.5 million and ₱59.4 million, respectively.

14. Equity

Capital stock
Details of the Company's capital stock follows:

	Shares		Amount	
Common	**2018**	2017	**2018**	2017
Authorized (₱10.00 - par value)	**124,499,404**	49,499,404	**₱1,244,994,040**	₱494,994,040
Increase in authorized capital stock	**–**	75,000,000	**–**	750,000,000
	124,499,404	124,499,404	**₱1,244,994,040**	₱1,244,994,040
Issued and outstanding:				
Balance at the beginning of the year	**116,172,083**	49,499,404	**₱1,161,720,830**	₱494,994,040
Issuance of shares	**–**	66,672,679	**–**	666,726,790
	116,172,083	116,172,083	**₱1,161,720,830**	₱1,161,720,830

	Shares		Amount	
Preferred	**2018**	2017	**2018**	2017
Authorized (₱0.10 - par value)	**50,059,600**	50,059,600	**₱5,005,960**	₱5,005,960
Issued and outstanding:				
Balance at the beginning and ending of the year	**50,059,600**	50,059,600	**₱5,005,960**	₱5,005,960

On December 20, 2016, the Board of Directors and Stockholders of the Company approved a resolution to amend of the Articles of Incorporation to increase the authorized capital stock from ₱500,000,000 divided into 49,499,404 common shares with par value of P10 per share and 50,059,600 preferred shares with par value of ₱0.10 per share to ₱1,250,000,000 divided into 124,499,404 common shares with par value of ₱10 per share and 50,059,600 preferred shares with par value of ₱0.10 per share. The increase in capital stock was endorsed by Insurance Commission (IC) last January 3, 2017 and was approved by Securities and Exchange Commission last August 31, 2017.

On June 1, 2017 and June 8, 2017, EIHSB infused additional capital amounting to ₱330,000,000 and ₱305,000,000, respectively, totaling ₱635,000,000 corresponding to 63,500,000 common shares.

On June 14, 2017, E-marc Consultants, Inc. infused additional capital amounting to ₱31,726,790 corresponding to 3,172,679 common shares.

The preferred shares have the following features:

a) Entitled to receive cash dividends at six percent (6.00%) per annum;
b) Voting rights;
c) Convertible at any time into common shares at the sole option of the Company;
d) Redeemable at any time at the sole option of the Company;
e) Priority to receive the guaranteed dividends, including dividends in arrears, over the common stockholders;
f) Not entitled to any participation or share in the retained earnings remaining after all cumulative dividends thereon have been paid; and
g) In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of the Company, holders of preferred shares shall enjoy preferences in the payment, in full or pro-rata basis as the assets of the Corporation will permit, of the value of their shares plus all unpaid cumulative dividends, before any assets of the Company shall be paid or distributed to holders of common shares.
h) Accrued payable for preferred share dividends in arrears amounted to ₱1.7 million and ₱0.8 million as of December 31, 2018 and 2017, respectively.

Contributed surplus
Contributed surplus amounted to ₱39.8 million as of December 31, 2018 and 2017. This represents original contributions of the stockholders as provided under the Amended Insurance Code.

Retained Earnings

This represents the accumulated earnings of the Company reduced by any losses the Company may incur during a certain accounting period or by dividend declarations.

On December 20, 2016, the Board of Directors approved the declaration of ₱475.3 million cash dividends for both common and preferred shareholders of record as of November 30, 2016, distributed as follows:

Name of stockholder	Class of share	Amount of cash dividend
ATR Holdings, Inc.	Preferred	₱901,073
Maybank ATR Kim Eng Capital Partners, Inc.	Common	451,773,468
E-Marc Consultants, Inc.	Common	22,628,997
		₱475,303,538

15. Net Insurance Premiums

Life and Non-life Insurance Contracts

Gross premiums on insurance contracts and reinsurers' share of gross premiums on insurance contract consists of the following:

	2018	2017
Life insurance contracts premiums:		
Group health insurance	**₱2,596,536,916**	₱2,472,833,522
Group life insurance	**309,832,163**	180,145,180
Ordinary life insurance	**19,351,246**	13,613,872
Unit-linked	**109,599,912**	60,235,000
Non-Life insurance contracts premiums:		
Motor	**33,137,346**	14,007,416
Fire	**37,442,646**	7,172,261
Travel insurance	**9,369**	–
Premiums on insurance contracts	**3,105,909,598**	2,748,007,251
Experience refund	**(9,381,215)**	(12,991,312)
Gross premiums on insurance contracts	**3,096,528,383**	2,735,015,939
Reinsurers' share of life insurance contracts		
Premiums revenue:		
Group life insurance	**(57,707,781)**	(13,216,759)
Ordinary life insurance	**(514,188)**	(4,000,643)
Non-life insurance	**(7,461,386)**	–
	(65,683,355)	(17,217,402)
	₱3,030,845,028	₱2,717,798,537

16. Interest Income and Other Income

This account consists of interest arising from:

	2018	2017
Financial assets at FVOCI (Note 8)	**₱65,299,567**	₱–
AFS financial assets (Note 8)	–	8,478,281
Cash and cash equivalents (Note 6)	**19,252,815**	10,421,528
Financial assets at amortized cost (Note 8)	**8,729,748**	–
Loans and receivables (Notes 8 and 24)	–	24,434,271
Financial assets at FVPL (Note 8)	**1,415,097**	26,472,920
Short-term investments (Note 6)	–	1,138,056
	₱94,697,227	₱70,945,056

Service fees consist of income from:

	2018	2017
Network fees	**₱31,747,465**	₱14,904,508
Third party administration fees	**23,077,274**	19,567,269
	₱54,824,739	₱34,471,777

Network fees are membership fees paid by the policyholders for the use of accredited hospitals, clinics and doctors' network for a no cash-out arrangement in case of in-patient and out-patient availments. These membership fees cover the insured members with health cards issued by Company.

Third party administration fees pertain to fees paid by third parties to the Company for handling medical and health expenses of the said third parties.

Other income consists of:

	2018	2017
Reversal of liabilities	**₱9,257,620**	₱4,383,950
Processing, handling and delivery fees	**3,636,629**	1,194,279
Dividend Income	**769,956**	–
Recovery from impairment of financial assets at amortized cost (Note 8)	**219,667**	–
Recovery from impairment of loans and receivables (Note 8)	–	1,595,559
Gain (loss) on foreign currency transactions	**(390,324)**	124,392
	₱13,493,548	₱7,298,180

Reversal of liabilities pertains to reversal of long outstanding unidentified bank credits.

Processing, handling and delivery fees pertain to non-finance charges for servicing loans and non-life insurance policies.

17. Net Benefits and Claims Incurred on Insurance Contracts

This account consists of:

	2018	2017
Life	**₱1,866,712,119**	₱1,733,818,109
Non-life	**21,061,414**	11,009,694
	₱1,887,773,533	₱1,744,827,803

Life Insurance Contracts
Net insurance contract benefits and claims incurred follow:

	2018	2017
Claims	**₱1,714,223,125**	₱1,627,596,266
Transfer to segregated funds	**109,664,592**	60,095,320
Surrenders	**41,896,285**	43,765,849
Maturities	**222,469**	1,683,772
Policyholders' dividends and interest thereon	**705,648**	676,902
	₱1,866,712,119	₱1,733,818,109

Transfer to segregated funds pertain to the investment portion of the client's paid premiums for the Company's variable life insurance products

Non-Life Insurance Contracts
Net insurance contract benefits and claims incurred follow:

	2018	2017
Insurance contract benefits and claims paid		
Direct insurance	**₱15,360,323**	₱2,806,894
Increase in insurance contract liabilities	**5,701,091**	8,202,800
Net claims incurred	**₱21,061,414**	₱11,009,694

18. Expenses for the Acquisition of Insurance Contracts

This account consists of:

	2018	2017
Commissions	**₱228,149,260**	₱184,384,293
Salaries, wages and employees' benefits (Notes 20 and 24)	**133,154,927**	121,228,834
Service fees	**101,335,776**	85,664,351
Insurance taxes	**59,037,742**	56,247,480
Others	**6,725,406**	5,150,624
	₱528,403,111	₱452,675,582

Commissions represent amounts that are given to agents and brokers. This account includes overriding expenses that are in excess of 10.00% of commissions.

