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COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

Company Name

EMPIRE INSURANCE COMPANY

Principal Office (No./Street/Barangay/City/Town)Province)

2ND FLOOR B&P BUILDING
843 A. ARNAIZ AVENUE
LEGASPI VILLAGE 1229
MAKATI CITY, PHILIPPINES

Form Type	Department requiring the report	Secondary License Type, If Applicable
AFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
empire_insurance@yahoo.com	815-9561	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
		12/31

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

Contact Person's Address

Note: 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.

EMPIRE INSURANCE COMPANY

AUDITED FINANCIAL STATEMENTS
December 31, 2017 and 2016
with Report of Independent Auditors

M. A. MERCADO & Co.
Certified Public Accountants
2109 Cityland 10 Tower 1
156 H.V. Dela Costa Street
6815 Ayala Avenue North
1226 Makati City, Philippines

Phone: +63 (2) 894-5783
+63 (2) 893-1509
Fax: +63 (2) 894-4793
E-mail: mercado_cpa@yahoo.com
Website: mamercado.com

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 30 2018 SCES
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INDEPENDENT AUDITORS' REPORT

The Shareholders and the Board of Directors
Empire Insurance Company
2nd Floor Prudential Life Plan Bldg.
843 A. Arnaiz Street, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Empire Insurance Company** (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the related statements of profit or loss and other 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 **Empire Insurance Company**, as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (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 *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.

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.

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
Date APR 30 2018 SCES
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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 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 19-2011 and 15-2010 in Note 33 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of Empire Insurance Company and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

M.A. MERCADO & CO.

MARCELINO A. MERCADO
Partner
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 6619760; Issued on January 5, 2018, Makati City
SEC Accreditation No. 1533-A (Group C)
Issued February 3, 2016; Valid until February 2, 2019
BIR Accreditation No. 08-003338-2-2015
Issued September 29, 2015; Valid until September 29, 2018
IC Accreditation No. SP-2018-014-R
Issued April 07, 2018; Valid until April 06, 2021
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued September 18, 2017; Valid until September 17, 2020
Firm's SEC Accreditation No. 0320-F
Issued February 3, 2016; Valid until February 2, 2019
Firm's BIR Accreditation No. 08-006173-000-2015
Issued March 22, 2018; Valid until March 22, 2021
Firm's IC Accreditation No. F-2018-006-R
Issued April 07, 2018; Valid until April 06, 2021

April 16, 2018

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 30 2018 SCES
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EMPIRE INSURANCE COMPANY

STATEMENTS OF FINANCIAL POSITION

	Notes		December 31 2017		2016
ASSETS					
Current assets					
Cash and cash equivalents	2,26,31	₱	**253,431,813**	₱	153,382,277
Premiums due from ceding companies	3,26,31,32		**14,616,650**		13,515,025
Reinsurance recoverable on losses	3,26,31,32		**72,875,538**		74,359,780
Premiums receivable	3,26,31,32		**46,023,711**		27,068,789
Commission receivable	3,26,31,32		**6,857,229**		7,263,173
Premiums reserve withheld by ceding companies	3,26,31,32		**10,282,662**		14,062,650
Salvage recoverable	3,26,31,32		**640,483**		863,982
Receivables	3,26,31,32		**837,497**		178,542
Current tax assets	31		**1,872,101**		1,922,734
Other current assets	4,26,31		**20,707,960**		12,427,841
			428,145,644		305,044,793
Non current assets					
Held-to-maturity financial assets	5,26,31		**226,317,000**		161,929,657
Available-for-sale financial assets	6,26,31		**294,081,170**		228,773,728
Property and equipment	7,31,32		**23,273,715**		23,232,117
Pension asset	16,31,32		**2,263,778**		2,832,582
Other non-current assets	8,31		**9,289,141**		4,463,217
			555,224,804		421,231,301
		₱	**983,370,448**	₱	726,276,094
LIABILITIES AND EQUITY					
Liabilities					
Current liabilities					
Claims payable	9,25,30	₱	**73,604,837**	₱	92,509,152
Premiums due to reinsurers	10,25,30		**39,420,921**		34,959,668
Commission payable	11,25,30		**40,178,109**		30,344,369
Reserve for unearned premiums	12,25,30		**80,294,104**		80,654,521
Premiums reserve withheld for reinsurers	13,25,30		**2,577,220**		2,577,220
Payables	14,25,30		**10,514,436**		1,487,955
Deferred tax liability, net	23,30,31		**4,690,854**		5,587,132
Other liabilities	15,25,30		**26,497,338**		19,522,132
			277,777,819		267,642,149
Deposit for future stock subscriptions	17		**200,000,000**		-
Equity					
Share capital	18,26,31		**250,000,000**		250,000,000
Retained earnings	19		**179,298,340**		143,796,712
Unrealized gain on available-for-sale financial assets	6,26,31		**59,810,288**		48,353,232
Revaluation reserve on real estate	7		**14,494,899**		14,494,899
Treasury stocks	18,31		**(76,886)**		(76,886)
Remeasurement gain	16,31		**2,065,988**		2,065,988
			505,592,629		458,633,945
		₱	**983,370,448**	₱	726,276,094

See Accompanying Notes to Financial Statements.

EMPIRE INSURANCE COMPANY

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

			Years Ended December 31		
	Notes		2017		2016
Underwriting income	21,31,32	₱	**178,468,923**	₱	173,517,784
Underwriting expense	21,31,32		**116,378,744**		109,208,308
Net underwriting income			**62,090,179**		64,309,476
Other income					
Investment	2,22,31		**9,615,324**		11,670,548
Gain on sale of investment	31		**21,450,651**		4,097,625
Others	31		**36,619**		286,378
			31,102,594		16,054,551
Total underwriting and other income			**93,192,773**		80,364,027
Other direct costs	23,31		**15,305,328**		16,319,670
General and administrative expenses	23,31		**49,402,044**		41,686,766
Operating profit before finance income			**28,485,401**		22,357,591
Finance income, net					
Foreign exchange gain	26,31,32		**3,231,688**		1,575,240
Dividend income	31		**8,487,448**		6,205,295
			11,719,136		7,780,535
Profit before bonus			**40,204,537**		30,138,126
Bonus	31		**(5,656,760)**		(4,285,665)
Profit before income tax			**34,547,777**		25,852,461
Provision for (benefit from) income tax	24,31		**(953,851)**		5,160,819
Net profit for the year			**35,501,628**		20,691,642
Other comprehensive income					
Item to be reclassified to profit or loss					
Net gain (loss) on available-for-sale financial assets	6,26,31		**11,514,629**		3,303,990
Tax effect			**(57,573)**		(16,278)
			11,457,056		3,287,712
Items not to be reclassified to profit or loss					
Revaluation reserve on real estate	7		-		20,706,999
Remeasurement loss	16,31,32		-		(52,894)
Tax effect	24,31,32		-		(6,196,232)
			-		14,457,873
Total comprehensive income for the year		₱	**46,958,684**	₱	38,437,227
Earnings per share Basic and diluted	25,31	₱	**14.20**	₱	8.28
Book value per share	25,31	₱	**202.24**	₱	168.36

See Accompanying Notes to Financial Statements.

EMPIRE INSURANCE COMPANY

STATEMENTS OF CHANGES IN EQUITY

Year Ended December 31, 2017

	Share capital (Note 18)	Retained earnings (Note 19)	Net unrealized gain on AFS financial assets (Notes 6,26,31)	Treasury stocks (Note 18)	Remeasurement gain (Notes 16,31)	Revaluation reserve on real estate (Note 7)	Total
Balances at January 1, 2017	₱ 250,000,000	₱ 143,796,712	₱ 48,353,232	₱ (76,886)	₱ 2,065,988	₱ 14,494,899	₱ 458,633,945
Net profit for the year	-	35,501,628	-	-	-	-	35,501,628
Other comprehensive income (loss)	-	-	11,457,056	-	-	-	11,457,056
Total comprehensive income for the year	-	35,501,628	11,457,056	-	-	-	46,958,684
Balances at December 31, 2017	₱ 250,000,000	₱ 179,298,340	₱ 59,810,288	₱ (76,886)	₱ 2,065,988	₱ 14,494,899	₱ 505,592,629

Year Ended December 31, 2016

	Share capital (Note 18)	Retained earnings (Note 19)	Net unrealized gain on AFS financial assets (Notes 6,26,31)	Treasury stocks (Note 18)	Remeasurement gain (Notes 16,30)	Revaluation reserve on real estate (Note 7)	Total
Balances at January 1, 2016	₱ 250,000,000	₱ 123,797,366	₱ 45,065,520	₱ (76,886)	₱ 2,103,014	₱ -	₱ 420,889,014
Prior period adjustments	-	(692,296)	-	-	-	-	(692,296)
Balances at January 1, 2016, as adjusted	250,000,000	123,105,070	45,065,520	(76,886)	2,103,014	-	420,196,718
Net profit for the year	-	20,691,642	-	-	-	-	20,691,642
Other comprehensive income (loss)	-	-	3,287,712	-	(37,026)	14,494,899	17,745,585
Total comprehensive income for the year	-	20,691,642	3,287,712	-	(37,026)	14,494,899	38,437,227
Balances at December 31, 2016	₱ 250,000,000	₱ 143,796,712	₱ 48,353,232	₱ (76,886)	₱ 2,065,988	₱ 14,494,899	₱ 458,633,945

See Accompanying Notes to Financial Statements.

EMPIRE INSURANCE COMPANY

STATEMENTS OF CASH FLOWS

	Notes	Years Ended December 31 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		₱ **34,547,777**	₱ 25,852,461
Adjustments for:			
Prior period adjustment	19	**-**	(692,296)
Depreciation and amortization	7,31,32	**1,190,148**	2,016,261
Retirement expense	16,31,32	**568,804**	635,122
Unrealized foreign exchange gain	26,31,32	**(2,492,804)**	(1,567,024)
Interest income	2,22,31	**(9,615,324)**	(11,670,548)
Dividend income	31	**(8,487,448)**	(6,205,295)
Foreign exchange gain	26,31,32	**(738,884)**	(8,216)
Operating income before working capital changes		**14,972,269**	8,360,465
Changes in assets and liabilities:			
(Increase) Decrease in:			
Premiums due from ceding companies	3,26,31,32	**(1,101,625)**	2,880,447
Reinsurance recoverable on losses	3,26,31,32	**1,484,242**	(30,013,453)
Premiums receivable	3,26,31,32	**(18,954,922)**	8,188,953
Commission receivable	3,26,31,32	**405,944**	4,568,447
Premiums reserve withheld by ceding companies	3,26,31,32	**3,779,988**	(1,431,058)
Salvage recoverable	3,26,31,32	**223,499**	-
Receivables	3,26,31,32	**(658,955)**	6,701,019
Other current assets	4,26,31	**(6,476,251)**	2,115,793
Other non-current assets	8,31	**(4,825,924)**	(15,441)
Increase (Decrease) in:			
Claims payable	9,25,30	**(18,904,315)**	35,499,212
Premiums due to reinsurers	10,25,30	**4,461,253**	(19,417,139)
Commission payable	11,25,30	**9,833,740**	494,524
Reserve for unearned premiums	12,25,30	**(360,417)**	20,645,533
Payables	14,25,30	**9,026,481**	(1,531,357)
Other liabilitites	15,25,30	**6,975,206**	5,613,785
Cash (used in) provided by operations		**(119,787)**	42,659,730
Contributions paid	16,31,32	**-**	(74,821)
Interest received	2,22,31	**1,802,820**	2,197,609
Net cash (used in) provided by operating activities		**1,683,033**	44,782,518
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	22,31	**7,812,504**	9,472,939
Dividends received	31	**8,487,448**	6,205,295
Purchase of available-for-sale financial assets	6,26,31	**(103,568,999)**	(49,874,443)
Proceeds from sale of available-for-sale financial assets	6,26,31	**49,776,185**	37,692
Purchase of held-to-maturity financial assets	5,26,31	**(138,350,000)**	-
Proceeds from disposal of held-to-maturity financial assets	5,26,31	**74,702,227**	11,930,093
Purchase of property and equipment	7,31,32	**(1,231,746)**	(732,306)
Proceeds from disposal of property and equipment	7,31,32	**-**	2,353,747
Net cash used in investing activities		**(102,372,381)**	(20,606,983)
Balance carried forward		₱ **(100,689,348)**	₱ 24,175,535

EMPIRE INSURANCE COMPANY

STATEMENTS OF CASH FLOWS

	Notes		Years Ended December 31 2017		2016
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		₱	**1,683,033**	₱	44,782,518
NET CASH USED IN INVESTING ACTIVITIES			**(102,372,381)**		(20,606,983)
CASH FLOWS FROM FINANCING ACTIVITIES					
Deposit for future stock subscription	19		**200,000,000**		-
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	26,31,32		**738,884**		8,216
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,26,31		**100,049,536**		24,183,751
CASH AND CASH EQUIVALENTS, JANUARY 1			**153,382,277**		129,198,526
CASH AND CASH EQUIVALENTS, DECEMBER 31	2,26,31	₱	**253,431,813**	₱	153,382,277

See Accompanying Notes to Financial Statements.

1. CORPORATE INFORMATION

Empire Insurance Company (the Company) was incorporated on December 8, 1949 to engage in the business and operation of all kinds of insurance, reinsurance, insurance on buildings, automobiles, car and other motor vehicles, goods and merchandise, goods in transit, goods in storage, fire insurance, earthquake insurance, insurance against accidents, all other forms of undertaking to indemnify any person against loss, damage or liability arising from unknown or contingent events, except life insurance.

