**COUNTRY BANKERS INSURANCE CORPORATION**
3rd Floor Country Bankers Centre, T.M. Kalaw Ave.
Ermita, Manila

**FINANCIAL REPORTS**
December 31, 2017 and 2016

**SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS**

**The Stockholders and the Board of Directors**
**COUNTRY BANKERS INSURANCE CORPORATION**
**3$^{rd}$ Floor Country Bankers Centre, T.M. Kalaw Ave.**
**Ermita, Manila**

We have examined the financial statement of **COUNTRY BANKERS INSURANCE CORPORATION**, for the year ended December 31, 2017, on which we have rendered the attached report dated April 25, 2018.

In compliance with SRC Rule 68, we are stating that the above Company has only eighty two (82) stockholders owning one hundred (100) or more shares each.

**BANARIA, BANARIA AND COMPANY, CPAs**

By: GRACIA SEVERA A. BANARIA-ESPIRITU
Partner
CPA Certificate No. 27621
Tax Identification No. 131-938-548
PTR No. 5642328-C, January 11, 2018, Quezon City
CTC No. 22111479, January 11, 2018, Quezon City
BOA Accreditation No. 0030, valid until December 31, 2018 (Firm)
SEC Accreditation No. 0260-FR-1, valid until May 1, 2019 (Firm)
BIR Accreditation No. 07-001323-002-2017, valid until June 27, 2020 (Firm)
BIR Accreditation No. 07-001324-002-2017, valid until June 27, 2020 (Partner)
IC Accreditation No. F-2016-001-R, valid until July 17, 2019 (Firm)
IC Accreditation No. SP-2017-005-O, valid until May 7, 2020 (Partner)

April 25, 2018

## INDEPENDENT AUDITORS' REPORT

**The Stockholders and the Board of Directors**
**COUNTRY BANKERS INSURANCE CORPORATION**
**3rd Floor Country Bankers Centre, T.M. Kalaw Ave.**
**Ermita, Manila**

### Opinion

We have audited the financial statements of **COUNTRY BANKERS INSURANCE CORPORATION** ("the Company"), which comprise the statement of financial position as at December 31, 2017 and 2016, and the statement of comprehensive income, statement of changes in stockholders' equity and statement of cash flows for the year 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 respect, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

Having regard to the future period to which those charged with governance have paid particular attention in assessing going concern, we have planned and performed procedures specifically designed to identify any material matters which could indicate concern about the entity's ability to continue as a going concern. As stated in Note 2 to the financial statements, no events or conditions indicate that a material uncertainty exists that may cast significant doubt in the Company's ability to continue as a going concern. Use of going concern basis of accounting is appropriate and no material uncertainty has been identified.

## Emphasis of Matter

We draw attention to Note 39 to the financial statements which describe the policy adopted by the Company of when an entity should adjust its financial statements for events after the reporting period and the disclosures that an entity should give about the date when the financial statements were authorized for issue and events after the reporting period.

## Other Information

Management is responsible for the other information. The other information comprises the information included in the schedule of Philippine Financial Reporting Standards but does not include the financial statements and our auditors' report thereon.

In our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

## 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 Philippine Financial Reporting Standards 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 disclosure 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.

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

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

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

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

**Report on Legal and Other Regulatory Requirements**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 33 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**BANARIA, BANARIA AND COMPANY, CPAs**

By: GRACIA SEVERA A. BANARIA-ESPIRITU
Partner
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April 25, 2018

**COUNTRY BANKERS INSURANCE CORPORATION**
**STATEMENTS OF FINANCIAL POSITION**
**December 31, 2017 and 2016**
**(All Amounts in Philippine Peso)**