Service fees represent amounts paid to intermediaries of group policyholders for collecting the premiums from the assured.

Insurance taxes include documentary stamp tax and premium tax.
Others include underwriting expenses, medical fees, inspection fees and other direct costs.

19. General and Administrative Expenses

This account consists of:

	2018	2017
Salaries, wages and employees benefits (Notes 20 and 24)	**₱93,449,106**	₱106,640,861
Management and professional fees (Note 24)	**90,678,933**	81,997,087
Occupancy (Note 22)	**55,720,488**	51,561,492
Taxes and licenses	**17,382,467**	17,352,290
Office supplies	**11,286,919**	9,125,462
Postage and communication	**10,075,989**	10,183,046
Transportation and travel	**5,333,828**	5,474,072

(Forward)

	2018	2017
Representation and entertainment	**₱4,110,351**	₱3,148,169
Provision for probable losses	**1,052,003**	20,000,000
Insurance	**280,917**	252,108
Impairment losses on financial assets (Notes 6 and 8)	**1,303,412**	243,754
Others	**16,495,750**	11,150,199
	₱307,170,163	₱317,128,540

Management and professional fees pertain to expenses incurred for management and other professional services received by the Company such as consulting fee, IMA fees, audit fees, director's fee, legal fees, temporary staff expenses and miscellaneous services.

Taxes and licenses consist of business permits, licenses, local government unit taxes, fringe benefit tax, VAT and fines and penalties.

Others consists mainly of membership dues, prizes and awards, trainings and seminars and bank charges.

20. Salaries, Wages and Employees' Benefits

This account consists of:

	2018	2017
Salaries and wages and other benefits (Notes 18 and 19)	**₱210,699,940**	₱211,983,576
Pension expense (Note 21)	**10,606,527**	10,870,783
SSS, Medicare and PAG-IBIG contributions	**5,297,566**	5,015,336
	₱226,604,033	₱227,869,695

Salaries, wages and employees' benefits are charged as follows:

	2018	2017
Underwriting expenses (Note 18)	**₱133,154,927**	₱121,228,834
General and administrative expenses (Note 19)	**93,449,106**	106,640,861
	₱226,604,033	₱227,869,695

21. Pension Plan

The Company has a funded, non-contributory defined benefit plan (the Plan) providing death, disability and retirement benefits for all of its employees. Under the Plan, the normal retirement age is sixty (60) and the employee should have completed at least ten (10) years of service. Normal retirement benefit consists of a lump-sum benefit equivalent to 100.00% of the employee's final monthly pay for every year of service.

The most recent actuarial valuation was carried out for the retirement plan of the Company as of December 31, 2018.

Based on the actuarial valuation as of December 31, 2018 and 2017 computed using the PUC method, the Company's pension liabilities and expenses are summarized as follows:

	2018	2017
Net pension liability	**₱1,637,771**	₱9,583,289
Pension expense (Note 20)	**10,606,527**	10,870,783

The amounts recognized in the statements of comprehensive income are as follow:

	2018	2017
Current service cost	**₱10,089,988**	₱10,206,705
Net interest cost	**516,539**	664,078
Pension expense	**₱10,606,527**	₱10,870,783

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

	2018	2017
Present value of defined benefit obligation	**₱100,904,124**	₱143,052,112
Fair value of plan assets	**(99,266,353)**	(133,468,823)
Net pension liability	**₱1,637,771**	₱9,583,289

Changes in the present value of the defined benefit obligation are as follows:

	2018	2017
At January 1	**₱143,052,112**	₱130,473,783
Current service cost	**10,089,988**	10,206,705
Interest cost on benefit obligation	**7,710,509**	6,849,874
Benefits paid from retirement fund	**(47,883,082)**	(1,217,326)
Actuarial losses (gains):		
Experience adjustments	**(676,245)**	3,447,851
Changes in demographic assumptions	**(4,724,387)**	–
Changes in financial assumptions	**(6,664,771)**	(6,708,775)
At December 31	**₱100,904,124**	₱143,052,112

Changes in fair value of the plan assets are as follow:

	2018	2017
At January 1	**₱133,468,823**	₱117,824,678
Contributions	**10,020,749**	9,918,588
Expected return on plan assets	**7,193,970**	6,185,796
Benefits paid	**(47,883,082)**	(1,217,326)
Remeasurement gains (losses)	**(3,534,107)**	757,087
At December 31	**₱99,266,353**	₱133,468,823

The movements in the net pension liability recognized in the statements of financial position are as follows:

	2018	2017
At January 1	**₱9,583,289**	₱12,649,105
Pension expense	**10,606,527**	10,870,783
Contributions	**(10,020,749)**	(9,918,588)
Amount to be recognized in OCI	**(8,531,296)**	(4,018,011)
At December 31	**₱1,637,771**	₱9,583,289

Remeasurement losses (gains) recognized in OCI:

	2018	2017
Remeasurement losses (gains) on plan assets	**₱3,534,107**	(₱757,087)
Actuarial losses (gains) from benefit obligation	**(12,065,403)**	(3,260,924)
	(8,531,296)	(4,018,011)
Deferred tax on remeasurement on plan assets (Note 23)	**2,559,389**	1,205,403
	(₱5,971,907)	(₱2,812,608)

Movement of cumulative remeasurement effect recognized in OCI:

	2018	2017
At January 1	**(₱117,080)**	₱3,900,931
Remeasurement losses (gain) on plan assets	**3,534,107**	(757,087)
Actuarial gains from benefit obligation	**(12,065,403)**	(3,260,924)
At December 31	**(8,648,376)**	(117,080)
Deferred tax asset	**2,594,513**	35,124
Actuarial gains on pension liability	**(₱6,053,863)**	(₱81,956)

Plan assets consist of:

	2018		2017	
	Amount	%	Amount	%
Cash and cash equivalents	**₱725,404**	**0.73%**	₱13,687,721	10.26
Government debt securities	**37,938,479**	**38.22%**	111,843,503	83.79
Corporate debt securities	**19,548,627**	**19.69%**	–	–
Equity securities	**8,440,249**	**8.50%**	–	–
Mutual Funds/UITFs	**70,598,865**	**71.12%**	–	–
Loans and receivables	**10,401,186**	**10.48%**	8,135,858	6.10
Accounts payable	**(48,386,457)**	**(48.74%)**	(198,259)	(0.15)
	₱99,266,353	**100.00%**	₱133,468,823	100.00%

The expected return on plan assets is determined by considering the expected return available on the assets underlying the current investment policy. Expected yields on fixed income investments are based on gross redemption yields as of reporting dates.

The carrying amounts disclosed above reasonably approximate fair value at the reporting date. Accounts payable pertain to projected benefit payable and accrued trust fees.

Net unrealized gains (losses) on investments in government debt securities amounted to (₱1.3) million and ₱0.3 million in 2018 and 2017, respectively.

Actual return on plan assets amounted to ₱3.7 million and ₱6.9 million in 2018 and 2017, respectively.

Actual contributions to the plan assets amounted to ₱10.0 million and ₱9.9 million, respectively. The Company expects to contribute ₱6.8 million to the plan in 2019.