On May 26, 1999, the Securities and Exchange Commission approved the Company's application of extension of amended Articles of Incorporation to extend its life for another Fifty (50) years.

The registered office address of the Company is 2nd Floor Prudential Life Plan Bldg., 843 A. Arnaiz Street, Makati City.

The financial statements of the Company were authorized for issue on April 16, 2018.

2. CASH AND CASH EQUIVALENTS

This account consists of:

		2017		2016
Cash in banks	₱	**57,077,108**	₱	68,105,123
Short-term financial assets		**196,129,706**		84,401,476
Cash on hand		**225,000**		875,678
	₱	**253,431,814**	₱	153,382,277

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term financial assets have varying periods between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. Interest income for the December 31, 2017 and 2016 amounted to ₱1,802,820 and ₱2,197,610, respectively. *(See Note 22)*

3. REINSURANCE

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

Premiums Due From Ceding Companies
This account represents balances due to the Company as a result of treaty and facultative acceptances from ceding companies. The Company's premiums due from ceding companies amounts to ₱14,616,650 and ₱13,515,025 for the years 2017 and 2016, respectively.

Reinsurance Recoverable on Losses
This account represents the amount recoverable from reinsurers under treaty and facultative agreements as their share in paid and unpaid losses and loss adjustment expenses net of salvage recoveries. The Company's reinsurance recoverable on losses amounts to ₱72,875,538 and ₱ 74,359,780 for the years 2017 and 2016, respectively.

Premiums Receivable
This represents uncollected premiums on direct business including those by general agents and insurance brokers including taxes and other charges, provided these are properly segregated and the corresponding liabilities are set up. The Company's premiums receivable amounts to ₱46,023,711 and ₱27,068,789 for the years 2017 and 2016, respectively.

Commission Receivable
This account represents uncollected commissions on treaty and facultative agreements. The Company's commissions receivable amounts to ₱6,857,229 and ₱7,263,173 for the years 2017 and 2016, respectively.

Premiums Reserve Withheld By Ceding Companies
This account pertains to a certain percentage of the total reinsurance premiums due within one year from date of retention being held by ceding companies. The Company's premium reserve withheld by ceding companies amounts to ₱10,282,662 and ₱14,062,650 for the years 2017 and 2016, respectively.

Salvage Recoverable
This account represents the estimated recoveries the Company may have from losses on policies issued. The Company's salvage recoverable amount to ₱640,483 and ₱863,982 for the years 2017 and 2016.

Receivables
This represents receivable from non-insurance transactions. The Company's receivables amounts to ₱837,497 and ₱178,542 for the years 2017 and 2016, respectively.

4. OTHER CURRENT ASSETS

This account consists of:

		2017		2016
Prepaid investment expenses	₱	**10,204,581**	₱	6,333,454
Documentary stamps tax receivable		**5,203,417**		2,563,658
Accrued investment income		**1,662,766**		2,187,313
Notes receivable		**3,173,428**		1,156,055
Prepaid expenses		**80,474**		43,152
Fire service tax receivable		**383,294**		144,209
	₱	**20,707,960**	₱	12,427,841

5. HELD-TO-MATURITY FINANCIAL ASSETS

This account consists of:

		2017		2016
Treasury bonds	₱	**156,430,000**	₱	92,042,657
Treasury bills		**42,784,000**		42,784,000
Treasury notes		**27,103,000**		27,103,000
	₱	**226,317,000**	₱	161,929,657

Held-to-maturity financial assets of the Company carry effective interest rates as follows:

	2017	2016
Less than one year	-	5.69
More than year	**4.02- 8.12**	4.83-8.12

The movement in held-to-maturity financial assets is summarized as follows:

		2017		2016
At January 1	₱	161,929,657	₱	171,900,970
Additions		138,350,000		-
Maturities		(74,702,227)		(11,930,093)
Unrealized foreign exchange		739,570		1,958,780
At December 31	₱	226,317,000	₱	161,929,657

At each reporting date, the Company performs evaluations of the impairment of held-to-maturity financial assets. The Management determines whether it intends to sell or if it is more likely than not that it will be required to sell impaired financial assets. The Management considers current and forecasted liquidity requirement, regulatory and capital requirements and securities portfolio management. For all impaired HTM financial assets for which there was no intent or expected requirement to sell, the evaluation considers all available evidence to assess whether it is likely the amortized cost value will be recovered.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale investments which consist of listed/unlisted equity shares are measured at *fair market value* and *at cost* respectively are as follows:

a) Available-for-sale-investments which consist of listed equity shares which are measured at fair market value are as follows:

2017	No. of Shares		Investment at Market Value		Investment at Cost		Unrealized gain (loss)		Deferred taxes
Equity shares									
Ayala Corporation- Preferred B	80,000	₱	42,080,000	₱	40,000,000	₱	2,080,000	₱	10,400
Globe Preferred Shares	40,000		20,920,000		20,000,000		920,000		4,600
National Reinsurance Corporation	7,999,000		7,679,040		13,684,987		(6,005,947)		(30,030)
Philippine Long Distance and Telecommunication Company	114		168,720		-		168,720		844
PLDT Series Preferred	6,670		71,369		66,700		4,669		23
Bank of the Philippine Islands	800,168		86,498,161		19,832,142		66,666,019		333,330
Semirara Mining	1,200,600		44,182,080		49,447,890		(5,265,810)		(26,329)
San Miguel Purefoods Preferred	266,700		21,282,660		20,002,500		1,280,160		6,401
Pilipinas Shell Petroleum	642,740		39,207,140		39,245,684		(38,544)		(193)
Metro Pacific Investment Corp	2,220,000		15,207,000		14,875,425		331,575		1,658
Delisted shares									
Nuclear Insurance Pool Inc.	100		-		10,000		(10,000)		(50)
Philippine Machinery Management Service Corp.	20		-		20,000		(20,000)		(100)
		₱	277,296,170	₱	217,185,328	₱	60,110,842	₱	300,554

2016	No. of Shares		Investment at Market Value		Investment at Cost		Unrealized gain (loss)		Deferred taxes
Equity shares									
Ayala Corporation- Preferred B	80,000	₱	43,440,000	₱	40,000,000	₱	3,440,000	₱	17,200
Globe Preferred Shares	40,000		21,600,000		20,000,000		1,600,000		8,000
National Reinsurance Corporation	7,999,000		6,159,230		13,684,987		(7,525,757)		(37,629)
Philippine Long Distance and Telecommunication Company	114		155,610		-		155,610		778
PLDT Series Preferred	6,670		71,369		66,700		4,669		24
Bank of the Philippine Islands	800,168		71,054,919		19,832,268		51,222,651		256,113
Manila Water Company	400,000		11,600,000		10,859,885		740,115		3,701
San Miguel Purefoods Preferred	266,700		20,802,600		20,002,500		800,100		4,001
DMCI Holdings, Inc.	500,000		6,630,000		6,330,000		300,000		1,500
Meralco	115,000		30,475,000		32,586,174		(2,111,174)		(10,556)
Delisted shares									
Nuclear Insurance Pool Inc.	100		-		10,000		(10,000)		(50)
Philippine Machinery Management Service Corp.	20		-		20,000		(20,000)		(100)
		₱	211,988,728	₱	163,392,514	₱	48,596,214	₱	242,982

b) Available-for-sale-investments which consist of proprietary shares measured at cost.

		2017		2016
Proprietary shares				
Wack-wack Golf Club	₱	**15,000,000**	₱	15,000,000
Sta. Elena Club		**1,750,000**		1,750,000
Makati Sports Club		**35,000**		35,000
	₱	**16,785,000**	₱	16,785,000

The movement in this account is summarized as follows:

		2017		2016
At January 1	₱	**228,773,728**	₱	175,632,987
Additions		**103,568,999**		49,874,443
Disposition		**(49,776,185)**		(37,692)
Fair value changes		**11,514,628**		3,303,990
	₱	**294,081,170**	₱	228,773,728

In evaluating impairment of available-for-sale financial assets they consider a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and management's ability and intent to hold the securities until fair value recovers. Based on the results of the evaluation, as of December 31, 2017 and 2016 unrealized losses on some AFS are temporary.

7. PROPERTY AND EQUIPMENT

This account consists of property carried at revalued amount and equipments carried at cost which are as follows:

	2017	2016
At cost	₱ 2,566,716	₱ 2,525,118
At revalued amount	20,706,999	20,706,999
	₱ 23,273,715	₱ 23,232,117

Movements in the property and equipment carried at cost in 2017 follow:

	Building and Building Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Electronic Data Processing Machine	Leasehold and Improvements	Total
Cost						
Beginning balances	₱ 1,910,879	₱ 3,335,457	₱ 3,010,049	₱ 3,066,222	₱ 494,812	₱ 11,817,419
Additions	374,610	59,732	554,318	179,362	63,724	1,231,746
Total	2,285,489	3,395,189	3,564,367	3,245,584	558,536	13,049,165
Accum. Depreciation						
Beginning balances	1,622,450	2,893,340	2,089,155	2,388,301	299,055	9,292,301
Depreciation and amortization	51,583	93,410	450,955	495,238	98,962	1,190,148
Total	1,674,033	2,986,750	2,540,110	2,883,539	398,017	10,482,449
Net Book Value	₱ 611,456	₱ 408,439	₱ 1,024,257	₱ 362,045	₱ 160,519	₱ 2,566,716

Movements in the property and equipment carried at cost in 2016 follow:

	Building Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Electronic Data Processing Machine	Leasehold and Improvements	Total
Cost						
Beginning balances	₱ 1,910,879	₱ 3,254,039	₱ 7,493,524	₱ 2,910,334	₱ 494,812	₱ 16,063,588
Additions	-	81,418	495,000	155,888	-	732,306
Disposals	-	-	(4,978,475)	-	-	(4,978,475)
Total	1,910,879	3,335,457	3,010,049	3,066,222	494,812	11,817,419
Accum. Depreciation						
Beginning balances	1,581,521	2,743,777	3,486,169	1,889,208	200,093	9,900,768
Depreciation and amortization	40,929	149,563	1,227,714	499,093	98,962	2,016,261
Disposals	-	-	(2,624,728)			(2,624,728)
Total	1,622,450	2,893,340	2,089,155	2,388,301	299,055	9,292,301
Net Book Value	₱ 288,429	₱ 442,117	₱ 920,894	₱ 677,921	₱ 195,756	₱ 2,525,118

Movements in the property carried at revalued amount follow:

	2017	2016
Cost	₱ 35,307,699	₱ 14,600,700
Accumulated depreciation	(14,600,700)	(14,600,700)
Net book value	20,706,999	-
Appraisal increase	-	20,706,999
Total	₱ 20,706,999	₱ 20,706,999

The condominium unit of the Company was appraised on September 24, 2016 by an independent firm of appraisers, Asian Appraisal Company, Inc. On August 17, 2016, the Insurance Commission approved the request of the Company to value its real estate property at fair market value based on the appraisal report and recognized by the Company as at December 31, 2016.

The value of the condominium unit was arrived using the Market Data Approach. In this approach, the value of the condominium unit was based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was done by establishing the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity of the subject property. Comparison was premised on the factors of time, unit area/size, unit location, unit improvements, building location, building features/amenities, bargaining allowance and others.

Significant increase (decrease) in estimated price per square meter would result in a significantly higher (lower) fair value of the condominium unit.

The Company determined that the condominium unit is valued in terms of their highest and best use which is categorized under Level 3 of the fair value hierarchy and it does not differ from its current use. The Company has determined that the highest and best use of the property used for office space is its current use.

There was no transfer between levels of fair value measurement in 2017.

The following are believed to provide reasonable bases for comparison:

	Zeta Building	Cancho Gonzales Building	Concorde Condominium	
Location	7/F Zeta Building, Salcedo Street, Legaspi Village, Barangay San Lorenzo, Makati City, Metropolitan Manila	Undisclosed location of Cacho Gonzales Building, Aguirre Street, Legaspi Village, Baragay San Lorenzo, Makati City, Metropolitan Manila	4/F Concorde Condominium, Benavidez corner Salcedo Streets, Legaspi Village, Barangay San Lorenzo, Makati City, Metropolitan Manila	5/F Concorde Condominium, Benavidez corner Salcedo Streets, Legaspi Village, Barangay San Lorenzo, Makati City, Metropolitan Manila
Floor area	101 square meter (sqm)	170 sqm	438 sqm	565 sqm
Unit price	₱ 7,000,000	₱ 11,000,000	₱ 17,710,000	₱ 22,925,000
Unit price per sqm	P 69,307	P 64,706	P 40,434	P 40,575
Adjustment factors				
Unit area	-10.00%	-10.00%	-	-
Unit location	-10.00%	-10.00%	-	-
Improvements	-10.00%	-	-	-
Building location	5.00%	5.00%	5.00%	5.00%
Building features	-15.00%	-10.00%	10.00%	10.00%
Bargaining allowance	-	-10.00%	-10.00%	-10.00%
Net adjustments	-40.00%	-35.00%	5.00%	5.00%
Peso adjustment to net price	₱ (27,723)	₱ (22,647)	₱ 2,022	₱ 2,029
Adjusted price	₱ 97,030	₱ 87,353	₱ 38,412	₱ 38,546
Average price per sqm *(rounded off)*				₱ **42,000**

After analysis of the market data and considering the adjustment factors, the market value of the condominium unit appraised is estimated to be ₱20,706,999.

The difference between the fair market value of the condominium and its net book value as of December 31, 2017 was credited to Revaluation Reserve on Real Estate.

The Company assessed that there is no material change in value of the property and equipment from September 24, 2015 to December 31, 2017.

If the condominium unit was carried at cost less accumulated depreciation, the net book value of the condominium would be NIL.