| A S S E T S | Notes | | 2 0 1 7 | | 2 0 1 6 |
|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 7 | P | 138,352,305 | P | 171,853,096 |
| Insurance balances receivable | | | | | |
| Premiums receivable | 8 | | 20,440,616 | | 17,706,228 |
| Due from general agents and brokers | 9 | | - | | 1,826,313 |
| Due from ceding companies and reinsurers | 10 | | 55,773,646 | | 64,285,363 |
| Reinsurance recoverable on paid losses | 11 | | 16,407,431 | | 7,739,932 |
| Funds held by ceding companies | | | 515,729 | | 515,729 |
| Accounts and other receivables | 13 | | 1,193,671 | | 707,250 |
| Deferred acquisition cost | 14 | | 26,826,472 | | 23,187,048 |
| Deferred reinsurance premiums | 15 | | 6,540,182 | | 5,105,541 |
| Held-to-maturity (HTM) financial assets | 16 | | 8,657,589 | | 165,660,000 |
| Other current assets | 17 | | 6,450,405 | | 4,561,778 |
| Total | | | 281,158,046 | | 463,148,278 |
| NON - CURRENT ASSETS | | | | | |
| Held-to-maturity (HTM) financial assets | 16 | | 447,444,385 | | 253,377,949 |
| Available-for-sale financial assets | 18 | | 2,826,253 | | 2,284,617 |
| Property and equipment - net | 19 | | 4,848,086 | | 4,249,698 |
| Investment property | 20 | | 96,872,572 | | 97,513,350 |
| Deferred tax assets | 22 | | 5,923,595 | | 8,305,101 |
| Deferred MCIT | 32 | | 1,139,945 | | 134,708 |
| Total | | | 559,054,836 | | 365,865,423 |
| TOTAL ASSETS | | P | 840,212,882 | P | 829,013,701 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| CURRENT LIABILITIES | | | | | |
| Due to reinsurers and ceding companies | 12 | P | 38,795,786 | P | 47,523,054 |
| Reserve for unearned premiums | 12,15 | | 112,226,237 | | 109,876,501 |
| Claims payable | 23 | | 44,055,832 | | 8,245,196 |
| Commissions payable | 24 | | 737,063 | | 775,283 |
| Accounts and other payables | 25 | | 9,486,768 | | 11,315,040 |
| Other liabilities | 26 | | 14,868,670 | | 10,150,060 |
| TOTAL LIABILITIES | | | 220,170,356 | | 187,885,134 |
| TOTAL STOCKHOLDERS' EQUITY (Exhibit C) | | | 620,042,526 | | 641,128,567 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | | P | 840,212,882 | P | 829,013,701 |

(See accompanying notes to the financial statements)

EXHIBIT A

**COUNTRY BANKERS INSURANCE CORPORATION**
**STATEMENTS OF COMPREHENSIVE INCOME**
**Years ended December 31, 2017 and 2016**
**(All Amounts in Philippine Peso)**

| | Notes | 2 0 1 7 | 2 0 1 6 |
|---|---|---|---|
| REVENUE | | | |
| Direct premiums | 6 | P 209,788,811 | P 173,644,943 |
| Reinsurance premiums assumed | 6 | 13,085,050 | 17,716,916 |
| GROSS PREMIUMS RETAINED | | 222,873,861 | 191,361,859 |
| Reinsurance premiums ceded | 6 | ( 18,874,560 ) | ( 10,840,044 ) |
| NET PREMIUMS RETAINED | 6 | 203,999,301 | 180,521,815 |
| Increase in net reserve for unearned premiums | 12,15 | ( 2,349,736 ) | - |
| PREMIUMS EARNED | | 201,649,565 | 180,521,815 |
| COMMISSION EARNED | | 2,595,503 | 3,040,525 |
| OTHER UNDERWRITING INCOME | | 6,657,882 | 16,150,543 |
| GROSS UNDERWRITING INCOME | | 210,902,950 | 199,712,883 |
| UNDERWRITING EXPENSES | 29 | ( 134,676,577 ) | ( 122,795,530 ) |
| NET UNDERWRITING INCOME | | 76,226,373 | 76,917,353 |
| OTHER INCOME | 28 | 15,046,069 | 11,793,615 |
| TOTAL UNDERWRITING AND OTHER INCOME | | 91,272,442 | 88,710,968 |
| OPERATING EXPENSES | 30 | ( 75,590,036 ) | ( 56,792,332 ) |
| INCOME BEFORE TAX (To Exhibit D) | | 15,682,406 | 31,918,636 |
| Provision for income tax | 32 | ( 390,636 ) | ( 6,054,599 ) |
| Income tax benefit (expense) | 22 | ( 2,219,014 ) | 4,205,704 |
| INCOME FOR THE YEAR (To Exhibit C) | | 13,072,756 | 30,069,741 |
| OTHER COMPREHENSIVE INCOME (LOSS) | 18 | 379,145 | ( 329,167 ) |
| TOTAL COMPREHENSIVE INCOME | | P 13,451,901 | P 29,740,574 |
| EARNINGS PER SHARE | 35 | P 3 | P 10 |

(See accompanying notes to the financial statements)