Amounts for the current and previous periods are as follows:

	2018	**2017**	2016	2015	2014
Benefit obligation	**₱100,904,124**	₱143,052,112	₱130,473,783	₱122,921,910	₱107,831,972
Plan assets	**(99,266,353)**	(133,468,823)	(117,824,678)	(105,449,931)	(98,436,623)
Deficit	**₱1,637,771**	₱9,583,289	₱12,649,105	₱17,471,979	₱9,395,349
Experience gains (losses) adjustments on:					
Plan liabilities	**₱3,534,107**	(₱757,087)	₱1,861,086	₱6,071,874	(₱2,095,850)
Plan assets	**(12,065,403)**	(3,260,924)	(7,449,360)	2,558,265	(1,958,560)
	₱8,531,296	(₱4,018,011)	(₱5,588,274)	₱8,630,139	(₱4,054,410)

The principal actuarial assumptions used are as follows:

	2018	2017
Discount rate	**7.35%**	5.25%
Expected return on plan assets	**2.25%**	6.00%
Salary increase rate	**6.00%**	7.00%
Average remaining working lives	**17 years**	19 years

The sensitivity analysis that follows has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of the end of reporting period, assuming all other assumptions were held constant.

	2018		2017	
	Increase (decrease	**Amount**	Increase (decrease	Amount
Discount rate	**+0.50%**	**(₱2,753,883)**	+0.50%	(₱1,076,077)
	-0.50%	**3,084,553**	-0.50%	1,246,638
Salary increase rate	**+0.50%**	**3,138,941**	+0.50%	1,221,744
	-0.50%	**(3,097,902)**	-0.50%	(1,065,343)

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. It is the policy of the Trustee that immediate and near-term retirement liabilities of the Company's Retirement Fund are adequately covered by its assets. As such, due considerations are given that portfolio maturities are matched in accordance with due benefit payments. The Retirement Fund's expected benefits payments are determined through the latest actuarial reports.

22. Occupancy Expenses

This account consists of:

	2018	2017
Repairs and maintenance	**₱19,653,502**	₱16,145,126
Rent	**19,149,638**	17,902,286
Depreciation and amortization (Note 9)	**9,544,730**	10,765,732
Light and water	**7,185,745**	6,573,032
Others	**186,873**	175,316
	₱55,720,488	₱51,561,492

The Company leases its office space and branch offices for varying periods and rental rates.

- In October 2017, the Company renewed the cancellable lease contract for its branch office located in Pampanga which expired in September 2018. This contract was not renewed and the Company is looking for a new space for its Pampanga office.

- In July 2017, the Company entered into a cancellable lease contract for its branch office located in Lipa City which will expire in June 2020.

- The Company also renewed its lease contract in July 2018 for the medical clinic Pasig City. This will expire in June 2019.

- The lease contract on a portion of the head office will expire in June 2019 and is renewable for another five (5) years subject to the agreement of both parties. The rental rate and maintenance charges are subject to an annual increase of 7.50% beginning on the 3rd year of the five-year lease contract.

- In December 2015, the Company entered into cancellable lease contract for its branch office located in La Union. The contract of lease expired in November 2018. A new contract is yet to be finalized but it is likely that the Company will renew as it still continues to use the premises.

- In May 2017, the Company renewed the March 2015 cancellable lease contract for its branch office located in Mindoro which expired in February 2017. This was subsequently renewed to two (2) years which will expire in February 2019.

- In March 2017, the Company renewed the March 2015 cancellable lease contract for its branch office located in Iloilo City which expired in February 2019.

- In February 2017, the Company renewed the May 2011 non-cancellable lease contract for its branch office located in Cebu which expired in January 2019.

Rental deposits amounting to ₱4.1 million and ₱3.3 million as of December 31, 2018 and 2017, respectively are included under the "ss" account in the statement of financial position (see Note 10).

The future minimum rental payments under these operating lease contracts are as follow:

	2018	2017
Within one (1) year	**₱9,216,549**	₱19,712,648
More than one (1) year up to three (3) years	**467,415**	8,610,247
	₱9,683,964	₱28,322,895

23. Income Taxes

Provision for income tax consists of:

	2018	2017
Current	**₱74,531,127**	₱72,444,211
Deferred	**(2,632,895)**	(1,164,088)
Final	**16,163,238**	9,663,047
	₱88,061,470	₱80,943,170

Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The details of the Company's deferred tax assets as at December 31, 2018 and 2017 are as follows:

	2018	2017
Recognized through profit or loss		
Accrued expenses	**₱13,450,766**	₱15,465,071
Net pension liability	**1,422,574**	4,418,957
Allowance for impairment losses	**5,979,535**	895,341
Recognized through OCI		
Net unrealized losses on financial assets at FVOCI	**2,846,099**	–
	₱23,698,974	₱20,779,369

The movements of the Company's net deferred tax assets are as follow:

	2018	2017
At January 1	**₱20,779,369**	₱20,820,684
Provision	**2,632,895**	1,164,088
Tax effect of actuarial losses (gain) on pension liability (Note 21)	**(2,559,389)**	(1,205,403)
Tax effect on unrealized losses on financial assets at FVOCI	**2,846,099**	–
At December 31	**₱23,698,974**	₱20,779,369

Deferred tax liability is nil as of December 31, 2018 and 2017.

The reconciliation of provision for income tax computed at the statutory tax rate to provision for income tax as shown in the statements of comprehensive income follows:

	2018	2017
At statutory tax rate	**₱93,995,106**	₱76,972,260
Tax effects:		
Nondeductible expenses	**1,397,039**	12,909,168
Non-taxable income	**(4,405,128)**	–
Unrealized losses (gains) on financial assets at FVPL	**6,932,447**	(4,648,067)
Income subjected to final tax	**(9,857,994)**	(4,290,191)
At effective tax rate	**₱88,061,470**	₱80,943,170

24. Related Party Transactions

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

In the normal course of the business, the Company has various transactions with its related parties as follows:

a. The Company has an IMA with ATRAM Trust Corporation formerly ATR KimEng Asset Management, Inc. (ATRKE AMI) which monitors and manages a portion of the Company's investments. The IMA provides that the Company retains legal title to the invested funds and properties and will be charged IMA fees based on the market value of the portfolio. In 2018 and 2017, IMA fees included in management and professional fees under "General and administrative expenses" account amounted to ₱4.0 million and ₱4.5 million, respectively (Note 19).

b. Loans to officers consist of car loans which earn interest ranging from 0%-8.4% per annum depending on the position of the employee. Total loans outstanding amounted to ₱11.6 million and ₱14.9 million as of December 31, 2018 and 2017, respectively. The related interest income on the salary loans amounted to ₱0.4 million and ₱0.2 million for the years ended December 31, 2018 and 2017, respectively.

c. In 2018 and 2017, directors' remuneration included in management and professional fees under "General and administrative expenses" amounted to ₱1.0 million and ₱0.4 million, respectively (Note 19).

d. Details of key management compensation follows:

	2018	2017
Salaries and other short-term benefits	**₱49,534,070**	₱43,353,824
Post-employment benefits	**5,988,669**	5,241,477
Fringe benefit	**3,101,884**	2,626,211
Social security cost	**132,980**	160,650
	₱58,757,603	₱51,382,162

Key management includes officers with positions of Vice President and up.

e. Outstanding balances with related parties as of December 31 are as follow:

2018

	Relationship	Nature of Transaction	Amount/ Volume	Outstanding Receivable (Payable) Balance	Terms	Conditions
Maybank ATR KE Securities	Entity under common control	Common expenses / Premium refund	(₱4,233,479)	(₱4,106,261)	Interest free, payable on demand	Unsecured
Maybank ATR KE Capital	Parent company	Common expenses	610,040	(7,370,205)	Interest free, payable on demand	Unsecured
			(₱3,623,439)	(₱11,476,466)		

2017

	Relationship	Nature of Transaction	Amount/ Volume	Outstanding Receivable (Payable) Balance	Terms	Conditions
ATRKE AMI	Entity under common control	Common expenses	₱–	₱–	Interest free, collectible on demand	Unsecured, unimpaired
Maybank ATR KE Securities	Entity under common control	Common expenses / Premium refund	(4,233,479)	127,217	Interest free, payable on demand	Unsecured
Maybank ATR KE Capital	Parent company	Common expenses	(10,671,691)	(7,980,245)	Interest free, payable on demand	Unsecured
Maybank ATR KE Capital	Parent company	Short term loan	500,000,000	–	5.00% annual interest	Secured
			₱485,094,830	(₱7,853,028)		

Due to Maybank ATR KE Securities represents premium refund for resigned employees covered by the group hospitalization plan and charges for common expenses. These are settled within one year.