The total cost of fully depreciated property and equipment which are still in use in the operations amounted to ₱7,230,553 and ₱7,103,433 as of December 31, 2017 and 2016, respectively.

8. OTHER NONCURRENT ASSETS

This account consists of:

		2017		2016
Deferred charges-MCIT	₱	**3,162,255**	₱	2,225,826
Real estate acquired		**1,235,080**		1,235,080
Verification fund		**734,778**		366,046
Taxes fund		**3,776,014**		271,763
Deposits		**332,576**		332,576
Security fund		**48,438**		31,926
	₱	**9,289,141**	₱	4,463,217

9. CLAIMS PAYABLES

This account comprises of the total amount of losses and claims due and payable to policyholders and other claimants. Also included in this account are losses and claims due and payable to reinsurers under treaty and facultative agreements.

The Company's claims payable amounts to ₱73,604,837 and ₱92,509,152 for the years 2017 and 2016, respectively.

		Claims payable and unearned premiums		**Reinsurers' share of liabilities**		**Net 2017**		Claims payable and unearned premiums		Reinsurers' share of liabilities		Net 2016
Claims payable reported and loss adjustment expenses	₱	**73,604,837**	₱	**38,996,010**	₱	**34,608,827**	₱	92,509,152	₱	59,892,256	₱	32,616,896

10. PREMIUM DUE TO REINSURERS

This represents all the reinsurance premium payable by the Company to all its treaty and facultative reinsurers.

The Company's premiums due to reinsurers amounts to ₱39,420,921 and ₱34,959,668 for the years 2017 and 2016, respectively.

11. COMMISSION PAYABLE

Commission payable pertains to amount payable to agents, brokers and general agents for business underwritten by them or to ceding companies upon business accepted from them.

The Company's commission payable amounts to ₱40,178,109 and ₱30,344,369 for the years 2017 and 2016, respectively.

12. RESERVE FOR UNEARNED PREMIUM

The Company adopts the 24th method of recognizing premiums revenue and accounting for the portion of premiums written relating to the unexpired periods of the policies and unearned premiums.

A comparison of reserve for unearned premiums computed using this method and the statutory rate follows:

		2017		2016
Reserve using 24th method	₱	**80,294,104**	₱	80,654,521
Reserve using statutory rate 40%		**67,074,946**		73,925,296
	₱	**13,219,158**	₱	6,729,225

13. PREMIUM RESERVE WITHHELD FOR REINSURERS

Included in this amount is the portion of the reinsurance premiums ceded to insurers, which was withheld by the Company in accordance with treaty agreement and / or laws, rules and regulations.

The Company's premiums reserve withheld for reinsurers amounts to ₱2,577,220 for both years 2017 and 2016.

14. PAYABLES

Obligations of the Company arising from non-insurance and non-reinsurance transactions are lodged in this account.

The Company's payables amounts to ₱10,514,436 and ₱1,487,955 for the years 2017 and 2016, respectively.

15. OTHER LIABILITIES

This account consists of:

		2017		2016
Taxes payable	₱	**2,407,830**	₱	6,315,432
Accrued expenses		**3,981,827**		-
Bonus payable		**5,656,760**		4,285,665
Credits to client		**4,375,572**		4,132,767
Documentary stamps tax payable		**2,489,159**		2,199,458
Service fees payable		**2,437,470**		1,038,346
Deposits		**-**		990,168
Unearned bond discount		**4,979,714**		320,479
SSS, Pag-ibig and Philhealth payables		**135,481**		206,292
Dividends payable		**25,169**		25,169
Others		**8,356**		8,356
	₱	**26,497,338**	₱	19,522,132

16. RETIREMENT BENEFIT OBLIGATION

The Company has a retirement plan covering all its qualified employees. The plan is non-contributory and the retirement cost is determined by applying the Accrued Benefit Actuarial Cost Method taking into account the factors of investment, mortality, disability and salary projection rate. The fund is administered by a duly appointed fund trustee.

The above mentioned retirements plan falls under the defined benefit plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Movement in the present value of defined benefit obligation is summarized as follows:

		2017		2016
Present value of obligation, January 1	₱	**8,373,652**	₱	11,568,769
Current service cost		**745,926**		703,703
Interest cost		**447,990**		586,537
Benefits paid		**-**		(4,260,998)
Actuarial (gain) loss		**-**		(224,359)
Present value of obligation, December 31	₱	**9,567,568**	₱	8,373,652

The movement in pension assets is summarized as follows:

		2017		2016
Fair value of pension assets, January 1	₱	**11,684,337**	₱	15,585,706
Expected return on pension assets		**625,112**		684,076
Contributions		**-**		74,821
Benefits paid		**-**		(4,260,998)
Actuarial gain (loss)		**-**		(399,268)
Fair value of pension assets, December 31	₱	**12,309,449**	₱	11,684,337

Asset recognized in the statements of financial position is as follows:

		2017		2016
Present value of obligation	₱	**9,567,568**	₱	8,373,652
Fair value of pension assets		**(12,309,449)**		11,684,337
Unfunded obligation		**(2,741,881)**		(3,310,685)
Asset ceiling		**478,103**		478,103
Retirement benefit obligation (asset)	₱	**(2,263,778)**	₱	(2,832,582)

Expenses recognized in the statements of profit or loss:

		2017		2016
Current service cost	₱	**745,925**	₱	703,703
Net interest cost		**(177,121)**		(68,581)
Retirement expense	₱	**568,804**	₱	635,122

Expenses recognized in the statements of other comprehensive income are as follow:

		2017		2016
Actuarial gain (loss) on obligation	₱	-	₱	(224,359)
Remeasurement gain/(loss)- plan asset		-		399,268
Remeasurement gain/(loss) - changes in the effect of asset ceiling		-		(122,015)
Actuarial gain recognized during the year	₱	-	₱	52,894

The cumulative amount of actuarial gains and (losses) charged to re-measurement gains are as follow:

		2017		2016
Remeasurement gain, beginning	₱	**2,951,411**	₱	3,004,305
Actuarial gain (loss) recognized during the year		-		(52,894)
Remeasurement gain, ending*	₱	**2,951,411**	₱	2,951,411

*The amounts shown in the statements of changes in equity were net of income tax effect on actuarial loss. Total accumulated actuarial losses on employees' benefit obligation amounted to ₱2,065,988 in 2017 and 2016.

Movement in net asset is summarized below:

		2017		2016
Beginning net asset	₱	**(2,832,582)**	₱	(3,445,777)
Expense recognized, profit or loss		**568,804**		635,122
Remeasurement loss		-		52,894
Contributions paid		-		(74,821)
Closing net asset	₱	**(2,263,778)**	₱	(2,832,582)

The principal assumptions used in determining pensions for the Company are as follow:

	2017	2016
Discount rate	**5.35%**	5.35%
Salary increase rate	**6.00%**	6.00%

The expected return on pension assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as of the financial position date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Assumptions regarding future mortality and disability experience are based on published statistic generally used for local actuarial valuation purposes.

Actual return on plan assets:

		2017		2016
Expected return on plan assets	₱	625,112	₱	684,076
Actuarial gain (loss)		-		(399,268)
Actual return on pension assets	₱	625,112	₱	284,808

The *sensitivity* of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation			
	2017		2016	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.46%	(1.46%)	4.10%	(3.50%)
Salary growth rate	(0.31%)	0.31%	(2.60%)	3.00%

Each sensitivity analysis on the significant actuarial assumptions was prepared by re-measuring the defined benefit obligation at the financial position date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all the other assumptions remained unchanged. The corresponding change in the defined benefit obligation was expressed as a percentage change from the base defined benefit obligation.

It should also be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

Retirement trust fund for December 31, 2016 is comprised of the following:

			2017
Cash and cash equivalents	0.21%	₱	25,850
Equity instruments	1.02%		125,556
Debt instruments	36.50%		4,492,949
Unit Investment Trust Funds	63.54%		7,821,424
Other (Market Gains/Losses, Accrued Receivables, etc.)	-1.27%		(156,330)
	100%	₱	12,309,449

Retirement trust fund for December 31, 2015 is comprised of the following:

			2016
Cash and cash equivalents	0.21%	₱	24,537
Equity instruments	1.02%		119,180
Debt instruments	36.50%		4,264,783
Unit Investment Trust Funds	63.54%		7,424,228
Other (Market Gains/Losses, Accrued Receivables, etc.)	-1.27%		(148,391)
	100%	₱	11,684,337

The retirement trust fund assets are valued by the fund manager at fair value using the mark-to-market valuation. While no significant changes in asset allocation are expected in the next financial year, the plan trustee can make changes any time.

The Company has no specific matching strategy between the retirement fund assets and the defined benefit liabilities under the plan.

The weighted average duration of the defined benefit obligation is as follow:

	Years
Financial year	
2017	3.8 years

The Company's expected future benefits payments are as follow:

		Amount
Financial year		
2018	₱	483,742
2019		8,942
2020		1,267,849
2021		764,897
2021-2025		41,412

Unusual or Significant Risks to which the Retirement Plan Exposes the Company
There are no unusual or significant risks to which the plan exposes the Company. However, in the event a benefit claim arises under the retirement plan and the fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due and payable from the Company to the fund.

Plan Amendments, Curtailment, or Settlements
There was no plan amendment, curtailment, or settlement recognized for the financial year ended December 31, 2017.

17. DEPOSIT FOR FUTURE STOCK SUBSCRIPTIONS

In compliance with the Insurance Commission Circular Letter (CL) No. 2015-02A, in a meeting held on October 20, 2017, the Board of Directors approved the increase in the Authorized Capital Stock of the Corporation from ₱250,000,000 divided into 2,500,000 common shares with par value of ₱100 per share to ₱550,000,000 divided into 2,500,000 common shares with par value of ₱100 and 3,000,000 redeemable convertible preferred shares of stock with par value of P100 per share. The increase in the authorized capital was subsequently approved and ratified by the stockholders on their special stockholders meeting on November 7, 2017.

In anticipation of the said increase in the Company's authorized share capital, the Company received during the year deposit for future share subscription amounting to ₱200,000,000 from the shareholders. The deposit for future stock subscription was recorded as liability in the statements of financial position by the Company until the requirements in relation to the application for increase in authorized share capital have been complied with and are duly filed with the SEC upon which the said deposit will be presented as part of the equity.

The preference shares will eventually be part of the equity since they do not provide mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, nor it give the holders the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount.

The redeemable convertible preferred shares shall have the following features:

- It shall have full voting rights;
- It shall be redeemable at the option of the Company based on the par value of such redeemable convertible preferred shares;
- In the event of any dissolution or liquidation or winding up of the Company, whether voluntary or involuntary, the holders of the redeemable convertible preferred shares shall be netitled to be paid in full, or pro rata insofar as the assets and properties of the Company will permit, the par value of the redeemable convertible preferred shares and any accrued but unpaid dividends in respect thereof before any distribution shall be made to the holders of common shares. The holders of the redeemable convertible preferred shares shall not be entitled to participate in any other distribution.;
- Each redeemable convertible preferred share shall have the guaranteed and preferred right to receive cash dividends at the rate of 6% per annum payable out of the earned surplus profits of the Company so long as such redeemable convertible preferred shares are outstanding.;
- Redeemable convertible preferred shares, in part or in whole, are convertible into common shares at the book value of the common shares of the Company at the time of conversion. Conversion of the redeemable convertible preferred shares shall be at the option of the stockholders after five (5) years from date of issue of such redeemable preferred shares and every second year after.

18. SHARE CAPITAL

This account consists of:

		2017		2016
Par value - P100 per share		**2,500,000 common shares; issued and outstanding**		2,500,000 common shares; issued and outstanding
	₱	**250,000,000**	₱	250,000,000

The Company has one hundred twenty three (123) shareholders each owning 100 or more shares of the Company's share capital as at financial position date.

Treasury Stocks
The Company's future earnings are restricted from the payment of dividends to the extent of ₱76,886 representing treasury shares for 2017 and 2016.

19. RETAINED EARNINGS

		2017		2016
At 1 January	**₱**	**143,796,712**	₱	123,797,366
Prior period adjustment		**-**		(692,296)
As adjusted	**₱**	**143,796,712**	₱	123,105,070
Net profit for the year		**35,501,628**		20,691,642
At December 31	**₱**	**179,298,340**	₱	143,796,712

Prior period adjustment consists of adjustments to previously recorded accounts receivable. As a result, the Company's retained earnings and accounts receivable decreased by ₱692,296.

20. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

Details of key management compensation and directors' remuneration follow:

			Transactions for the years ended December 31	
Related Party	Nature of Transaction	Terms and Conditions	2017	2016
Expenses				
Key management compensation - salaries and other short-term benefits	Compensation	Will be settled in cash, payment every 15th and 30th of the month; unsecured	₱ 4,001,940	₱ 3,749,393
Directors' remuneration	Compensation	Will be settled in cash, payment every 15th and 30th of the month; unsecured	1,726,326	1,251,538
			₱ 5,728,266	₱ 5,000,931

As of December 31, 2017 and 2016, there were no sale and purchase of insurance and investment contracts, receivables, payables and loans to key management personnel.

As of December 31, 2017 and 2016, there were no services rendered and non-interest / interest bearing advances to / from associates and other related parties.