EXHIBIT B

**COUNTRY BANKERS INSURANCE CORPORATION**
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**Years ended December 31, 2017 and 2016**
**(All Amounts in Philippine Peso)**

| | Notes | 2 0 1 7 | 2 0 1 6 |
|---|---|---|---|
| CAPITAL STOCK | 27 | | |
| Authorized - 5,000,000 common stocks for years ended 2017 and 2016 at P100 par value per share | | | |
| Subscribed and paid-up - 4,409,328 and 3,000,000 common stocks for years ended December 31, 2017 and 2016 | | P 440,932,800 | P 300,000,000 |
| ADDITIONAL PAID-IN CAPITAL | | 5,490,883 | 5,490,883 |
| CONTRIBUTED SURPLUS | | 66,067,386 | 4,999,986 |
| DEPOSIT FOR FUTURE SUBSCRIPTION | | - | 202,000,200 |
| RETAINED EARNINGS | | | |
| Balance - beginning | | 128,329,332 | 98,953,331 |
| Prior period adjustment | 38 | ( 34,537,942 ) | ( 693,740 ) |
| Net income for the year (Exhibit B) | | 13,072,756 | 30,069,741 |
| Balance - end | | 106,864,146 | 128,329,332 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | | |
| UNREALIZED GAIN FROM VALUATION OF AFS INVESTMENTS | | | |
| Balance - beginning | | 308,166 | 637,333 |
| Net change in AFS financial assets, net of deferred income tax effect | 18 | 379,145 | ( 329,167 ) |
| Balance - end | | 687,311 | 308,166 |
| TOTAL STOCKHOLDERS' EQUITY (To Exhibit A) | | P 620,042,526 | P 641,128,567 |
| BOOK VALUE PER SHARE | 34 | P 141 | P 214 |

(See accompanying notes to the financial statements)

EXHIBIT C

**COUNTRY BANKERS INSURANCE CORPORATION**
**STATEMENTS OF CASH FLOWS**
**Years ended December 31, 2017 and 2016**
**(All Amounts in Philippine Peso)**

| | Notes | 2 0 1 6 | 2 0 1 5 |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Income before tax (Exhibit B) | | P 15,682,406 | P 31,918,636 |
| Adjustments for: | | | |
| Provision for income tax | 32 | 390,636 | ( 6,054,599 ) |
| Increase in reserve for unearned premiums | 12,15 | 2,349,737 | 21,329,123 |
| Increase in deferred acquisition cost | 14 | ( 3,639,424 ) | ( 1,210,992 ) |
| Change in unamortized cost | 16 | 22,048,494 | ( 13,530,356 ) |
| Income tax benefit (expense) | 22 | ( 2,219,014 ) | 4,205,704 |
| Depreciation | 19 | 1,527,219 | 1,442,320 |
| Prior period adjustment | 38 | ( 34,537,942 ) | ( 693,740 ) |
| Gain on disposal | 19, 28 | ( 286,554 ) | ( 27,965 ) |
| Net change in AFS financial assets, net of deferred income tax effect | 18 | 379,145 | ( 329,167 ) |
| Change in available-for-sale financial assets | 18 | ( 541,636 ) | 470,238 |
| Deferred tax assets | 22 | 2,381,506 | ( 4,569,001 ) |
| Deferred MCIT | 32 | ( 1,005,237 ) | 693,740 |
| Operating income before changes in working capital | | 1,748,064 | 33,643,940 |
| Decrease (increase) in: | | | |
| Insurance balance receivable | 8,9,10,11 | ( 1,063,858 ) | ( 13,310,159 ) |
| Accounts and other receivables | 13 | ( 486,421 ) | 306,265 |
| Other current assets | 17 | ( 1,888,627 ) | 827,787 |
| Deferred reinsurance premium | 15 | ( 1,434,642 ) | ( 524,297 ) |
| Increase (decrease) in: | | | |
| Accounts and other payables | 25 | ( 1,828,272 ) | 3,994,799 |
| Claims payable | 23 | 35,810,636 | ( 5,035,725 ) |
| Commissions payable | 24 | ( 38,220 ) | ( 376,806 ) |
| Due to reinsurers and ceding companies | 12 | ( 8,727,268 ) | 6,704,220 |
| Deferred tax liabilities | 22 | - | 222,226 |
| Other liabilities | 26 | 4,718,610 | 3,765,731 |
| Net cash provided by operating activities | | 26,810,002 | 30,217,983 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Acquisition of held-to-maturity financial assets | 16 | ( 85,556,518 ) | ( 182,665,130 ) |
| Cash proceeds on disposal of held to maturity financial assets | 16 | 26,443,999 | 31,592,797 |
| Proceeds from sale of investment property | 20 | 640,778 | - |
| Acquisition of investment property | 20 | - | ( 3,233,182 ) |
| Adjustments on property and equipment | 19 | 2 | - |
| Proceeds from sale of equipment | 19 | 451,222 | 27,966 |
| Acquisition of property and equipment | 19 | ( 2,290,276 ) | ( 1,912,174 ) |
| Net cash used in investing activities | | ( 60,310,793 ) | ( 156,189,723 ) |
| Addition to investment property from deposit for future subscription | 27 | - | ( 82,016,400 ) |
| Net cash change in investing activities | | ( 60,310,793 ) | ( 238,206,123 ) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Cash received from issuance of capital | 27 | - | 17,314,800 |
| Cash received from deposit for future subscription | 27 | - | 119,983,800 |
| Net cash provided by financing activity | | - | 137,298,600 |
| Addition to investment property from deposit for future subscription | 27 | - | 82,016,400 |
| Net cash change in financing activities | | - | 219,315,000 |
| NET INCREASE (DECREASE) IN CASH | | ( 33,500,791 ) | 11,326,860 |
| CASH AND CASH EQUIVALENTS, BEGINNING | | 171,853,096 | 160,526,236 |
| CASH AND CASH EQUIVALENTS, END | | P 138,352,305 | P 171,853,096 |