Due to Maybank ATR KE Capital represents operational advances and common expenses which are due and payable on demand. These are settled within one year.

The due from Maybank ATRKE Capital represents a 5.00% per annum ₱500.0 million short term loan issued on March 1, 2016 and is paid as of December 31, 2017 before its maturity date February 28, 2021. This is collateralized by Maybank ATRKE Capital's receivable from Rockwell Primaries Development Corporation and ATR Holdings, Inc. arising from the sale of ATR KimEng Land. Interest income earned in 2017 amounted to ₱7.5 million (see Note 16).

f. The Company has bank deposits with Maybank Philippines Inc. as of December 31, 2018 and 2017 amounting P217.8 million and ₱159.3 million, respectively. The Company also maintains time deposit accounts with Maybank Philippines Inc. as of December 31, 2018 and 2017 amounting ₱153.4 million and ₱456.3 million, respectively. Interest income earned in 2018 and 2017 amounted to ₱10.6 million and ₱9.0 million, respectively (see Note 16).

g. The Company maintains its retirement fund with ATRAM Trust Corporation formerly ATR KimEng Asset Management, Inc. (ATRKE AMI) as of December 31, 2018 and 2017 amounting ₱99.3 million and ₱133.5 million, respectively (see Note 21).

Terms and conditions of transactions with related parties
The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2018 and 2017. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. Outstanding balances will be settled in cash.

25. Management of Capital, Insurance Risk and Financial Risk

The Company's activities expose it to a variety of risks such as capital, financial and insurance risks. The overall objective of risk management is to focus on the unpredictability of financial markets and insurance contingencies to minimize potential adverse effects on the financial position of the Company.

The Company has established a risk management functions with clear cut responsibilities and with the mandate to develop company-wide policies on market, credit, liquidity, insurance and operational risk management. It also supports the effective implementation of risk management policies at the individual business unit and process levels.

The risk management policies define the Company's identification of risk and its interpretation, limit structure ensuring the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals, and specify reporting requirements.

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close monitoring to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate liquidity and solvency positions to meet maturing liabilities arising from claims and acceptable levels of risk.

The operations of the Company are subject to the regulatory requirements of the Insurance Commission. The Insurance Commission does not only prescribe approval and monitoring of activities but also imposes certain restrictive provisions (e.g. fixed capitalization requirements and risk-based capital (RBC) requirements). Such restrictive provisions minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Capital Management

The Company's capital includes the common and preferred stock and contributed surplus.

The Company has established the following capital management objectives in managing the risks that affect its capital position:

- To maintain the required level of capitalization thereby providing a degree of security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To retain financial flexibility by maintaining strong liquidity and access to a range of credit facilities;
- To align the profile of assets and liabilities taking account into the risks inherent in the business;
- To maintain healthy capital and liquidity ratios in order to support its business objectives and maximize shareholders value.

The Company manages its capital through its compliance with the statutory requirements on minimum paid-up capital and minimum net worth. The Company is also complying with the statutory regulations on RBC to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

The Company's policy to address the situations where the capital level maintained is lower than minimum is to require the shareholders to add more capital. The Company currently holds capital and net worth in excess of the minimum regulatory requirement.

To ensure compliance with these externally-imposed capital requirements, it is the Company's policy to monitor the paid-up capital, net worth and related requirements on a quarterly basis as part of Company's internal financial reporting process.

Fixed capitalization requirements
On August 15, 2013, a new Insurance Code of the Philippines was issued. One of the more important provisions, pertain to the new capitalization requirement of insurance Companies operating in the Philippines. Under the new Insurance Code, the required net worth which is defined as the sum of paid-up capital, retained earnings, unimpaired surplus, and revalued assets is set as follow:

Required Net Worth	Compliance Date
₱250.00 million	June 30, 2013
550.00 million	December 31, 2016
900.00 million	December 31, 2019
1.30 billion	December 31, 2022

As of December 31, 2018 and 2017, the Company's estimated statutory net worth amounted to ₱1.5 billion and ₱1.4 billion, respectively. As a composite insurer, the Company is required to maintain its unimpaired net worth at ₱1.1 million as of December 31, 2018 and 2017.

RBC requirements
Insurance Memorandum Circular (IMC) No. 6-2006 (Circular) provides for the RBC framework for the life insurance industry which establishes the required amounts of capital to be maintained by the insurance companies in relation to their investment and insurance risks. Subsequently, Insurance Circular 2016-68 amended the RBC framework (dubbed 'RBC2') as part of a new three (3) pillar risk-based approach to solvency regulation. The Risk Based Capital Ratio and Risk Based Capital Requirement are the key requirements under Pillar 1. The RBC2 framework was effective last January 1, 2017.

Every life insurance company is annually required to maintain an RBC ratio of at least 100.00% and not to fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to regulatory intervention which could be at various levels depending on the degree of the violation.

The RBC2 ratio shall be computed as the Total Available Capital divided by the RBC requirement. The Total Available Capital is the aggregate of the Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 Capital represents capital that is fully available to cover the losses of the insurer at all times on a going concern and winding up basis. The Tier 2 Capital does not have the same high quality characteristics as Tier 1, but can provide additional buffer to the insurer. The RBC requirement on the other hand is the capital that is required to be held appropriately to the risks and insurance company is exposed to such as Credit Risk, Insurance Risk, Market Risk, Operational Risk, Catastrophe Risk and Surrender Risk.

The following table shows how the RBC ratio at December 31, 2018 and 2017 was determined by the Company based on its internal calculations:

	2018	2017
Total Available Capital (TAC)	**₱1,590,173,739**	₱1,414,134,210
RBC2 requirement (RBC2)	**308,038,674**	160,191,223
RBC2 ratio	**516.23%**	883.00%

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

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

The Company has complied with the unimpaired capital requirement as of December 31, 2018 and 2017.

Insurance Risk
Nature of risk
The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

Life Insurance Contracts
Insurance risk includes premium/benefits risk, actuarial reserve risk and reinsurance risk. Premium/benefits risk is the risk of having to pay, from a premium that may be fixed for a specific term, benefits that can be affected by uncontrollable event when they become due. Adequacy of the actuarial reserves is monitored by an in-house actuary on a regular basis in accordance with local regulations. Reinsurance risk arises from underwriting direct business or reinsurance business in relation to reinsurers and brokers.

Monitoring and controlling
The Company regularly assesses the reserving methodology in accordance with local regulations. Underwriting guidelines and limits for insurance and reinsurance contracts have been well established to clearly regulate responsibility and accountability.

The main underwriting strategy of the Company in managing insurance risk is the use of reinsurance. The Company maintains surplus-type reinsurance treaties for both individual and group life business. The retention limit of the Company for its individual business is ₱2.0 million for the basic life and ₱2.0 million for riders or supplementary covers.

For group business, the retention limit is ₱2.0 million per life. In addition, the Company may arrange facultative reinsurance for risks beyond the scope of its automatic treaties.