21. UNDERWRITING INCOME AND EXPENSES

This account consists of:

	2017	2016
UNDERWRITING INCOME		
Direct premiums-net	₱ 203,161,128	₱ 185,991,676
Add: Premiums assumed	11,292,707	29,658,198
Gross premiums	214,453,835	215,649,874
Less: Premiums ceded	45,732,690	29,697,789
Net premiums retained	168,721,145	185,952,085
Less: Premiums reserve for the year	80,294,105	80,654,521
Gross premium on net retained	88,427,040	105,297,564
Add: Premiums released from reserve	80,654,520	60,008,988
Premiums earned	169,081,560	165,306,552
Commissions earned	9,387,363	8,211,232
Total underwriting income	₱ 178,468,923	₱ 173,517,784

		2017		2016
UNDERWRITING EXPENSES				
Agents' commission and expenses	₱	45,137,543	₱	47,151,561
Claims, losses paid and adjustment expenses		46,708,204		35,105,344
Insurance expense		24,532,997		26,951,403
Total underwriting expenses	₱	116,378,744	₱	109,208,308
NET UNDERWRITING INCOME	₱	62,090,179	₱	64,309,476

22. INVESTMENT INCOME

This account consists of:

		2017		2016
Income from investments in securities	₱	7,812,504	₱	9,367,852
Income from savings and time deposits		1,802,820		2,197,609
Others		-		105,087
	₱	9,615,324	₱	11,670,548

23. OTHER DIRECT COSTS AND GENERAL AND ADMINISTRATIVE EXPENSES

Other direct costs consist of:

		2017		2016
Salaries and wages	₱	9,368,737	₱	9,373,503
Officers' and employees benefits		2,202,626		2,958,704
Taxes and licenses		598,206		947,009
Professional fees		724,235		881,926
Printing, stationery and supplies		1,483,835		1,216,886
Communication and postage		728,926		715,717
Repairs and maintenance		198,763		225,925
	₱	15,305,328	₱	16,319,670

General administrative expenses consist of:

		2017		2016
Agency expenses	₱	9,739,974	₱	9,276,166
Marketing expenses		7,969,001		7,589,525
Salaries and wages		4,015,173		4,017,215
Bad debts written-off		2,759,700		412,621
Professional fees		2,379,833		1,821,927
Transportation and travel		1,593,148		1,517,284
Depreciation and amortization (Note 7)		1,190,148		2,016,261
Rental expenses		1,135,926		1,048,801
Light and water		1,067,768		954,939
Officers' and employees benefits		943,982		1,268,016
Communication and postage		728,926		715,716
Association and pool dues		660,861		762,484
Printing, stationery and supplies		635,929		521,523
Representation and entertainment		630,269		600,256
Directors' fees and allowances		517,000		511,500
Service fee		450,878		262,896
Janitorial services		173,139		92,394
Security services		168,207		144,621
Repairs and maintenance		85,184		96,825
Bank and service charge		67,348		46,443
Insurance		19,178		105,355
Interest		-		130,215
Donations and contributions		-		10,500
Miscellaneous expenses		12,470,472		7,763,283
	₱	49,402,044	₱	41,686,766

As at December 31, 2017 and 2016, miscellaneous expenses pertain to expenses incurred that are related to the operations of the Company's agents and reimbursements.

24. PROVISION FOR (BENEFIT FROM) INCOME TAX

This account consists of:

		2017		2016
Current				
Corporate income tax	₱	-	₱	-
Deferred		(953,851)		(5,160,819)
	₱	(953,851)	₱	(5,160,819)

The reconciliation between the corporate income tax and income tax after applying the statutory tax rate on income tax follows:

		2017		2016
Statutory income tax	₱	10,364,333	₱	7,755,738
Income tax effect on:				
Tax exempt income		(2,343,751)		(2,810,356)
Income subject to lower tax rates		(6,976,041)		(1,920,096)
Income not subject to tax		(2,546,234)		(1,861,589)
Temporary differences		(969,507)		(472,572)
Deferred charges		2,471,200		(698,625)
Non deductible expenses		-		7,500
	₱	-	₱	-

Under Republic Act No. 9337 – Income tax amendments, the corporate income tax rate applicable from January 1 to October 31, 2005 of 32% in 2005 was increased to 35% effective November 1, 2005, decreasing to 30% effective on January 1, 2009. Because of the change in the corporate income tax rate, the allowable deduction for interest expense in Section 34(B)(1) is reduced by 42% (from 38%) of interest income subject to final tax and 33% (from 42%) upon the effectivity of the 30% corporate tax rate on January 1, 2009.

The Company's deferred tax asset (liability) consists of:

		2017		2016
Deferred tax assets:				
Net operating loss carry over (NOLCO)	₱	**3,676,730**	₱	2,145,127
Deferred tax liability:				
Revaluation reserve on real estate		**(6,212,099)**		(6,212,099)
Net unrealized gain on AFS		**(300,555)**		(242,982)
Unrealized foreign exchange gain		**(969,507)**		(391,755)
Remeasurement gain		**(885,423)**		(885,423)
	₱	**(4,690,854)**	₱	(5,587,132)

The movements in the deferred income tax account are summarized as follow:

		NOLCO	Unrealized gain or loss on AFS	Unrealized gain or loss on FOREX	Remeasurement gain	Revaluation reserve on real estate	Total
At January 1,2016	₱	7,523,318 ₱	(226,704) ₱	(217,371) ₱	(901,291) ₱	- ₱	6,177,952
Charge to profit or loss		(5,378,191)	-	(174,384)	-	-	(5,552,575)
Charged to other comprehensive income		-	(16,278)	-	15,868	(6,212,099)	(6,212,509)
At December 31, 2016	₱	2,145,127 ₱	(242,982) ₱	(391,755) ₱	(885,423) ₱	(6,212,099) ₱	(5,587,132)
Charge to profit or loss		1,531,603	-	(577,752)	-	-	953,851
Charged to other comprehensive income		-	(57,573)	-	-	-	(57,573)
At December 31, 2017	₱	**3,676,730** ₱	**(300,555)** ₱	**(969,507)** ₱	**(885,423)** ₱	**(6,212,099)** ₱	**(4,690,854)**

The details of Net Operating Loss Carried Over (NOLCO) and its corresponding deferred tax asset as of 2017 and 2016 are as follows:

		2017		2016	
Year of Incurrence	Year of Expiration	NOLCO	Deferred tax asset	NOLCO	Deferred tax asset
2012	2015 ₱	3,924,154 ₱	1,177,246 ₱	3,924,154 ₱	1,177,246
2013	2016	17,927,303	5,378,191	17,927,303	5,378,191
2014	2017	3,131,992	939,597	3,131,992	939,597
2015	2018	4,018,433	1,205,530	4,018,433	1,205,530
2017	2020	8,237,333	2,471,200	-	-
	₱	37,239,215 ₱	11,171,764 ₱	29,001,882 ₱	8,700,564
Expired NOLCO		**(24,983,449)**	**(7,495,034)**	(21,851,457)	(6,555,437)
	₱	**12,255,766** ₱	**3,676,730** ₱	7,150,425 ₱	2,145,127

25. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

The computation of basic/diluted earnings per share is computed as follows:

		2017		2016
Net profit	₱	**35,501,628**	₱	20,691,654
Divided by oustanding shares		**2,500,000**		2,500,000
	₱	**14.20**	₱	8.28

There were no potential dilutive shares in 2017 and 2016.

The computation of book value per share is computed as follows:

		2017		2016
Equity	₱	**505,592,629**	₱	458,633,945
Divided by oustanding shares		**2,500,000**		2,500,000
	₱	**202.24**	₱	183.45

26. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

The Company issues contracts that transfer insurance risk. This section summarizes these risks and the way the Company manages them.

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The Company has limited its exposure by imposing maximum claim amount on certain contract as well as the use of reinsurance arrangement in order to limit its exposure to catastrophic events (e.g. hurricane, earthquake and flood damage). The purpose of these underwritings and reinsurance strategies is to limit exposure to catastrophes based on the management's decision.

Catastrophe loss reserved and released for 2017 consists of:

		Catastrophe Loss Reserved		Catastrophe Loss Released
Earthquake	**₱**	**3,393,048**	**₱**	**6,806,477**
Typhoon		**849,292**		**1,558,915**
Flood		**788,302**		**1,421,785**
	₱	**5,030,642**	**₱**	**9,787,177**

Catastrophe loss reserved and released for 2016 consists of:

		Catastrophe Loss Reserved		Catastrophe Loss Released
Earthquake	₱	6,806,477	₱	7,386,424
Typhoon		1,558,915		1,798,843
Flood		1,421,785		1,648,790
	₱	9,787,177	₱	10,834,057

Property Insurance Contracts Risk
For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events and their consequences. For certain contracts, the Company has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies.

Casualty Insurance Risk
Claims on casualty contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted.

Reinsurance Risk
In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer.

In addition, the Company selects reinsurers with high credit ratings. The effect of reinsurance on premium income follows:

		2017		2016
Direct premium income	₱	**203,161,128**	₱	185,991,676
Reinsurance assumed		**11,292,707**		29,658,198
Reinsurance ceded		**(45,732,690)**		(29,697,789)
	₱	**168,721,145**	₱	185,952,085

Financial Risks
The significant risks related to financial instruments are credit risk, liquidity risk and market risk (currency and interest rate). The following sections described how the Company manages each of the risks.

Credit Risk
Credit risk is the risk that a party to a financial instrument will cause a financial loss to the Company by failing to honor its obligation to the Company. Credit risks are primarily associated with invested assets and reinsurance counter parties. The Company mitigates credit risk through detailed credit and underwriting policies and comprehensive due diligence and credit analyses.

The Company's maximum credit exposure related to financial instruments is summarized in the following table.

		2017		2016
			(in Thousands)	
Cash and cash equivalents	₱	**253,207**	₱	152,507
Premiums due from ceding companies		**14,617**		13,515
Reinsurance recoverable on losses		**72,876**		74,360
Premiums receivable		**46,024**		27,069
Commissions receivable		**6,857**		7,263
Premiums reserve withheld by ceding companies		**10,283**		14,063
Receivables		**837**		179
Salvage recoverable		**640**		864
Held-to-maturity financial assets		**226,317**		161,930
Available-for-sale financial assets		**294,081**		228,774
	₱	**925,739**	₱	680,524

The Company has assessed the credit quality of the following financial assets:

- The credit risk for cash in bank is considered negligible, since the counterparties are reputable entities with high quality external credit ratings. The credit quality of this financial asset is therefore considered to be high grade. For the determination of credit risk, cash included in the analysis above do not include cash on hand amounting to ₱225,000 and ₱875,678 for the year 2017 and 2016, respectively.

- The Company's premiums and other receivables are actively monitored to avoid significant concentrations of credit risk.

As of December 31, 2017 and 2016, the aging analysis of the Company's receivables is as follows:

	Neither Past Due Nor Impaired			Past Due But	2017
	Class A	Class B	Class C	Not Impaired	Total
Cash and cash equivalents	₱ 253,206,813	₱ -	₱ -	₱ -	₱ 253,206,813
Premiums					
Receivable	46,023,711	-	-		46,023,711
Due from ceding companies	-	-	14,616,650	-	14,616,650
Reserve withheld by ceding companies	-	-	10,282,662	-	10,282,662
Reinsurance recoverable on losses	15,845,941	57,029,597	-	-	72,875,538
Commission receivable	2,547,965	4,309,264	-	-	6,857,229
Salvage recoverable	640,483	-	-	-	640,483
Receivables	-	837,497	-	-	837,497
Financial assets					
Held-to-maturity	226,317,000	-	-	-	226,317,000
Available-for-sale	294,081,170	-	-	-	294,081,170
	₱ 838,663,083	₱ 62,176,358	₱ 24,899,312	₱ -	₱ 925,738,753

	Neither Past Due Nor Impaired			Past Due But	2016
	Class A	Class B	Class C	Not Impaired	Total
Cash and cash equivalents	₱ 152,506,599	₱ -	₱ -	₱ -	₱ 152,506,599
Premiums					
Receivable	21,366,228	4,087,553	1,614,293	715	27,068,789
Due from ceding companies	-	-	13,515,025	-	13,515,025
Reserve withheld by ceding companies	-	-	14,062,650	-	14,062,650
Reinsurance recoverable on losses	-	74,359,780	-	-	74,359,780
Commission receivable	2,046,123	97,896	5,119,154	-	7,263,173
Salvage recoverable	-	-	-	863,982	863,982
Receivables	-	-	178,542	-	178,542
Financial assets					
Held-to-maturity	161,929,657	-	-	-	161,929,657
Available-for-sale	228,773,728	-	-	-	228,773,728
	₱ 566,622,335	₱ 78,545,229	₱ 34,489,664	₱ 864,697	₱ 680,521,925

Credit Quality - In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its borrowers. Financial factors being considered comprised of the financial standing of the borrower while the non-financial aspects include but not limited to the assessment of the borrowers nature of business, industry background, payment habit and both present and potential business dealings with the Company.

Class A "High Grade" are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B "Moderate Grade" refer to accounts of satisfactory financial capability and credit standing but with some elements of risk where certain measure of control is necessary in order to mitigate risk of default.

Class C "Low Grade" refer to accounts which are collected on their due dates provided that the Company made a persistent effort to collect them.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to fund all cash outflow commitments as they fall due. The Company generally maintains a conservative liquidity position that exceeds all the liabilities payable on demand. The Company invests in various types of assets with a view of matching them with its liabilities of various durations. To strengthen its liquidity further, the Company actively manages and monitors its capital and assets levels, diversification and credit quality of its investments and cash forecasts and actual amounts against established targets. The Company also maintains liquidity contingency plans for the management of liquidity in the event of a liquidity crisis.

The table below summarizes the maturity profile of the Companies financial liabilities as of December 31, 2017 and 2016.