(See accompanying notes to the financial statements)

EXHIBIT D

**COUNTRY BANKERS INSURANCE CORPORATION**
**NOTES TO FINANCIAL STATEMENTS**
**December 31, 2017**
**(All Amounts in Philippine Peso)**

## NOTE 1 - CORPORATE INFORMATION

### 1.1 In General

Country Bankers Insurance Corporation (“the Company”) was organized under the laws of the Philippines and registered with the Securities and Exchange Commission on October 12, 1960 under Registration No. 17626. Its primary purpose is to engage in the business and operation of all kind of insurance, reinsurance, insurance on buildings, automobiles, cars, and other motor vehicles, goods and merchandise, goods in transit, goods in storage, fire insurance, earthquake, insurance against accident, all other forms of undertakings to indemnify any person against loss, damage, or liability arising from unknown or contingent events, except life insurance.

The Company reached its maximum fifty (50) legal years of existence, and it was extended for an additional fifty (50) years by a maturity vote of the Board of Directors and by the vote of at least two-thirds of the stockholders’ of the Company. The additional fifty (50) years life extension was approved by the Securities and Exchange Commission (SEC) on March 9, 2009.

The Company is registered with and licensed by the Philippine Insurance Commission.

The Company’s registered office, which is also its principal place of business, is located at Country Bankers Centre, 648 T.M. Kalaw Avenue, Ermita, Manila (as amended on April 28, 2016 and approved by SEC on March 3, 2017).

### 1.2 Approval of the Financial Statements

The financial statements of the Company for the year ended December 31, 2017 (including the comparative for the year ended December 31, 2016) were approved and authorized for issue by the Board of Directors on April 25, 2018.

## NOTE 2 - STATUS OF OPERATION

The accompanying financial statements have been prepared on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business.

## NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are presented as follows. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 3.1 Basis of Preparation of Financial Statements

Statement of Compliance with Philippine Financial Reporting Standards
The financial statements of Country Bankers Insurance Corporation have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC), formerly the Accounting Standards Council, from the pronouncements issued by the International Accounting Standards Board (IASB). PFRSs consist of:

a. Philippine Financial Reporting Standards (PFRS) - corresponding to International Financial Reporting Standards;
b. Philippine Accounting Standards (PASs) - corresponding to International Accounting Standards; and
c. Interpretations to existing standards - representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), of the IASB which are adopted by the FRSC.

Basis of Measurement
These financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

Presentation of Financial Statements
The financial statements are presented in accordance with Philippine Accounting Standard (PAS 1), *Presentation of Financial Statements*. The Company presents all items of income and expenses in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statements of financial position are not required to be disclosed.

### 3.2 Functional Currency and Foreign Currency Transactions

These financial statements are presented in Philippine Peso, the Company's functional currency, and all values represent absolute amounts except when otherwise indicated.

Functional and Presentation Currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is also the Company's functional currency.

Transactions and Balance
The accounting records of the Company are maintained in Philippine Peso. Foreign currency transactions during the period are translated into the functional currency at exchange rates, which approximate those prevailing on transaction dates.