Frequency and severity of claims
The frequency and severity of claims is dependent on the type of contracts as follows:
a. For contracts where death is the insured risk, the most significant factor would be epidemics that result in earlier or more claims than expected;
b. For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted;

c. For contracts with discretionary participating feature, the participating nature of these insurance contracts results in a portion of the insurance risk being shared with the insured party; and
d. For medical insurance contracts where illness incurred by the insured is the considered risk, the most significant factor would be epidemics and communicable diseases, that may result in earlier or more claims than expected.

The Company manages these risks through its underwriting strategy and reinsurance program. However, the risk is also dependent on the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely.

The following represents the Company's concentration of insurance risk as of December 31, 2018 and 2017:

	2018		2017	
	Exposure, Net of Reinsurance	**Concentration (%)**	Exposure, Net of Reinsurance	Concentration (%)
Group	**₱104,530,078**	**99.77%**	₱103,170,403	99.77%
Ordinary life	**240,221**	**0.23%**	232,719	0.23%
	₱104,770,299	**100.00%**	₱103,403,122	100.00%

Summary of claims analysis

	2018	2017
Mortality Ratio		
Aggregate individual	**10.96%**	28.19%
Aggregate group	**61.38%**	51.63%

Classification by attained age

2018

The table below presents the concentration of risk across the 14 age brackets. For individual insurance, exposure is concentrated on age brackets 50-54. For group insurance, exposure is concentrated on age brackets 30-34 to 35-39.

	Individual			
	Gross Reinsurance		**Net of reinsurance**	
Attained Age	**Exposure '000**	**Concentration (%)**	**Exposure '000**	**Concentration (%)**
<20	**₱20,523**	**6.98**	**₱20,393**	**8.49**
20 – 24	**4,518**	**1.54**	**3,774**	**1.57**
25 – 29	**6,742**	**2.29**	**5,302**	**2.21**
30 – 34	**8,791**	**2.99**	**6,937**	**2.89**
35 – 39	**9,002**	**3.06**	**5,807**	**2.42**
40 – 44	**24,566**	**8.36**	**19,130**	**7.96**
45 – 49	**25,987**	**8.84**	**23,161**	**9.64**
50 – 54	**61,765**	**21.01**	**45,161**	**18.8**
55 – 59	**48,525**	**16.51**	**39,810**	**16.57**
60 – 64	**37,958**	**12.91**	**32,871**	**13.68**
65 – 69	**31,803**	**10.82**	**24,101**	**10.03**
70 – 74	**9,006**	**3.06**	**9,006**	**3.75**
75 – 79	**3,777**	**1.29**	**3,777**	**1.57**
80 +	**990**	**0.34**	**990**	**0.41**
Total	**₱293,953**	**100.00%**	**₱240,220**	**100.00%**

	Group			
	Gross Reinsurance		Net of reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
<20	₱983,920	0.55	₱482,322	0.46
20 – 24	18,867,190	10.57	13,030,223	12.47
25 – 29	34,601,025	19.38	22,923,337	21.93
30 – 34	37,061,863	20.76	20,908,675	20.00
35 – 39	34,501,767	19.32	17,682,226	16.92
40 – 44	22,143,921	12.40	11,709,457	11.20
45 – 49	14,511,433	8.13	7,670,187	7.34
50 – 54	7,781,470	4.36	4,529,693	4.33
55 – 59	4,995,820	2.80	3,228,077	3.09
60 – 64	2,499,118	1.40	1,910,270	1.83
65 – 69	491,919	0.28	356,382	0.34
70 – 74	74,573	0.04	68,188	0.07
75 – 79	30,451	0.02	30,451	0.03
80 +	590	0.00	590	0.00
Total	**₱178,545,060**	**100.00%**	**₱104,530,078**	**100.00%**

2017

The table below presents the concentration of risk across the 14 age brackets. For individual insurance, exposure is concentrated on age brackets 50-54 to 55-59. For group insurance, exposure is concentrated on age brackets 30-34 to 35-39.

	Individual			
	Gross Reinsurance		Net of reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
<20	₱19,450	7.35	₱19,450	8.36
20 – 24	3,362	1.27	3,362	1.44
25 – 29	4,745	1.79	4,745	2.04
30 – 34	5,508	2.08	5,508	2.37
35 – 39	2,493	.94	2,493	1.07
40 – 44	15,586	5.89	15,586	6.70
45 – 49	24,415	9.22	23,915	10.28
50 – 54	58,797	22.21	45,297	19.46
55 – 59	49,060	18.53	41,060	17.64
60 – 64	34,788	13.14	31,788	13.66
65 – 69	30,238	11.42	23,238	9.99
70 – 74	11,462	4.33	11,462	4.93
75 – 79	3,786	1.43	3,786	1.63
80 +	1,029	0.39	1,029	0.44
Total	₱264,719	100.00%	₱232,719	100%

	Group			
	Gross Reinsurance		Net of reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
<20	₱821,419	0.68	₱821,419	0.80
20 – 24	12,598,952	10.45	12,552,346	12.17
25 – 29	22,124,524	18.35	21,704,857	21.04
30 – 34	24,226,903	20.09	22,428,901	21.74
35 – 39	21,970,833	18.22	18,448,770	17.88
40 – 44	15,822,493	13.12	11,858,475	11.49
45 – 49	11,556,430	9.58	7,588,184	7.36
50 – 54	6,169,472	5.12	4,171,406	4.04
55 – 59	3,690,422	3.06	2,509,881	2.43
60 – 64	1,460,511	1.21	967,783	.94
65 – 69	133,650	0.11	110,339	0.11
70 – 74	6,360	0.01	6,360	0.01
75 – 79	1,460	–	1,460	–
80 +	220	–	220	–
Total	₱120,583,649	100%	₱103,170,401	100%

Nonlife Insurance Contracts

The Company principally issues the following types of general insurance such as fire and motor. Risk under general insurance policies usually cover a twelve-month duration.

For general insurance contracts, the significant risks arise from climate changes and natural disasters. These risks vary significantly in relation to the location of risk insured, type of risk insured and by industry. Undue concentration by amount can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography.

Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit the exposure to catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by management.

The following tables set out the concentration of the claims liabilities by type of contract:

	2018	2017
Fire	**₱16,612,914**	₱4,497,164
Motor Car	**18,812,921**	7,823,926
Travel Insurance	**11,091**	–
	₱35,436,926	₱12,321,090

Assumptions
The principal assumption underlying the estimates is the Company's past claims development experience or in case of first year non-life business, average industry experience is used. This includes assumptions in respect of average claims costs, claim handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions includes variation in interest rate, delays in settlement and changes in foreign currency rates.

Sensitivities
The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of the certain assumptions such as legislative change, uncertainty in the estimation process, etc., is not possible to quantify.

Claims Development Table
The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

Fire

Accident year	2018	2017
Estimate of ultimate claims costs:		
At the end of accident year	**₱1,630,093**	₱9,183
One year later	–	–
Two years later	–	–
Three years later	–	–
Four years later	–	–
Current estimate of cumulative claims	**1,630,093**	9,183
Cumulative payments to date	**(313,093)**	–
Gross insurance liabilities included in the statements of financial position	**₱1,943,186**	₱9,183

Motor Car

Accident year	2018	2017
Estimate of ultimate claims costs:		
At the end of accident year	**₱19,431,321**	₱10,163,571
One year later	–	–
Two years later	–	–
Three years later	–	–
Four years later	–	–
Current estimate of cumulative claims	**19,431,321**	10,163,571
Cumulative payments to date	**17,124,927**	5,872,586
Gross insurance liabilities included in the statements of financial position	**₱2,306,394**	₱4,290,985

Source of Uncertainty in the Estimation of Future Claim Payment
Estimation of future payments and premium receipts is subject to unpredictability of changes in mortality and morbidity levels. The Company adopts standard industry data in assessing future benefit payments and premium receipts as approved by the Insurance Commission. Adjustments are made, if necessary, according to the experience of the Company.