	Current		Non-current	2017
	Within 6 months	6 to 12 months	1 to 5 years	Total
Payables	₱ 10,514,436	₱ -	₱ -	₱ **10,514,436**
Claims payable	-	73,604,837	-	**73,604,837**
Premiums				**-**
Due to reinsurers	10,728,838	28,692,083	-	**39,420,921**
Reserve for unearned	-	-	80,294,104	**80,294,104**
Reserve withheld for reinsurers	-	-	2,577,220	**2,577,220**
Commission payable	-	40,178,109	-	**40,178,109**
Others *(excluding tax liabilities)*	-	24,089,508	-	**24,089,508**
	₱ 21,243,274	₱ 166,564,537	₱ 82,871,324	₱ **270,679,135**

	Current		Non-current	2016
	Within 6 months	6 to 12 months	1 to 5 years	Total
Payables	₱ 1,487,955	₱ -	₱ -	₱ 1,487,955
Claims payable	-	92,509,152	-	92,509,152
Premiums				
Due to reinsurers	14,954,035	20,005,633	-	34,959,668
Reserve for unearned	-	-	80,654,521	80,654,521
Reserve withheld for reinsurers	2,577,220	-	-	2,577,220
Commission payable	-	30,344,369	-	30,344,369
Others *(excluding tax liabilities)*	-	13,206,700	-	13,206,700
	₱ 19,019,210	₱ 156,065,854	₱ 80,654,521	₱ 255,739,585

Foreign Currency Risk

The Company's foreign currency risk results primarily from movement of the Philippine Peso (PHP) against the United States dollar. The Company resolved to mitigate this risk by taking advantage of market trends. Proper timing is adhered in order to realize a foreign currency gain.

Exposure to foreign exchange risk results primarily from the movements of the Philippine peso against the United States (U.S.) Dollar that arises from the Company's cash and cash equivalents and held to maturity financial assets, which are denominated in U.S. Dollars. As of December 31, 2017 and 2016, currency exchange rates used to translate U.S. Dollar denominated financial assets and liabilities amounted to ₱49.923 and ₱49.813, respectively.

The table below summarizes the Company's exposure to foreign exchange risk as of December 31, 2017 and 2016. Included in the table are the Company's assets at carrying amounts, categorized by currency.

	2017				2016			
		USD		PHP		USD		PHP
Cash and cash equivalents	$	2,543,670	₱	126,987,634	$	1,315,237	₱	65,515,901
Held-to-maturity investments		160,000		7,987,680		740,000		36,861,620
	$	2,703,670	₱	134,975,314	$	2,055,237	₱	102,377,521

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar rate, with all variable held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets) and the Company's equity.

	US $ Depreciates		US $ Appreciates	
	2017	2016	**2017**	2016
Effect on profit before tax	**$ 2,703,670**	$ 2,055,237	**$ (2,703,670)**	$ (2,055,237)
Effect on equity	**1,892,569**	1,438,666	**(1,892,569)**	(1,438,666)

Interest rate risk
The Company's exposure to market risk for changes in interest rates relates to the Company's held-to-maturity investments.

The Company's policy is to manage its interest income using fixed rates receivable.

Interest risk to which financial assets are exposed is the risk of loss from fluctuations in the future cash flows or fair value of financial assets because of a change in market interest rates. Interest is managed principally using mixed of fixed and variable rate receivable.

Financial assets exposed to interest rate risk follow:

	Variable	Fixed	Total
As of December 31, 2017			
Financial assets:			
Held-to-maturity investments	₱ -	₱ **226,317,000**	₱ **226,317,000**

	Variable	Fixed	Total
As of December 31, 2016			
Financial assets:			
Held-to-maturity investments	₱ -	₱ 161,929,657	₱ 161,929,657

The term and maturity profile of the interest bearing financial assets of the Company, together with its corresponding nominal amounts and carrying values, are shown in the following table:

	Interest term per annum	Rate fixing period	Nominal Amount	< 1 year	1-5 years	> 5 years	Carrying Value
As of December 31, 2017							
Held-to-maturity investments	Fixed at the date of investment	5 to 24	₱ 226,317,000	-	56,350,000	169,967,000	₱ 226,317,000

	Interest term per annum	Rate fixing period	Nominal Amount	< 1 year	1-5 years	> 5 years	Carrying Value
As of December 31, 2016							
Held-to-maturity investments	Fixed at the date of investment	5 to 24	₱ 161,929,657	45,276,000	-	116,653,657	₱ 161,929,657

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax as of December 31, 2017 and 2016.

	2017		2016	
	Effect on income statement	**Effect on Equity**	Effect on income statement	Effect on Equity
Increase in basis points (+100)	₱ **2,263,170**	₱ **1,810,536**	₱ 1,310,983	₱ 1,048,786
Decrease in basis points (-100)	**(2,263,170)**	**(1,810,536)**	(1,310,983)	(1,048,786)

Equity Price Risk
The Company is exposed to equity price risk arising from available-for-sale investments.

The available-for-sale investments are revalued on each reporting period end based on quoted market prices. Any resulting fair value gains or losses arising from the revaluation of the available-for-sale investments are recognized directly in the statement of comprehensive income. Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measure are measured at cost less any impairment losses at end of each reporting period.

Fair Value Measurement
The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Financial Instruments Whose Carrying Amount Approximate Fair Value
The carrying amounts of cash and cash equivalents, premiums due from ceding companies, reinsurance recoverable on losses, premiums receivable, commission receivable, premiums reserve withheld by ceding companies, receivables, other current assets, salvage recoverable, claims payable, premium due to reinsurers, commission payable, reserve for unearned premiums, payables, premium reserve withheld for reinsurers, bonus payable, credits to clients, documentary stamps payable and fire service tax payable which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

Available for Sale Financial Assets
The Company's available for sale financial assets are quoted equity securities that carried at their fair values as at December 31, 2017 and 2016. Fair value of available for sale financial assets is based on the closing quoted prices of stock investments published by the Insurance Commission.

The following table presents the Company's assets that are measured at fair value at December 31, 2017.

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets				
Equity securities	₱ 277,296,170	₱ -	₱ -	₱ 277,296,170

There are no financial instruments carried at fair value under Levels 2 and 3 during the year.

The following table presents the Company's assets that are measured at fair value at December 31, 2016.

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets				
Equity securities	₱ 211,988,728	₱ -	₱ -	₱ 211,988,728

There are no financial instruments carried at fair value under Levels 2 and 3 during the year.

For assets and liabilities that are recognized in the Company's financial statements in a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers that occurred between level 1, level 2 and level 3 during the years ended December 31, 2017 and 2016.

The Company's management determines the policies and procedures for both recurring and nonrecurring fair value measurements.

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.

Categories of Financial Instruments

The carrying values and fair values of the Company's financial assets and liabilities per category are as follows:

	2017				2016			
		Carrying Amount		Fair Value		Carrying Amount		Fair Value
				(in thousands)				
Assets								
Cash and cash equivalents	₱	253,432	₱	253,432	₱	153,382	₱	153,382
Premiums due from ceding companies		14,617		14,617		13,515		13,515
Reinsurance recoverable on losses		72,876		72,876		74,360		74,360
Premiums receivable		46,024		46,024		27,069		27,069
Commission receivable		6,857		6,857		7,263		7,263
Premiums reserve withheld by ceding companies		10,283		10,283		14,063		14,063
Receivables		837		837		179		179
Other current assets		20,708		20,708		12,428		12,428
Salvage recoverable		640		640		864		864
Available-for-sale investments		277,296		277,296		211,989		211,989
	₱	703,570	₱	703,570	₱	515,112	₱	515,112

	2017				2016			
		Carrying Amount		Fair Value		Carrying Amount		Fair Value
Liabilities								
Claims payable	₱	73,605	₱	73,605	₱	92,509	₱	92,509
Premium due to reinsurers		39,421		39,421		34,960		34,960
Commission payable		40,178		40,178		30,344		30,344
Reserve for unearned premiums		80,294		80,294		80,655		80,655
Payables		10,514		10,514		1,488		1,488
Premium reserve withheld for reinsurers		2,577		2,577		2,577		2,577
Bonuses payable (See Note 15)		5,657		5,657		4,286		4,286
Credits to clients (See Note 15)		4,376		4,376		4,133		4,133
Documentary stamps payable (See Note 15)		2,489		2,489		2,199		2,199
Fire service tax payable		823		823		647		647
	₱	259,934	₱	259,934	₱	253,798	₱	253,798

Capital Risk Management

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Company 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 the financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To align the profile of assets and liabilities taking account of risks inherent in the business
- To maintain financial strength to satisfy the requirements of the policyholders, regulators and shareholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximize shareholders value.

The operations of the Company are also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as they arise.

In reporting financial strength, capital and solvency are measured using the rules prescribed by the Insurance Commission of the Philippines.

Capitalization Requirements for Life, Non-Life, and Reinsurance Companies (Republic Act No. 10607)
Republic Act No. 10607 known as the Amended Insurance Code requires that no new domestic life or non-life insurance company shall, in a stock corporation, engage in business in the Philippines unless possessed of a paid up capital equal to at least One Billion Pesos (₱1,000,000,000). Provided that a domestic insurance company already doing business in the Philippines shall have a net worth by June 30, 2013 of Two Hundred Fifty Million Pesos (₱250,000,000). Furthermore, said company must have by December 31,2016 an additional Three Hundred Million Pesos (₱300,000,000) in net worth; by December 31, 2019, an additional Three Hundred Fifty Million Pesos (₱350,000,000) in net worth; and by December 31, 2022, an additional four Hundred Million Pesos (₱400,000,000) in net worth.

The statutory net worth of life, non-life, and reinsurance companies shall include the Company's paid-up capital, unimpaired surplus, retained earnings, and revaluation increments as may be approved by the Insurance Commissioner.

As at December 31, 2017, the Company has complied with the externally imposed new statutory minimum net worth requirement for Non-life insurance companies of ₱550 million during the reporting period.

The capital structure of the Company consists of equity attributable to equity holders comprising issued capital and retained earnings.

There were no changes in the Company's approach to capital management during the period.

Unimpaired Capital Requirement
The Insurance Commission 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 stockholder's equity is at least equal to the actual paid-up capital.

The following table shows the net worth and paid-up capital of the Company as of December 31, 2017 and 2016:

		2017		2016
Networth	₱	**507,109,978**	₱	458,633,945
Paid-up capital		**250,000,000**		250,000,000

Effective 2017, the new regulatory requirements namely, Financial Reporting Framework (FRF), Valuation Standards for Insurance Policy Reserves, and New Risk-based capital framework (RBC2) will be fully implemented. In 2015, the Insurance Commission conducted parallel runs, the purpose of which is to allow the insurance industry to assess the collective impact of implementing these new regulatory requirements simultaneously. This will allow the IC an opportunity to engage the industry in a meaningful dialogue and obtain feedback prior to the full implementation.

Risk-based Capital Requirements
Insurance Memorandum Circular (IMC) 7-2006 provides for the Risk-based capital (RBC) framework for the nonlife insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risk. Every nonlife insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

On June 10, 2015, the Insurance Commission issued Circular Letter No. 2015-30 requiring all non-life insurance to participate in parallel runs for the RBC 2-QIS (Quantitative impact Study).

Circular Letter No. 2015-29 prescribes the new financial reporting framework (FRF) that will be used for the statutory quarterly and annual reporting. This includes rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all the other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies.

Circular Letter 2015-32 Valuation Standards for Non-Life Insurance Policy Reserves, prescribes the new valuation methodology for the nonlife insurance companies. No-life insurance companies will be changing the basis of valuation of their non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The incurred but not reported (IBNR) reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. A margin for adverse deviation is provisionally set at 10% during the parallel runs and shall be incorporated on both premiums and claims liability valuation. Discount rates to be used shall be based on the latest PDST-R2 rates and the Bloomberg IYC Curve for Php and USD-denominated policies, respectively.

Circular Letter No. 2015-31 discussed the transition period and full implementation requirements for FRF, valuation standards for insurance policy reserves and new risk-based capital framework. The new regulatory requirements in the Circulars shall take effect after a transition period, the purpose of which is to allow the insurance industry to assess the collective impact of implementing FRF, Reserving and RBC2-QIS simultaneously. Full implementation will be June 30, 2016 with transition cut-off date as at January 1, 2016.

Consolidated Compliance Framework
IMC 10-2006 integrated the compliance standards for the fixed capitalization and RBC framework. The fixed capitalization requirement for a given period may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2011 which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%.

On June 1, 2012, the DOF issued DOF Order 15-2012 which provides that after 2012, compliance with prescribed minimum paid-up capital requirement may be deferred for existing insurers that meet the RBC hurdle rate of 150%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirements for the period under review.

The RBC ratio is calculated by dividing the net worth by the RBC requirement.