**3.3 Adoption of New Interpretation, Revisions and Amendments to PFRS**

Changes in Accounting Policies

Except for the following standards and amended PFRS which were adopted as of January 1, 2017, the accounting policies and methods of computation adopted in the preparation of the financial statements are consistent with those followed in the previous financial year.

a) *Effective in 2017 that are Relevant to the Company*

The Company adopted for the first time the following amendment and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative.* The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including changes identified immediately above.

b) *Effective in 2017 but not Relevant to the Company*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2017 but are not relevant to the Company's financial statements:

(i) PFRS 12 (Amendments), *Disclosure of Interests in Other Entities –Scope Clarification on Disclosure of Summarized Financial Information for Interests classified as held for sale (Part of Annual Improvements to PFRSs 2014-2016 Cycle).* 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. The amendment is applied retrospectively.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has had no impact on the Company's financial statements.

c) *Effective Subsequent to 2017 but not Adopted Early*

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on the financial statements.

***Effective 2018***

(i) PAS 28 (Amendments*), Investments in Associates and Joint Ventures - Measuring an associate or joint venture at fair value (Part of Annual Improvements to PFRSs 2014-2016 Cycle).* Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture. Similar clarifications have been made for a reporting entity that is not an investment entity and that has an associate or a joint venture that is an investment entity. PAS 28 permits such a reporting entity the choice to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also made separately for each investment in an associate or joint venture that is an investment entity, 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.

(ii) PAS 40 (Amendments), *Investment Property - Transfers of Investment Property.* The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Examples of evidence of a change in use: (a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property; (b) commencement of development with a view to sale, for a transfer from investment property to inventories; (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or and (d) commencement inception of an operating lease to another party, for a transfer from inventories to investment property.

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.

(iii) (PFRS 1 (Amendments*), First-time Adoption of Philippine Financial Reporting Standard - Deletion of short-term exemptions for first-time adopters (Part of Annual Improvements to PFRSs 2014-2016 Cycle).* The amendment is about the removal of short-term exemptions dealing with PFRS 7 Financial Instruments: Disclosures, PAS 19 Employee Benefits and PFRS 10 Consolidated Financial Statements. The reliefs provided are no longer applicable and had been available to entities for reporting periods that have now passed.

(iv) PFRS 2 (Amendment), *Share-based payment - Classification and Measurement of Share-based Payment Transactions.* The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Companies are required to apply the amendments for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

(v) PFRS 4 (Amendments), *Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts.* The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4: (a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; (b) an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

The amendments are not applicable to the Company since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

(vi) PFRS 9, *Financial Instruments (2014 or final version).* In July 2014, the final version of PFRS 9, Financial Instruments, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions 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 application permitted. Retrospective application is required, but comparative information is not compulsory.

Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The Company will quantify this effect to present a comprehensive picture of the impact of adoption on the financial position or performance of the Company.

(vii) PFRS 15, *Revenue from Contracts with Customers.* PFRS 15 was issued in 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 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, 2017 with early adoption permitted. The Company is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

(viii) PFRS 15, *Revenue from Contracts with Customers.* The amendments issued merely aim at changing the mandatory effective date of PFRS 15 from annual periods beginning on or after January 1, 2017 to annual periods beginning on or after 1 January 2018. Earlier application of PFRS 15 continues to be permitted. Entities also continue to be permitted to choose between applying the standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

(ix) PFRS 15 (Amendments), *Revenue from Contracts with Customers* **-** Clarifications to PFRS 15. The amendments to the Revenue Standard, which was issued in 2014, do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to: (a) identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; (b) determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and (c) determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

(x) Philippine Interpretation IFRIC 22, *Foreign Currency Transaction and Advance Consideration.* The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity 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.

***Effective 2019***

(i) PAS 19 (Amendments), *Employee Benefits - Plan Amendment, Curtailment or Settlement.* The amendments require an entity: to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and to recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling.

(ii) PAS 28 (Amendments), *Investment in Associates and Joint ventures - Long-term Interests in Associates and Joint Ventures.* Amendments clarify that an entity applies PFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

(iii) PFRS 9 (Amendments), *Financial Instruments - Prepayment Features with Negative Compensation.* Amendments to the existing requirements in PFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. The sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination; a payment may also be made in favor of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. The amendment also include clarification regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. An entity recognizes any adjustment to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortized cost amount.