For individual life insurance, no adjustment is made by the Company to the standard mortality table. For group life, accident and health insurance, the mortality table is adjusted to reflect the Company's actual and projected experiences which are given weights or credibility depending on the amount and length of exposure under consideration. The Company currently monitors its actual experience on individual business on a per policy basis and on an aggregate basis, and reports the same to management.

The liability for these contracts comprises the incurred IBNR provision, a provision for reported claims not yet paid and a provision for unexpired risk at reporting dates. The IBNR provision is based on historical experience and is subject to a degree of uncertainty.

Financial Instruments
Due to the short term nature of cash and cash equivalents, premiums due and uncollected, due from policyholders, receivable from third party administration, other receivables, accrued interest receivable, performance bond, reserve and security funds, deposits, claims payable, policyholders' dividends due to related parties, premium deposit fund and cash dividends payable, their carrying values approximate their fair values at reporting dates.

The fair values of salary loans, mortgage loans, accounts receivable and accounts payable and other liabilities are determined by computing the present value of the expected future cash flows of the loans using the predetermined market rate for similar instrument as of reporting date as discount rate.

The fair values of financial instruments classified as financial assets at FVPL and at FVOCI that are actively traded in an organized exchange or active markets are determined by reference to quoted market or broker bid prices at the close of business as of reporting dates. For shares in an open-ended investment company, fair value is established by reference to published Net Asset Value (NAV) per share.

The table below presents the Company's financial instruments carried at fair value by valuation method as of December 31, 2018 and 2017.

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets at FVOCI	**₱1,439,607,972**	**₱–**	**₱–**	**₱1,439,607,972**
Financial assets at FVPL	**214,919,580**	**25,361,176**	**3,320,280**	**243,601,036**
Asset for which fair values are disclosed:				
Salary loans	**–**	**–**	**63,580,698**	**63,580,698**
Accounts receivable	**–**	**–**	**14,819,312**	**14,819,312**
Mortgage loans	**–**	**–**	**11,608,975**	**11,608,975**
	₱1,654,527,552	**₱25,361,176**	**₱93,329,265**	**₱1,773,217,993**

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
AFS financial assets	₱276,045,585	₱28,208,262	₱450,000	₱304,703,847
Financial assets at FVPL	1,196,324,547	198,061,534	–	1,394,386,081
Asset for which fair values are disclosed:				
Salary loans	–	–	50,386,655	50,386,655
Accounts receivable	–	–	18,280,314	18,280,314
Mortgage loans	–	–	14,858,688	14,858,688
	₱1,469,370,132	₱226,269,796	₱83,975,657	₱1,782,615,585

For the years ended December 31, 2018 and 2017, there were no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

Financial Risks

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The relevant financial risks faced by the Company in its day-to-day operations are market risk, credit risk and liquidity risk.

The BOD is the ultimate governing body with overall risk oversight. Risk Management Committee (RMC) assists the Board in fulfilling its supervision and monitoring responsibilities in respect of internal control, including monitoring the risk profile of the legal entities and combined and compared to the targeted level of risk appetite as set by the Board. Management Risk Committee (MRC) is the advisor to the RMC concerning all Risk related topics, including limits, exposures and methodologies.

Credit Risk

The Company has a significant exposure to credit risk, defined as the risk of financial loss resulting from the failure of counterparty to meet its contractual obligations to the Company. In particular, the Company is exposed to credit risk in the following accounts:

- Amounts due from Department of Education (DepEd) teachers and private institution employees;
- Amounts due from related parties and employees;
- Reinsurers' share in insurance liabilities;
- Obligations of companies issuing Mutual Fund shares and equity securities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance policyholders;
- Amounts due from insurance intermediaries; and
- Amounts due from banks.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty. Such counterparty limits are subject to an annual or more frequent review. Limits are approved regularly as the need arises at the BOD level. A Credit Committee, which reports to the Management Committee (ManCom), has been established by the BOD to monitor the credit management and exposure of the Company.

The Company fully complies with the guidelines issued by the DepEd in granting loans to teachers which are monitored by DepEd on a regular basis. Any violation shall result to the revocation of the Company's license to extend loans to public school teachers. The Company's credit evaluation policies are anchored on the DepEd guidelines on net take home pay of the teachers and authenticity of documents submitted by the borrowers.

The ManCom has also created a special committee (DepEd Committee), tasked to monitor the DepEd loans business. The DepEd Committee meets on a monthly basis to discuss developments and status of past due accounts, action plans for collecting unpaid accounts and other pertinent issues relative to the loans operations. The DepEd Committee, in turn, reports to the ManCom the status of the loans business on a regular basis.

Loans to policyholders granted against the cash surrender value of policies carry substantially minimal credit risk.

A significant credit exposure arises with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs. Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

In respect of investments securities, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer. The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

The table below shows the maximum exposure to credit risk as of December 31, 2018 and 2017:

	2018	2017
Cash and cash equivalents (excluding cash on hand)	**₱943,607,667**	₱485,168,989
Short term investments	**–**	155,000,000
Financial assets at FVPL	**243,601,036**	1,394,386,081
Financial assets at FVOCI	**1,439,607,972**	–
AFS financial assets	**–**	304,703,847
Financial assets at amortized cost/loans and receivables	**147,177,974**	170,746,077
Premiums due and uncollected	**63,715,686**	36,472,847
Performance bond	**8,193,422**	13,212,711
Accrued interest receivable	**11,780,250**	8,861,679

(Forward)

	2018	2017
Deposits	₱4,123,090	₱3,261,337
Reserve fund	581,384	581,384
Security fund	221,082	221,082
	₱2,862,609,563	₱2,572,616,034

The table below provides information regarding the credit risk exposure of the Company as of December 31, 2018 and 2017 by classifying assets according to the Company's credit grading of counterparties:

2018	Neither Past Due nor Impaired: Investment High-Grade	Neither Past Due nor Impaired: Non-Investment Grade Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and Impaired	Total
Loans and receivables:					
Cash and cash equivalents (excluding cash on hand)	₱943,607,667	₱–	₱943,607,667	₱–	₱943,607,667
Premiums due and uncollected	63,715,686	–	63,715,686	–	63,715,686
Salary loans	–	58,149,367	58,149,367	5,431,331	63,580,698
Mortgage loans	11,608,975	–	11,608,975	–	11,608,975
Policy loans	13,349,153	–	13,349,153	–	13,349,153
Accounts receivable	13,836,396	–	13,836,396	982,916	14,819,312
Due from policyholders	–	20,011,348	20,011,348	–	20,011,348
Receivable from third party administration	–	24,079,115	24,079,115	–	24,079,115
Other receivables	–	9,901,105	9,901,105	–	9,901,105
Accrued interest receivable	11,780,250	–	11,780,250	–	11,780,250
Performance bond	8,193,422	–	8,193,422	–	8,193,422
Reserve fund	581,384	–	581,384	–	581,384
Security fund	221,082	–	221,082	–	221,082
Deposits	4,123,090	–	4,123,090	–	4,123,090
Financial assets at FVOCI:					
Government debt securities	1,247,381,550	–	1,247,381,550	–	1,247,381,550
Corporate debt securities	192,226,422	–	192,226,422	–	192,226,422
Financial assets at FVPL:					
Government debt securities	31,860,247	–	31,860,247	–	31,860,247
Mutual fund	208,341,556	–	208,341,556	–	208,341,556
Equity Shares	528,953	–	528,953	–	528,953
	₱2,751,355,833	₱112,140,935	₱2,863,496,768	₱6,414,247	₱2,869,911,015