The following table shows the RBC ratio as of December 31, 2017 and 2016:

		2017		2016
Networth	₱	**705,592,630**	₱	458,633,945
RBC Requirement		**98,050,919**		74,655,208
RBC ratio		**720%**		614%

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

Admitted/Non-Admitted Assets

Under Section 202 and 203 of R.A. 10607 which seeks to strengthen the insurance industry in the Philippines prescribed admitted and non-admitted assets in the determination of the financial condition of any insurance company doing business in the Philippines details of which follow:

		2017		2016
PRFS				
Property and equipment - net of accumulated depreciation				
Building	₱	**20,706,999**	₱	20,706,999
Transportation equipment		**1,024,257**		920,894
Electronic data processing machine		**362,045**		677,922
Furniture, fixtures and equipment		**408,439**		442,117
Building improvements		**611,456**		288,429
Leasehold and improvements		**160,519**		195,756
		23,273,715		23,232,117
Section 203 of the New Insurance Code				
Non- admitted property and equipment				
Transportation equipment	₱	**1,024,257**	₱	920,895
Furnitures, fixtures and other office equipment		**408,439**		442,116
Leasehold and improvements		**160,519**		195,757
		1,593,215		1,558,768
Section 202 of the New Insurance Code				
Allowed and admitted assets	₱	**21,680,500**	₱	21,673,349

		2017		2016
PFRS				
Current tax assets	₱	**1,872,101**	₱	1,922,734
Other current assets		**20,707,960**		12,427,841
		22,580,061		14,350,575
Section 203 of the New Insurance Code				
Non admitted other current and tax assets				
Prepaid investment expense		**10,204,581**		6,333,454
Accounts receivable - BIR		**-**		999,565
		10,204,581		7,333,019
Section 2 of the New Insurance Code				
Allowed and admitted assets	₱	**12,375,480**	₱	7,017,556

		2017		2016
PFRS				
Pension asset	₱	2,263,778	₱	2,832,582
Other non-current assets		9,289,141		4,463,217
		11,552,919		7,295,799
Section 203 of the New Insurance Code				
Non admitted other non current assets				
Deferred charges - MCIT		3,162,255		2,225,826
Deferred tax asset - net		-		-
Plan assets		2,263,778		2,832,582
Verification fund		734,778		366,046
Refundable deposits		332,576		332,576
Taxes fund		3,776,014		271,763
		10,269,401		6,028,793
Section 202 of the New Insurance Code				
Allowed and admitted assets	₱	1,283,518	₱	1,267,006

27. DIVIDEND RESTRICTION

Dividends to stockholders which the Company may declare are subject to the provision of insurance law which stipulates that no such dividends may be distributed unless they originated from the excess profits after considering retention equivalent to the paid – up capital, the margin of solvency, the legal reserve fund, and all losses that may be incurred in settlement of liabilities for taxes and expenses.

28. SOLVENCY REQUIREMENTS

An insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital and net worth requirements as prescribed by the Commissioner. Such solvency requirements shall be based on internationally accepted solvency frameworks and adopted only after due consultation with the insurance industry associations.

29. SECURITY FUND CONTRIBUTION

All insurance companies doing business in the Philippines shall contribute to the Security Fund the aggregate amount of ₱5,000,000. The contributions of the companies shall be in direct proportion to the companies' aggregate net worth as shown in their latest financial statements.

30. CONTINGENCIES

The Company is a party litigant in a case pending in the Regional Trial Court. As at December 31, 2017, the outcome of the case is uncertain. According to the Company's legal counsel, they have a good chance of winning the case.

31. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies and practices of the Company are summarized below to facilitate the understanding of data presented in the financial statements.

Basis of Preparation
These financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretation, which have been approved by the Financial Reporting Standards Council

(FRSC) and adopted by the Securities and Exchange Commission (SEC), including SEC pronouncements.

The financial statements have been prepared under the historical cost convention except for available-for-sale investments and a certain property that have been measured at fair value. The Company's financial statements are presented in Philippine pesos, which is the functional and presentation currency under PFRS. All values are rounded to the nearest peso except as otherwise indicated.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 32.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with the PFRS.

Current versus Non-current Classification
The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair Value Measurement
The Company measures financial instruments at fair value at each financial position date.

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 by 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.

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 categorised 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 prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Changes in Accounting Policies
The following explains the significant accounting policies which have been adopted in the preparation of the financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes in accounting policies as explained below.

New and Amended Standards Adopted by the Company
The Company has applied for the first time the following applicable new and revised accounting standards. Except for these standards and amended PFRS which were adopted as of January 2017, the accounting policies adopted are consistent with those of the previous financial year.

The following standards and amendments have been issued effective as of January 1, 2017.

PAS 7 *(Amendments), Disclosure Initiative, Statement of Cash Flows*
The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Application of amendments will result in additional disclosures in the financial statements of the Company.

PAS 12 *(Amendments), Recognition of Deferred Tax Assets for Unrealized Losses*
The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measures at fair value. These amendments will not have a significant impact on the Company's financial performance and financial position.

PFRS 12, *(Amendments) Disclosure of Interest in Other Entities: Clarification of the Scope of Disclosure Requirements in PFRS 12*
The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments will not have a significant impact on the Company's financial performance and financial position.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

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

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company has performed an initial impact assessment of all three aspects of PFRS 9.

The Company will elect to present in other comprehensive income changes in fair value of equity investments previously classified as AFS investments and HTM investments because the business model is to hold these financial assets for long-term strategic investment and not for trading. The reclassification had no impact on the Company's opening retained earnings for the year ended December 31, 2017.

Decrease in AFS financial assets	(₱294,081,170)
Increase in FVOCI	₱294,081,170
Decrease in HTM financial assets	(₱294,081,170)
Increase in FVOCI	₱294,081,170

Further assessment will still be made by the Company relating to these financial assets and the impacts may still change.

The adoption of PFRS 9 related to classification and measurement of financial liabilities has no material impact on the Company's financial statement since the classification of financial liabilities under PFRS 9 does not follow the approach for classification of financial asset, rather it remains broadly the same under PAS 39.

As of December 31, 2017, the Company's financial liabilities are classified and measured at amortized cost.

PFRS 15, *Revenue from Contracts with Customers*
This standard was issued on May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in an exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted.

Apart from providing more extensive disclosures on the Company's revenue recognition and transactions, the Company is still assessing the potential impact on the financial statements when PFRS 15 is applied.

PFRS 10 and PAS 28 (Amendments), *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does (37) not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On 13 January 2016, the Financial Reporting Standards Council postponed the original effective date of 1 January 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. These amendments will not have a significant impact on the Company's financial performance and financial position.

PFRS 16, *Leases*
This standard was issued in January 2016. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, leases will apply the single-asset model, wherein lessees will recognize the assets and the related liabilities for most leases in their balance sheets and, subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

The Company is currently assessing the impact of PFRS 16 and plans to adopt the new standards on the required effective date once adopted locally.

PFRS 17, *Insurance Contracts*
In May 2017, the PASB issued PFRS 17 Insurance Contracts (PFRS 17), 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 (PFRS 4) that was issued in 2005. PFRS 17 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 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies PFRS 9 and PFRS 15 on or before the date it first applies PFRS 17. The Company is still assessing the potential impact of these amendments.

PAS 40 (Amendments), *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. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments.

Retrospective application is only permitted if this is possible without the use of hindsight. These amendments will not have a significant impact on the Company's financial performance and financial position.

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*
Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Company.

PAS 28 (Amendments), *Measuring an Associate or Joint Venture at Fair Value*
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. The amendments should be applied retrospectively, with earlier application permitted. These amendments will not have a significant impact on the Company's financial performance and financial position.

PFRS 4 (Amendments), *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued.

On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or 1 January 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. The Company is still assessing the potential impact of these amendments.

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 nonmonetary 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 a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. These amendments will not have a significant impact on the Company's financial performance and financial position.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatment*
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply interpretation from its effective date. In addition, the Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are temporary placements with maturity of less than three (3) months which can be withdrawn anytime depending on the immediate cash requirement of the Company

Investment Contracts
Insurance premiums are recognized directly as liabilities. Revenue consists of fees deducted for policy administration and surrender charges. Interest or changes in the unit prices credited to the account balances and excess benefit claims incurred in the period are charged as expenses in the statements of profit or loss and other comprehensive income. The Company, however, has no investment contracts.

Deferred Policy Acquisition Costs (DAC)
Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are deferred and charged to expense in proportion to the premium revenue recognized. Subsequently, these costs are amortized over the terms of the policies as premium is earned on a straight line basis using the 24^{th} method over the life of the contract except for marine cargo where commissions for the last two months of the year are recognized as expense the following year. Amortization is charged against the statement of profit or loss. The unamortized acquisition costs are shown in the assets section of the statement of financial position. All other costs are recognized as expense when incurred.

A review on impairment is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the statement of profit or loss and other comprehensive income.

Liability Adequacy Test
At each financial position date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Any DAC written off as a result of this test cannot subsequently be reinstated.

Reinsurance Contracts Held
Contracts entered into by the Company with reinsurers under which it is compensated for losses on one or more contracts issued by the Company and meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

Receivables and Payables related to Insurance Contracts and Investment Contracts
Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognized that impairment loss in the statements of profit or loss and other comprehensive income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

Financial Assets
Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss (FVPL), receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

All financial assets are recognized on their trade date. All financial assets that are not classified at a fair value through profit or loss are initially recognized at fair value plus transaction costs.

The foregoing categories of financial instruments are more fully described below.

Financial Assets at FVPL
Financial assets are classified as at fair value through profit or loss if they are acquired for the purpose of selling in the near term or if so designated by the management. Derivatives assets, including separated embedded derivatives are also classified as at fair value through profit or loss unless they are designated as effective hedging instruments.

Initial recognition and measurement
Financial assets at fair value through profit or loss are initially recorded at fair value. Transactions costs incurred for the acquisition of the financial assets are directly expensed outright.

Subsequent measurement
Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

The Company has no investment classified under this category.

Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS financial assets or securities at FVPL.

Initial recognition and measurement
Loans and receivables are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. The fair value of the loan receivable at initial recognition is normally the transaction price, meaning the amount of the loan granted.

Subsequent measurement
After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, allowances or reversals of allowances being made where necessary on remeasuring.

Impairment of Financial Assets
A loan and receivable is deemed impaired when there is objective evidence that an impairment loss on loan and receivables has been incurred. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, and through the amortization process.

Loans and receivables includes cash and cash equivalents, premiums due from ceding companies, reinsurance recoverable on losses, premiums receivable, commission receivable, premiums reserve withheld by ceding companies, salvage recoverable and other receivables in the statement of financial position.

Available-for-Sale Financial Assets
Financial assets of the Company include available-for-sale financial assets. AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. AFS financial assets include financial assets not quoted in an active market and are classified as AFS when purchased and held indefinitely, but which the Company anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. Financial assets may be designated under this category provided such are not held for trading.

Initial recognition and measurement
AFS financial assets are recognized initially at fair value. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business as at the date of financial position. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measure are measured at cost less any impairment losses at end of each reporting period.

Subsequent measurement
After initial recognition, changes in the fair value of AFS financial assets are recognized in equity, except for the foreign exchange fluctuations on AFS debt securities and the related effective interest which are taken directly to the statements of profit or loss and other comprehensive income. These changes in fair values are recognized in equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the statements of profit or loss and other comprehensive income.

Impairment of Financial Assets
The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact 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, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In case of equity investments classified as available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income reserve account and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income reserve account is reclassified from other comprehensive income reserve account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income account to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income reserve account.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income in the profit or loss. If, in subsequent year, 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 the profit or loss, the impairment loss is reversed through the profit or loss.

Held-to-Maturity Financial Assets
HTM financial assets include non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM financial assets, the entire category would be tainted and classified as AFS financial assets.

Initial recognition and measurement
Held-to-maturity financial assets are initially recorded at fair value plus transactions costs that are directly attributable to the acquisition or issuance of the financial asset. The fair value is usually the actual transaction price on the transaction date.

Subsequent measurement
Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

Impairment of Financial Assets
If there is objective evidence that a financial assets carried at amortized cost is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate of the financial asset.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "asset impairment" in the statements of profit or loss and other comprehensive income. If, in a subsequent period, the amount of an impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statements profit or loss and other of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. If a future write-off is later recovered, the recovery is recognized in profit or loss.

Financial liabilities
All financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

All financial liabilities are recognized initially at fair value of the consideration received less directly attributable costs. After initial recognition, these are subsequently measured at amortized cost using the effective interest method. When liabilities are impaired or derecognized, any gain and losses are recognized in the profit or loss.

Included in this category are the Company's claims payables, premiums due to reinsurers, commission payable, reserved for unearned premiums, premiums reserve withheld for reinsurers and other payables (except for tax liabilities).

The Company has no designated financial liability at FVPL.

De-recognition of Financial Assets and Liabilities
Financial Assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized or removed from the Company's statements of financial position where:

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

Where the Company has transferred its rights to receive cash flows from an asset 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 repay.

Purchases and sales of investments are recognized or derecognized on trade date, the date on which the Company commits to purchase or sell the asset. At initial measurement, financial instruments are measured equal to their fair value including transaction costs. Transactions costs incurred at a subsequent date related to the transfer or disposal of a financial instrument are not included in the subsequent measurement of the financial instrument. Such costs are only included in the statements of profit or loss and other comprehensive income when de-recognition occurs. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial Liabilities
Financial liabilities are derecognized when and only when obligation under liability is discharged or cancelled or 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount 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.

As at December 31, 2017 and 2016, the Company is not off setting financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements. The Company is presenting its financial assets and financial liabilities at gross amounts in the statement of financial position.
Other Investments
Other investments which include real estate acquired and the Company's contribution to the Security Fund are stated at cost. These are included in other non-current assets.

Impairment of Reinsurance Contracts
The Company assumes reinsurance risk in the normal course of business for nonlife insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

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

The Company assesses at each financial position date whether there is objective evidence that a reinsurance contract is impaired. A reinsurance contract is impaired if, and only if:

- there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and
- the event has reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

Property and Equipment

Property and equipment are stated at cost except for the building that is carried at appraisal value less accumulated depreciation and allowance for impairment loss. When assets are sold or retired, their cost, accumulated depreciation and any allowance for impairment are eliminated from the accounts and any gain or loss resulting from the disposal is included in the statements of profit or loss.

The initial cost of property and equipment comprises its purchase price, including import duties and taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to expense in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Building is measured at fair value less accumulated depreciation on buildings and impairment losses recognized after the date of the revaluation. Valuations will be performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation surplus included in the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognized in the revaluation surplus.