2017	Neither Past Due nor Impaired: Investment High-Grade	Neither Past Due nor Impaired: Non-Investment Grade Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and Impaired	Total
Loans and receivables:					
Cash and cash equivalents (excluding cash on hand)	₱485,168,989	₱–	₱485,168,989	₱–	₱485,168,989
Short term investments	155,000,000	–	155,000,000	–	155,000,000
Premiums due and uncollected	36,472,847	–	36,472,847	–	36,472,847
Salary loans	–	46,395,588	46,395,588	3,991,067	50,386,655
Mortgage loans	14,858,688	–	14,858,688	–	14,858,688
Policy loans	14,995,043	–	14,995,043	–	14,995,043
Accounts receivable	9,827,844	–	9,827,844	982,916	10,810,760
Due from policyholders	–	17,080,079	17,080,079	–	17,080,079
Receivable from third party administration	–	58,943,239	58,943,239	–	58,943,239
Other receivables	–	6,656,083	6,656,083	–	6,656,083
Accrued interest receivable	8,861,679	–	8,861,679	–	8,861,679
Performance bond	13,212,711	–	13,212,711	–	13,212,711
Reserve fund	581,384	–	581,384	–	581,384

(Forward)

2017	Neither Past Due nor Impaired Investment High-Grade	Non-Investment Grade Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and Impaired	Total
Security fund	₱221,082	₱–	₱221,082	₱–	₱221,082
Deposits	3,261,337	–	3,261,337	–	3,261,337
AFS financial assets:					
Government securities	275,907,981	–	275,907,981	–	275,907,981
Mutual fund	28,208,262	–	28,208,262	–	28,208,262
Equity shares	587,604	–	587,604	–	587,604
Financial assets at FVPL					
Government securities	1,196,324,547	–	1,196,324,547	–	1,196,324,547
Mutual fund	198,061,534	–	198,061,534	–	198,061,534
	₱2,441,551,532	₱129,074,989	₱2,570,626,521	₱4,973,983	₱2,575,600,504

The Company uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment High Grade - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through the public markets and/or credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

Non-investment Grade - Satisfactory - This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations, for individuals into business or for corporate entities. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

The table below shows the aging analysis of salary loans and other receivables that are past due as of December 31, 2018 and 2017:

2018	**Past due but are not Impaired** **<30 to 90 Days**	**90 to 180 Days**	**Total Financial Assets Neither Past Due nor Impaired**	**Past Due and Impaired**	**Total**
Salary loans	**₱358,833**	**₱3,453,498**	**₱3,812,331**	**₱1,619,000**	**₱5,431,331**
Accounts and other receivables	–	–	–	**982,916**	**982,916**
	₱358,833	**₱3,453,498**	**₱3,812,331**	**₱2,601,916**	**₱6,414,247**

2017	Past due but are not Impaired <30 to 90 Days	90 to 180 Days	Total Financial Assets Neither Past Due nor Impaired	Past Due and Impaired	Total
Salary loans	₱1,421,506	₱568,007	₱1,989,513	₱2,001,553	₱3,991,066
Accounts and other receivables	–	–	–	982,916	982,916
	₱1,421,506	₱568,007	₱1,989,513	₱2,984,469	₱4,973,982

The Company has concentration of credit risk in the DepEd salary loan business as of December 31, 2018 and 2017.

Liquidity Risk
The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company maintains minimum proportion of sufficient funds available to meet such calls to cover maturities, claims and surrenders at unexpected levels of demand.

The BOD has formed an Asset and Liability Committee (ALCO) which meets on a quarterly basis to ensure the adequacy of reserves and liquid assets and complies with the regulatory reserve and liquidity requirements. Cash forecasts are prepared and reviewed by the ALCO, DepEd Committee and Investment Committee to ensure that the operational funding requirements are adequately met.

The table below summarizes the maturity profile of the Company's liabilities at December 31, 2018 and 2017 based on contractual undiscounted payments except for the legal policy reserves of the life insurance contracts (included in the "Insurance contract liabilities" account) which shows the maturity analysis based on the estimated timing of the net cash outflows using the recognized insurance liability amounts:

2018

	On Demand	**Up to a Year**	**1 -2 Years**	**2 -3 Years**	**Over 3 Years**	**Total**
Insurance contract liabilities:						
Legal policy reserves	**₱–**	**₱508,437,525**	**₱2,961,266**	**₱1,821,285**	**₱78,677,799**	**₱591,897,875**
Claims payable	**–**	**289,180,905**	**–**	**–**	**–**	**289,180,905**
Policyholders' dividends	**2,760,923**	**–**	**–**	**–**	**–**	**2,760,923**
Premium deposit fund	**1,978,167**	**–**	**–**	**–**	**–**	**1,978,167**
Accounts payable and other liabilities:						
Accounts payable	**–**	**183,418,219**	**–**	**–**	**–**	**183,418,219**
Life insurance deposits	**–**	**20,906,362**	**–**	**–**	**–**	**20,906,362**
Accrued expenses	**–**	**101,191,377**	**–**	**–**	**–**	**101,191,377**
Due to policyholders	**–**	**24,443,375**	**–**	**–**	**–**	**24,443,375**
Bank loans payable	**–**	**–**	**–**	**–**	**–**	**–**
Insurance Payables	**–**	**119,534,335**	**–**	**–**	**–**	**119,534,335**
Others	**–**	**60,962,853**	**–**	**–**	**–**	**60,962,853**
	₱4,739,090	**₱1,308,074,951**	**₱2,961,266**	**₱1,821,285**	**₱78,677,799**	**₱1,396,274,391**

2017

	On Demand	Up to a Year	1 -2 Years	2 -3 Years	Over 3 Years	Total
Insurance contract liabilities:						
Legal policy reserves	₱–	₱405,330,752	₱2,419,828	₱1,464,351	₱63,258,608	₱472,473,539
Claims payable	–	303,028,768	–	–	–	303,028,768
Policyholders' dividends	3,079,315	–	–	–	–	3,079,315
Premium deposit fund	2,063,568	–	–	–	–	2,063,568
Accounts payable and other liabilities:						
Accounts payable	–	142,438,100	–	–	–	142,438,100
Life insurance deposits	–	18,297,548	–	–	–	18,297,548
Accrued expenses	–	71,821,228	–	–	–	71,821,228
Due to policyholders	–	28,180,399	–	–	–	28,180,399
Bank loans payable	–	990,134	–	–	–	990,134
Insurance Payables	–	59,415,547	–	–	–	59,415,547
Others	–	63,169,842	–	–	–	63,169,842
	₱5,142,883	₱1,092,672,318	₱2,419,828	₱1,464,351	₱63,258,608	₱1,164,957,988

Market Risk
Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of adverse changes in market prices. Market risk relevant to the Company comprises market rate (fair value interest rate risk) and market price (equity price risk) risks.

Fair Value Interest Rate Risk
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of adverse changes in market interest rates. Fixed rate securities and receivables, in particular, are exposed to such risk.

The Company's investment policy is to maintain an adequate yield to match the interest necessary to support future policy liabilities. Management's focus is to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company has an Investment Committee which approves all investment undertaking of the Company and meets on a monthly basis. The Company adopts an investment strategy to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer and/or industry concentrations.