Accumulated depreciation as of the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

Building	20 years
Building improvements	1-5 years
Leasehold and improvements	2-5 years
Office furniture and fixtures	1-10 years
Transportation equipment	2-5 years
Electronic Data Processing Machine	1-5 years

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

Impairment of Nonfinancial Assets

Property and equipment and other non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts.

The estimated recoverable amount is the greater of an asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss is recognized in the statement of profit or loss and other comprehensive income.

Reversal of impairment losses recognized in prior years is recorded when that there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in the statements of profit or loss and other comprehensive income. However, the increased carrying amount of an asset due to reversal of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

De-recognition of Nonfinancial Assets
An item of the property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on the derecognition of the assets (computed as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the assets is derecognized.

Share Capital
Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

When the Company purchases the Company's equity shares capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

The Company's share capital includes common stocks and treasury stocks.

Retained earnings include all the accumulated earnings of the Company less dividends declared.

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

Insurance Contracts and Investment Contracts

(a) Recognition and Measurement

Short-term Insurance Contracts
These contracts are casualty and property insurance contracts.

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

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Premiums from short duration insurance contracts are recognized as revenue over the period of contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies as at the date of financial position are accounted for as Unearned Premiums and presented in the liability section of the statements of financial position. The related reinsurance premiums ceded that pertained to the unexpired periods as at the date of financial position are accounted for as Ceded

Reinsurance Premiums shown as part of assets in the statements of financial position. The net changes in these accounts between financial position dates are either charged or credited to income.

Commission income earned from short duration insurance contracts are recognized as revenue over the period of contracts using the 24th method except for marine cargo where the deferred reinsurance commissions for the last two months of the year are considered earned the following year. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as deferred reinsurance commissions and lodged into commissions payable and presented in the liabilities section of the statement of financial position.

Interest income is recognized as the interest accrues using the effective interest method.

Other income includes gain on sale of stocks and property and investment income. Gain on sale is recognized when sold. Recovery from impairment losses is recognized when collected.

Dividend income is recognized when the right to receive payment is established. Revenues from dividends received and those from other sources are recognized when declared and earned regardless of when received.

Foreign currencies denominated monetary transactions are translated into the functional currency using the prevailing exchange rates at financial position dates. Exchange gains or losses arising from foreign currency transactions are credited or charged directly to operations.

Expense Recognition

Expenses are recognized in the statements of profit or loss when decrease in future economic benefit related to a decrease in asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the statements of profit or loss and other comprehensive income:

- on the basis of a direct association between the costs incurred and the earning of specific items income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statements of financial position as an asset.

Benefits and Claims

Gross benefits and claims consist of benefits and claims paid to policyholders, which are based on the loss adjuster estimates. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims.

Insurance claims are recorded on the basis of notification received.

Other Underwriting Expenses

Other underwriting expense pertains to the costs incurred by the Company prior to the issuance of policies to its policyholders. These costs include expenses for technical inspections, actuarial reviews and other work that is necessary to determine whether or not to accept the risks to be written. These costs are recognized as expense as they are incurred.

General Expenses

General expenses are recognized in the statement of profit or loss as they are incurred.

Comprehensive Income

The Company uses single statement of comprehensive income, in which it presents all items of income and expense recognized in the period.

Related Party Relationships and Transactions
Related party relationship exists when (a) a person or a close member of that person's family has control or joint control, has significant influence or is a member of the key management personnel of the reporting entity or a parent of the reporting entity. (b) An entity is related to the Company if, the entity and the Company are members of the same group, one entity is an associate or joint venture of the other entity, both entities are joint ventures of the same third party, one entity is a joint venture of a third entity and the other entity is an associate of the third party, an entity is a post-employment benefit plan for the benefit of employees of the Company, the entity is controlled or joint controlled by a person who has control or joint control over the Company and a person as identified in (a) above has significant influence over the entity is a member of the key management personnel of the entity or of a parent of the entity. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Leases
Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

The Company as Lessee
Rentals payable under operating leases are charged to profit or loss on another systematic basis, which is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Employee Benefits
a. Retirement Cost
The Company's retirement plan is non-contributory and of the defined benefit type which provides a retirement benefit equal to One-half month's salary for every year of credited service in accordance with the Retirement Pay law (Republic Act No. 7641). Benefits are paid in lump sum upon retirement or separation in accordance with the terms of the plan. A The retirement cost is determined by applying the Accrued Benefit Actuarial Cost Method taking into account the factors of investment, mortality, disability and salary projection rate. The fund is administered by a duly appointed fund trustee.

b. Short-term employee benefits
Wages, salaries, paid annual leave, sick leave, bonuses, social security contribution, philhealth contribution, pag-ibig contribution and non-monetary benefits are recognized as employee benefit expense and accrued when the associated services are rendered by the employees of the Company.

c. Profit-sharing and bonus plans
The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Income taxes
The tax expense for the period comprises current and deferred tax.

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

Deferred income taxes
Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax relating to items recognized outside profit and loss is recognized in correlation to the underlying transaction both in OCI or directly in equity and not in the company's statements of profit or loss and other comprehensive income.

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

Current and deferred tax for the year
Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Value-added Tax (VAT)
Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables that are stated with the amount of VAT included.

Earnings per Share
Basic earnings per share is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted earnings per share amounts are calculated by dividing net income by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares outstanding that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Book Value per Share
Book value per share is calculated by dividing stockholders equity by the weighted average number of ordinary shares outstanding during the year, adjusted for any subsequent stock dividends declared.

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

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

Provisions are reviewed at each financial position date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered probable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

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

Contingencies

Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. They are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent Events

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

32. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of the Company's accounting policies, which are described in Note 31, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments

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

Product classification

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. The Company has determined that the insurance policies have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

Fair Value Measurement of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Financial assets not quoted in an active market
The Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis. In addition, the Company considers the significance of the variability in the range of recoverable fair value estimates.

The carrying value of AFS financial assets not quoted in an active market and are carried at cost amounted to ₱16,785,000 as of December 31, 2017 and 2016. (See Note 6).

Revenue Recognition
The Company's revenue recognition policies require use of estimates and assumptions that may affect the reported amounts of revenue and receivables.

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the revenues and expenses of the Company.

Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Determination of Fair Values of Financial Assets
Fair value determinations for financial assets are based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect the market prices, fair value is based on their internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time. The use of assumptions could produce materially different estimates of fair value.

The Ultimate Liability Arising from Claims Made Under Insurance Contracts
The estimation 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 estimate of the liability that the Company will ultimately pay for such claims.

Estimates have to be made for the expected ultimate cost of claims reported at the reporting date. It can take significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of notified is that of using past claims settlement trends to predict future claims settlement trends. At each end of the reporting period, prior year claims estimated are assessed for adequacy and changes made are charged to provision. Claims are not discounted for the time value of money.

The assumption underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence ultimate claim costs. Historical claims development is analyzed by accident years but can also be further analyzed by significant business lines and claim types. Large claims are usually addressed by being reserved at the face value of loss adjuster's estimates. Assumptions used are those implicit in the historical claims development data on which the projections are based.

Estimated Allowance for Impairment Losses on Receivables
The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivable and on an evaluation of the

current status of the account. However, as of December 31, 2017, no allowance for impairment losses was provided for, as the accounts were deemed fully collectible.

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 the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

Estimated Useful Lives of Property and Equipment
The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

Financial Assets and Liabilities
The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. foreign exchange rates, interest rate), the amount of changes in fair value would differ if the Company utilized different value methodology. Any changes in fair value of these financial assets and liabilities would affect directly the statements of other comprehensive income and statements of changes in equity. Fair values of financial assets and liabilities are disclosed in details in Note 26.

Asset Impairment
The Company assesses impairment on 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 the expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

No indications of impairment were noted on property and equipment as of December 31, 2017 and 2016.

Retirement Benefit Obligation
The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The valuation results are based on the employee data as of valuation dates as provided by the Company. The average discount rate was based on bootstrapped PDEX PDST-R2 rates at various tenors as of December 31, 2017 and 2016. Assumed discount rate is used in the measurement of the present value of the obligation, service and interest cost.

Deferred Income Taxes
The Company reviews the carrying amounts of deferred income taxes at each financial position date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit to allow all or part of the deferred income tax assets to be utilized.

As of December 31, 2017 and 2016, the Company recognized deferred tax asset amounting to ₱3,676,730 and ₱2,145,127, respectively. (See Note 24)

Contingencies
The Company is currently a party litigant in certain case. The estimate of the probable costs is based on the analysis of potential result in consultation with legal counsel.

33. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Revenue Regulation No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulation (RR) No. 15-2010 which took effect on December 29, 2010 which provides for additional information required to be disclosed in the notes to financial statements regarding taxes, duties and license fee, paid or accrued, during the taxable year. Specifically, the disclosure should include the following: (a) amount of Value-Added Tax (VAT) output taxes declared during the year with account title and amount/s; (b) amount of VAT Input taxes claimed; (c) landed cost of imports and the amount of customs duties and tariff fees; (d) amount of excise taxes, classified per major product category; (e) documentary stamp tax (DST) on loan instruments and other transactions; (f) all other taxes, local and national, license and permit fees lodged under taxes and licenses account both under the Cost of sales and operating expense accounts;
(g) amount of withholding taxes;(h) periods covered and amounts of deficiency assessments; and (i) tax cases and amounts involved.

In compliance with the requirements set forth by RR 15-2010, the following taxes are either paid or accrued by the Company.

1. The following table shows the Company's Sales and VAT output declared as of December 31, 2017 and 2016:

		2017		2016
Underwriting income	₱	**148,746,869**	₱	162,223,830
VAT output		**17,849,624**		19,466,860

2. The amount VAT Input taxes claimed are broken down as follows:

		2017		2016
Beginning of the year	₱	**978,830**	₱	-
Current year's purchases				
Domestic purchase of services		**6,291,731**		5,516,108
		7,270,561		5,516,108
Application against output VAT		**(6,564,468)**		(4,537,278)
Balance at the end of the year	₱	**706,093**	₱	978,830

3. Landed Cost, Customs' Duties and Tariff Fees

The Company did not have any importations in 2017 and 2016 that would require for the payment of customs duties and tariff fees.

4. Excise Tax

The Company did not have any transactions in 2017 and 2016 which are subject to excise tax.

5. Documentary Stamp Tax

The Company paid ₱16,516,437 and ₱17,818,853 as of December 31, 2017 and 2016, respectively.

6. Taxes and Licenses

The details of taxes and licenses are shown as part of expenses follows:

		2017		2016
Local				
Community tax	₱	**10,500**	₱	10,500
Business taxes and others		**587,706**		936,509
	₱	**598,206**	₱	947,009

7. Withholding taxes

The details of total withholding taxes paid and accrued for the year ended December 31, 2017 and 2016 are as follows:

		2017		2016
National Internal Revenue Taxes				
Withholding taxes				
Expanded Withholding Tax	₱	**4,787,234**	₱	4,575,157
Withholding Tax on Compensation		**1,587,850**		1,814,824
	₱	**6,375,084**	₱	6,389,981

8. Deficiency Tax Assessments and Tax Cases

As of December 31, 2017 and 2016, the Company did not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

Revenue Regulation No. 19-2011

These Revenue Regulations are issued to prescribe the new BIR Forms that will be used for Income Tax filing covering and starting with Calendar Year 2011, and to modify Revenue Memorandum Circular No. 57-2011.

1. Revenues/Receipts/Fees

		2017
Underwriting income	₱	178,468,923

2. Cost of Services

		2016
UNDERWRITING EXPENSES		
Agents' commission and expenses	₱	45,137,543
Claims, losses paid and adjustment expenses		46,708,204
Insurance expenses		24,532,997
Total underwriting expenses		116,378,744
COST OF SERVICES		
Salaries and wages		9,368,737
Officers and employees benefits		2,202,626
Printing, stationery and supplies		1,483,835
Taxes and licenses		598,206
Professional fees		724,235
Communication and postage		728,926
Repairs and maintenance		198,763
		15,305,328
	₱	131,684,072

3. Non-operating and Taxable Other Income

		2017
Others	₱	36,619

4. Itemized Deduction

		2017
Agency expenses	₱	9,739,974
Marketing expenses		7,969,001
Provision for profit sharing		5,656,760
Salaries and wages		4,015,173
Bad debts written-off		2,759,700
Professional fees		2,379,833
Depreciation and amortization (Note 7)		1,190,148
Transportation and travel		1,593,148
Rental expenses		1,135,926
Light and water		1,067,768
Officers' and employees benefits		943,982
Communication and postage		728,926
Association and pool dues		660,861
Printing, stationery and supplies		635,929
Representation and entertainment		630,269
Directors' fees and allowances		517,000
Service fee		450,878
Janitorial services		173,139
Security services		168,207
Repairs and maintenance		85,184
Bank and service charge		67,348
Insurance		19,178
Miscellaneous expenses		12,470,472
	₱	55,058,804

5. Taxes and Licenses

The details of the Company's taxes and licenses are presented in No. 5 and 6 of Revenue Regulation No.15-2010 notes.

6. Other Information

All other information prescribed to be disclosed by the BIR has been included in this note.

MAM & Co.

M. A. MERCADO & Co.
Certified Public Accountants
2109 Cityland 10 Tower 1
156 H.V. Dela Costa Street
6815 Ayala Avenue North
1226 Makati City, Philippines

Phone: +63 (2) 894-5783
+63 (2) 893-1509
Fax: +63 (2) 894-4793
E-mail: mercado_cpa@yahoo.com
Website: mamercado.com

SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS

The Shareholders and the Board of Directors
Empire Insurance Company
2nd Floor Prudential Life Plan Bldg.
843 A. Arnaiz Street, Makati City

We have audited the financial statements of Empire Insurance Company as of and for the year ended December 31, 2017, on which we have rendered the attached report, dated April 16, 2018.