The following table shows the information relating to the Company's financial instruments as of December 31, 2018 and 2017 that are exposed to fair value interest rate risk presented by maturity profile:

2018	Range of Interest Rate	On Demand	Less than 1 Year	1 -2 Years	2 -3 Years	More than 3 Years	Total
Cash and cash equivalents							
(excluding cash on hand)	0.25%-5.5%	₱376,783,689	₱566,823,978	₱–	₱–	₱–	₱943,607,667
Financial assets at FVOCI							
Government debt securities	3.63-6.25%	–	205,584,930	194,746,618	84,523,753	762,526,249	1,247,381,550
Corporate debt securities	5.07-7.82%	–	–	63,664,400	4,747,551	123,814,471	192,226,422
Financial assets at FVPL							
Government	6.55%	31,860,247	–	–	–	–	31,860,247
Loans and receivables							
Salary loans	5.70%-8.40%	–	22,412,115	7,746,450	33,422,133	–	63,580,698
Mortgage loans	8.40%-10.00%	–	4,475,772	3,263,681	2,823,320	1,046,203	11,608,976
Policy loans	10%	13,349,153	–	–	–	–	13,349,153
		₱421,993,089	₱799,296,795	₱269,421,149	₱125,516,757	₱887,386,923	₱2,503,614,713
Policyholders' dividends	4%	₱2,760,923	₱–	₱–	₱–	₱–	₱2,760,923
Premium deposit fund	3%-5%	1,978,167	–	–	–	–	1,978,167
		₱4,739,090	₱–	₱–	₱–	₱–	₱4,739,090

2017	Range of Interest Rate	On Demand	Less than 1 Year	1 -2 Years	2 -3 Years	More than 3 Years	Total
Cash and cash equivalents							
(excluding cash on hand)	0.25%-2.0%	₱183,901,708	₱456,267,280	₱–	₱–	₱–	₱640,168,988
AFS financial assets		–					
Government securities	3.75%-5.88%	–	32,492,184	9,886,396	109,775,993	123,753,408	275,907,981
Financial assets at FVPL							
Government	2.13%-8.0%	1,196,324,547	–	–	–	–	1,196,324,547
Loans and receivables							
Salary loans	5.70%-8.40%	–	13,492,705	19,979,049	16,822,198	92,703	50,386,655
Mortgage loans	8.40%-15.00%	15,649,009	3,680,385	3,447,651	2,831,072	4,899,579	30,507,696
Policy loans	10.00%	14,995,043	–	–	–	–	14,995,043
		₱1,410,870,307	₱505,932,554	₱33,313,096	₱129,429,263	₱128,745,690	₱2,053,290,910
Policyholders' dividends	4.00%-6.00%	₱3,079,315	₱-	₱-	₱-	₱-	₱3,079,315
Premium deposit fund	3.00%-5.00%	2,063,568	–	–	–	–	2,063,568
		₱5,142,883	₱-	₱-	₱-	₱-	₱5,142,883

The sensitivity analysis below is presented for reasonably possible movements in interest rates with all other variables held constant, showing the impact on equity (that reflects adjustments due to changes in fair value of FVOCI/AFS financial assets):

	Change in Interest Rate	Impact on Equity
December 31, 2018	**+1.00%**	**₱282,628**
	-1.00%	**(283,221)**
December 31, 2017	+1.00%	₱875,651
	-1.00%	(1,251,083)

In 2018 and 2017, the Company determined the reasonably possible change in interest rate using the historical percentage changes in weighted average yield rates of outstanding securities for the past three years.

Equity Price Risk
The Company's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities and investment in mutual funds classified as financial assets at FVPL. Such securities are subject to price risk due to possible adverse changes in market values of instruments arising from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Company invests in equity securities for various reasons, including reducing its overall exposure to interest rate risk.

The Company has an IMA with ATRAM Trust Corp. which monitors and manages a portion of the Company's investments. The Investment Committee of the Company oversees its investment undertaking (Note 24).

The analysis below is performed for reasonably possible movements in PSE index with all other variables held constant, showing the impact on equity and profit before tax:

	Change in PSE Index	Impact on Profit Before Tax	Impact on Equity
December 31, 2018	**+5.00%**	**₱3,948**	**₱2,763**
	-5.00%	**(3,948)**	**(2,763)**
December 31, 2017	+5.45%	₱7,499	₱5,250
	-5.45%	(7,499)	(5,250)

In 2018 and 2017, the Company determined the reasonably possible change in PSE index using the specific adjusted data for each equity security the Company holds as of the reporting dates. The adjusted data is the forecasted measure of the volatility of security or a portfolio in comparison to the market as a whole.

The analysis below is performed for reasonably possible movements in NAV per share with all other variables held constant, showing the impact on equity and Profit before tax:

	Change in NAV per Share	Impact on Profit Before Tax	Impact on Equity
December 31, 2018	**+5.00%**	**₱1,268,059**	**₱887,641**
	-5.00%	**(1,268,059)**	**(887,641)**
December 31, 2017	+5.00%	₱1,411,012	₱987,708
	-5.00%	(1,411,012)	(987,708)

In 2018 and 2017, the Company determined the reasonably possible change in NAV per share using the historical NAV year-end values for the past three years.

Foreign Currency Risk
The Company's foreign exchange risk arises primarily from any transaction denominated in a foreign currency such as the US Dollar. In 2018 and 2017, the Company's transactions are primarily denominated in Philippine Peso, thus, reducing the Company's exposure to currency risk to an insignificant amount.

26. Contingencies

The Company has contingent liabilities arising from legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with counsel handling the Company's defense and is based on an analysis of potential results. Provisions for probable losses arising from contingencies was recognized in the Company's financial statements amounting to ₱5.0 million and ₱20.0 million , in 2018 and 2017, respectively.

Currently, the Company does not believe that these proceedings will have a material adverse effect on the financial statements. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

27. Approval of the Financial Statements

The accompanying financial statements of the Company were authorized for issue by BOD on February 21, 2019.

28. Supplementary Tax Information Required Under Revenue Regulations (RR) 15-2010

The Company reported and/or paid the following taxes in 2018:

<u>Value-added tax (VAT)</u>
The NIRC of 1997 provides for the imposition of VAT on sales of goods and services. The Company, however, as a domestic corporation doing life insurance business, is a non-VAT registered Company. Sales or receipts of life insurance premiums are subject to percentage tax called premium tax.

The premium tax rate was reduced from 5.00% to 2.00% pursuant to Republic Act 10001.

During the year, the Company's transactions subject to VAT that are declared in the VAT returns amounted to ₱96,786,750.

The Company paid input VAT for the goods and services it acquired in 2018.

Details of input VAT as of December 31, 2018:

Services lodged under other accounts	₱1,759,921

Information on the Company's Importations
The Company has not undertaken any importation activity in 2018.

Excise taxes
The Company is neither involved in the local production nor in the importation of excisable items, therefore, has not paid excise taxes.

Documentary stamp tax

On others - policy issuance	₱6,436,540
On loan instruments	555,528
On shares of stocks	2
	₱6,992,070

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, license and permit fees. Details of other taxes and licenses in 2018 follow:

Input VAT	₱9,450,992
License and permit fees	7,126,350
Fines and penalties	65,956
Fringe benefit tax	739,169
Balance at December 31	₱17,382,467

Withholding Taxes
Details of taxes withheld in 2018 follow:

Creditable withholding taxes	₱113,645,370
Withholding taxes on compensation and benefits	20,865,949
	₱134,511,319

Tax Assessments and Cases
The Company received Formal Assessment Notices (FAN) from the Bureau of Internal Revenue (BIR) covering different types of taxes for calendar years 2008 up to 2010 for these deficiency taxes ranging from ₱137,107,976 to ₱398,382,011.

Within 30 days after receipt of FAN, the Company filed a protest letter on the findings noted by the BIR and requested reconsideration and reinvestigation based on legal and factual grounds.

For the 2009 FAN, ALGA received a copy of Notice of Pre-Trial order on the November 26, 2018 which sets the schedule of presentation of evidence both documentary and testimonial evidence on January 28, 2019. Meanwhile, Bureau of Internal Revenue's schedule of presentation of evidence and witness is on 29th April, 2019.

No feedback received for 2008 & 2010 FANs.

Management believes that it has a strong case against the BIR and that it should not be liable to pay the deficiency taxes for the following reasons: (a) the Company is an insurance company, was registered as a Non-VAT entity and therefore is not liable to pay the deficiency VAT; (b) the Company is not a Health Maintenance Organization (HMO) as defined under Section 4.108-3(k) of Revenue Regulations No. 16-2005 and therefore exempt from VAT.

In the opinion of management, the eventual liability under these claims, if any, will not have a material or adverse effect on the Company's financial position and results of operations.