In compliance with SRC Rule 68, we are stating that the Company has one hundred twenty three (123) shareholders each owning 100 or more shares as of December 31, 2017 as disclosed in Note 18 to the financial statements.

M.A. MERCADO & CO.

MARCELINO A. MERCADO
Partner
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 6619760; Issued on January 5, 2018, Makati City
SEC Accreditation No. 1533-A (Group C)
Issued February 3, 2016; Valid until February 2, 2019
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April 16, 2018

EMPIRE INSURANCE COMPANY
SCHEDULE SHOWING FINANCIAL SOUNDNESS INDICATORS
IN TWO COMPARATIVE PERIODS
UNDER SRC RULE 68, AS AMENDED
DECEMBER 31, 2017

	2017	2016
ASSET MANAGEMENT		
Asset turnover	**0.04**	0.03
Fixed asset turnover	**1.53**	1.41
SOLVENCY		
Solvency ratio	**0.13**	0.09
Debt-to-equity ratio	**0.55**	0.58
Equity-to-assets ratio	**0.51**	0.63
Asset-to-equity ratio	**1.94**	1.58
Debt ratio	**0.28**	0.37
LIQUIDITY MANAGEMENT		
Current ratio	**2.78**	1.92
Quick ratio	**1.64**	1.20
PROFITABILITY RATIO		
Gross profit margin	**35%**	37%
Operating profit margin	**19%**	15%
Net profit margin	**20%**	12%
Return on equity	**7%**	5%
Return on assets	**4%**	3%

1. ASSET MANAGEMENT

a. Asset turnover ratio calculates the total revenue for every peso of assets a Company owns. There are general rule that should be kept in mind when calculating asset turnover. Asset turnover is meant to measure a Company's efficiency in using its assets. The higher the number, the better, although investors must be sure to compare a business with the same line of industry. It is fallacy to compare completely unrelated businesses. The higher a Company's asset turnover, the lower its profit margin tends to be (and vice versa).

   For every peso of assets on hand, the Company is generating 3 centavos in sales as of December 31, 2017 and 2016.

b. Fixed asset turnover measures a Company's ability to generate net income from fixed assets. A higher fixed asset turnover ratio shows that the Company has been more effective in using the investment in fixed assets to generate income.

   As of December 31, 2017, and 2016, the Company's fixed assets turnover is 1.53 and 1.41, respectively.

2. SOLVENCY

a. Solvency ratio quantifies the size of the Company's after tax income, no counting non-cash depreciation expenses, as contrasted to the total debt obligations of the Company excluding deferred tax liabilities. Acceptable solvency ratios vary from industry to industry. However, as a general rule of thumb, a solvency ratio higher than 20% is considered financially sound.

b. Debt-to-equity ratio is calculated by dividing total liabilities by total equity. This ratio shows the financial flexibility and the long-term capital structure of the Company. The rule of thumb, debt equity ratio should not be more than 2:1.

c. Equity-to-asset ratio measures the proportion of Company's assets financed by the owner's equity. The equity to asset ratio of the Company indicates that each of peso of equity, the Company has .61 and .63 in assets as of December 31, 2017 and 2016, respectively.

d. Asset-to-equity ratios used as a measure of the company's leverage and long-term solvency. It compares total assets to total shareholder equity.

e. Debt ratio indicates what proportion of debt a company has relative to its assets. The measure gives an idea to the leverage of the company along with the potential risks the company faces in terms of its debt-load.

f. The interest coverage ratio is used to determine how easily a Company can pay interest expenses on outstanding debt. The ratio is calculated by dividing a Company's earnings before interest and taxes (EBIT) by the Company's interest expenses for the same period. The lower the ratio interest coverage, the larger the debt burden is on the Company. Also known as interest coverage.

   As of December 31, 2017 and 2016, the Company has no long-term debt.

3. LIQUIDITY MANAGEMENT

a. Current ratio is the most commonly used measure of the liquidity of a Company. This ratio measures how many pesos of current assets are available to pay one peso worth of current liabilities.

   If the ratio is less than 1, current liabilities exceed current assets and the Company's liquidity is threatened. A high current ratio is a favorable condition financially because it indicates the ability to pay current liabilities from conversion of current assets into cash. The rule of thumb has been that a current ratio below 2 suggests the possibility of liquidity problems. The current ratio is current assets divided by the current liabilities.

   The Company is able to cover every peso of its current obligations with 2.78 and 1.92 in current assets as of December 31, 2017 and 2016, respectively.

b. Quick ratio also known as liquid ratio considers only the liquid forms of current assets thus revealing the Company's reliability on inventory and other current assets to settle short-term debts. As of December 31, 2017 and 2016, the quick ratio of the Company is 1.64 and 1.20, respectively.

4. PROFITABILITY RATIO

Profitability ratios (also referred to as profit margin ratios) compare components of income with sales. They give us an idea of what makes up a Company's income and are usually expressed as a portion of each peso of sales.

a. Gross profit margin ratio indicates how much of every peso of revenues is left after cost of services.

b. Operating profit margin is a ratio that indicates how much of each peso of revenues is left over after operating expenses.

c. Net profit margin indicates how much of each peso of revenues is left over after all expenses.

d. Return on equity measures the percentage return on the actual investments made by the stockholders. As a rule of thumb, companies with return on equity significantly below 15% are doing poorly. Companies with return on equity consistently above 15% are doing well.

e. Return on assets ratio measures how efficiently profits are being generated from the assets employed. The higher the return, the more efficient management is in utilizing its asset base. As a rule of thumb, return on assets should not be less than 5%.

EMPIRE INSURANCE COMPANY
Philippine Financial Reporting Standards (PFRSs)
and Interpretations
Effective as of December 31, 2017

PFRSs AND INTERPRETATIONS **Effective as of December 31, 2017**		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and quantitative characteristics		✓		
PFRSs Practice Statement Management Commentary				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2; Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4	✓		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Changes in Method of Disposal			✓

M. A. MERCADO & Co.
Certified Public Accountants
2109 Cityland 10 Tower 1
156 H.V. Dela Costa Street
6815 Ayala Avenue North
1226 Makati City, Philippines

Phone: *+63 (2) 894-5783*
+63 (2) 893-1509
Fax: *+63 (2) 894-4793*
E-mail: *mercado_cpa@yahoo.com*
Website: *mamercado.com*

REPORT OF INDEPENDENT AUDITORS

Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

In compliance with SEC Memorandum Circular No. 11, series of 2008 and pursuant to Sections 43 and 143 of the Corporation Code of the Philippines and Section 5 of the Securities Regulation Code, the amount of retained earnings available for dividend declaration as at December 31, 2017 is ₱98,927,350 as presented in the attached Annex "A" of Empire Insurance Company.

M.A. MERCADO & CO.

MARCELINO A. MERCADO
Partner
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 6619760; Issued on January 5, 2018, Makati City
SEC Accreditation No. 1533-A (Group C)
Issued February 3, 2016; Valid until February 2, 2019
BIR Accreditation No. 08-003338-2-2015
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April 16, 2018

Annex "A"

EMPIRE INSURANCE COMPANY
Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2017

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		₱	143,796,712
Add: Net income actually earned/realized during the period			
Net income during the period closed to Retained Earnings	35,501,628		
Less: Non-actual/unrealized income net of tax			
Equity in net income of associate / joint venture	-		
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	-		
Unrealized actuarial gain	-		
Fair value adjustment (M2M gains)	-		
Fair value adjustment of Investment Property resulting to gain	-		
Adjustment due to deviation from PFRS/GAAP - gain	-		
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the FPRS	-		
Sub-total	35,501,628		
Add: Non-actual losses			
Depreciation on revaluation increment (after tax)	-		
Adjustment due to deviation from PFRS/GAAP - losses			
Deferred tax assets	-		
Effect of change in accounting for employee benefits (PAS 19)	-		
Loss on fair value adjustment of investment property (after tax)	-		
	-		
Net income actually earned during the period			35,501,628
Add(Less):			
Dividend declarations during the period	-		
Margin of solvency	-		
Legal reserve fund	(80,294,104)		
Effects of prior period adjustments	-		
Treasury shares	(76,886)		(80,370,990)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		**₱**	**98,927,350**

M. A. MERCADO & Co.
Certified Public Accountants
2109 Cityland 10 Tower 1
156 H.V. Dela Costa Street
6815 Ayala Avenue North
1226 Makati City, Philippines

Phone: *+63 (2) 894-5783*
+63 (2) 893-1509
Fax: *+63 (2) 894-4793*
E-mail: *mercado_cpa@yahoo.com*
Website: *mamercado.com*

INDEPENDENT AUDITORS' REPORT

The Shareholders and the Board of Directors
Empire Insurance Company
2nd Floor Prudential Life Plan Bldg.
843 A. Arnaiz Street, Makati City

We have audited in accordance with Philippine Standards on Auditing the financial statements of Empire Insurance Company as at and for the year ended December 31, 2017, and have issued our report thereon dated April 16, 2018. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all effective standards and interpretations is the responsibility of the Company's management. This schedule is presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

M.A. MERCADO & CO.

MARCELINO A. MERCADO
Partner
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April 16, 2018

PFRSs AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 6	**Exploration for and Evaluation of Mineral Resources**			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosure about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfer of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
	Amendments to PFRS 7: Servicing Contracts	✓		
PFRS 8	Operating Segments			✓
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Asset			✓
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓

PFRSs AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interest in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 10, 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers			✓
PFRS 16	Leases	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1, Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statements of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period			✓
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Assets			✓
	Amendments to PAS 12: Deferred Tax Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and 38: Proportionate Restatement of Accumulated Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓

PFRSs AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Regional Market Issue Regarding Discount Rate			✓
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosures of Government Assistance			✓
PAS 21	The Effect of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Cost			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates			✓
	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value			
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Disclosure of Information "Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment o Assets - Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PFRSs AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Finacial Assets - Effective Date and Transistion			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
	Amendments to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40: Transfers of Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Intsruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interest Arising from Decommissioning , Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting under Hyperinflationary Economies			✓
IFRIC 8	Scope of IFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2 - Group and Treasury Shares Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding requiremnt.			✓

PFRSs AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 15	Agreements for the Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance- No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions involving the Legal form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - website Costs			✓

EMPIRE INSURANCE COMPANY

SCHEDULE OF UNDERWRITING INCOME AND EXPENSES

		Motor Car		Marine		Personal			Years Ended December 31	
	Fire	Own Damage	TPL	Cargo	Bonds	Accident	Others	Floater	2017	2016
UNDERWRITING INCOME										
Direct premiums - Net	₱ 67,079,902	₱ 63,606,919	₱ 46,930,405	₱ 1,703,965	₱ 4,306,089	₱ 4,286,934	₱ 7,022,100	₱ 8,224,814	₱ 203,161,128	₱ 185,991,676
Add: Premiums assumed	5,367,264	138,960	1,404,811	2,448	360,000	6,175	3,792,170	220,879	11,292,707	29,658,198
Gross premiums	72,447,166	63,745,879	48,335,216	1,706,413	4,666,089	4,293,109	10,814,270	8,445,693	214,453,835	215,649,874
Less: Premiums ceded	27,898,129	3,586,369	-	285,107	2,182,524	442,809	5,786,545	5,551,207	45,732,690	29,697,789
Net premiums retained	44,549,037	60,159,510	48,335,216	1,421,306	2,483,565	3,850,300	5,027,725	2,894,486	168,721,145	185,952,085
Less: Premiums reserve for the year	20,940,082	30,571,506	21,787,891	753,281	1,929,066	2,086,956	531,151	1,694,172	80,294,105	80,654,521
Gross premiums on net retained	23,608,955	29,588,004	26,547,325	668,025	554,499	1,763,344	4,496,574	1,200,314	88,427,040	105,297,564
Add: Premiums released from reserve	20,728,409	35,665,590	19,807,770	366,732	287,398	2,153,938	817,493	827,190	80,654,520	60,008,988
Premiums earned	44,337,364	65,253,594	46,355,095	1,034,757	841,897	3,917,282	5,314,067	2,027,504	169,081,560	165,306,552
Commisions earned	4,737,235	640,390	-	45,556	182,497	146,762	1,647,264	1,987,659	9,387,363	8,211,232
Total underwriting income	₱ 49,074,599	₱ 65,893,984	₱ 46,355,095	₱ 1,080,313	₱ 1,024,394	₱ 4,064,044	₱ 6,961,331	₱ 4,015,163	₱ 178,468,923	₱ 173,517,784
UNDERWRITING EXPENSES										
Agents' commission and expenses	₱ 16,966,122	₱ 16,966,570	₱ 4,495,029	₱ 353,219	₱ 506,840	₱ 1,095,121	₱ 2,727,924	₱ 2,026,718	₱ 45,137,543	₱ 47,151,561
Claims, losses paid and adjustment expenses	9,311,030	30,343,837	4,168,507	264,883	-	1,064,784	1,238,779.00	316,384	46,708,204	35,105,344
Insurance epenses	19,915,510	4,249,987	-	367,500	-	-	-	-	24,532,997	26,951,403
Total underwriting expenses	46,192,662	51,560,394	8,663,536	985,602	506,840	2,159,905	3,966,703	2,343,102	116,378,744	109,208,308
NET UNDERWRITING INCOME	₱ 2,881,937	₱ 14,333,590	₱ 37,691,559	₱ 94,711	₱ 517,554	₱ 1,904,139	₱ 2,994,628	₱ 1,672,061	₱ 62,090,179	₱ 64,309,476

The notes on pages 8 to 59 are an integral part of these financial statements.

SCHEDULE I