The amendments are to be applied retrospectively for fiscal years beginning on or after January 1, 2019, i.e. one (1) year after the first application of PFRS 9 in its current version. Early application is permitted so entities can apply the amendments together with PFRS 9 if they wish so. Additional transitional requirements and corresponding disclosure requirements must be observed when applying the amendments for the first time.

(iv) PFRS 16, *Leases*. On January 13, 2016, the PASB issued its new standard, PFRS 16, which replaces PAS 17, the current leases standard, and the related Interpretations. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of twelve (12) months or less or for which the underlying asset is of low value are exempted from these requirements. 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. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted but only if PFRS 15 is applied at or before the date of initial application of PFRS 16. The Company is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

(v) Annual Improvements to PFRS Standards 2015 – 2017 Cycle (Amendments). The pronouncement contains amendments to four International Financial Reporting Standards (PFRSs) as result of the PASB's annual improvements project.

Annual Improvements to PFRS Standards 2015 – 2017 Cycle makes amendments to the following standards:

*a)* PFRS 3, *Business Combination* **-** The amendments clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
*b)* PFRS 11, *Joint Arrangements* **-** The amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
*c)* PAS 12, *Income Taxes* **-** The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
*d)* PAS 23, *Borrowing Costs* **-** The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

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

*a)* Whether an entity considers uncertain tax treatments separately;
*b)* The assumptions an entity makes about the examination of tax treatments by taxation authorities;
*c)* How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
*d)* 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.

***Effective 2021***

IFRS 17, *Insurance Contracts.* Establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. An entity shall apply IFRS 17 *Insurance Contracts* to: a) Insurance contracts, including reinsurance contracts, it issues; b) reinsurance contracts it holds; c) and Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts. Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. Such issued contracts are in the scope of the standard, unless an entity chooses to apply to them IFRS 15 *Revenue from Contracts with Customers* and provided the following conditions are met: (a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer; (b) the contract compensates the customer by providing a service, rather than by making cash payments to the customer; and (c) the insurance risk transferred by the contract arises primarily from the customer’s use of services rather than from uncertainty over the cost of those services.

***Deferred Effectivity***

Amendments to PFRS 10, *Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - 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 not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the PASB 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.

**3.4 Cash and Cash Equivalents**

Cash and cash equivalents are initially and subsequently stated at face value which is usually its fair value. Cash includes cash on hand and peso and dollar deposits in bank. Cash in bank in current account earns interest at the respective bank deposit rates and this is held at call with bank. Cash equivalents consist of short-term, highly liquid debt instruments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of placement and that are subject to an insignificant risk of changes in value. The Company recognized cash as part of cash and cash equivalents if not restricted from being exchanged or used to settle liability for at least twelve (12) months after the reporting period.

**3.5 Insurance Receivables**

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

**3.6 Financial Instruments**

Date of Recognition
The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument.

Initial Recognition of Financial Instruments
All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instrument includes transaction costs.

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

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 period at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

As of December 31, 2017 and 2016, the Company's financial instruments are of the nature of loans and receivables, held-to-maturity financial assets, available-for-sale financial assets and other financial liabilities (Note 5).

Determination of Fair Value

The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

As of December 31, 2017 and 2016, the Company has available-for-sale financial asset traded in active market with carrying value of P2,826,253 and P2,284,617, respectively (Note 18).

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. This accounting policy relates to the statements of financial position captions "Premiums receivable", "Due from general agents and brokers", "Due from ceding companies and reinsurers", "Funds held by ceding companies", "Reinsurer recoverable on paid losses" and "Accounts and other receivables".

Loans and receivables are initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition. The fair value of the loans and receivable is usually the transaction price or the original exchange price. For short term receivables, the fair value is equal to the face value or original invoice amount. Loans and receivables are subsequently measured at amortized cost using the straight line method, less allowance for probable loan losses and allowance for impairment loss, if any. Trade and other receivables are subsequently measured at net realizable value.

Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the recoverable value.

Held-to-Maturity (HTM) Financial Assets

HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Company 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 reclassified as AFS financial assets. Held-to-maturity financial instruments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in 'Interest income' in the statements of comprehensive income. Gains and losses are recognized in income when the HTM financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statements of comprehensive income under 'Provision for credit and impairment losses'. The effects of restatement on foreign currency-denominated HTM financial assets are recognized in the statements of comprehensive income.

The Company's investments in government and commercial bonds are included in this account.

As of December 31, 2017 and 2016, the Company has held-to-maturity financial assets with carrying value of P456,101,974 and P419,037,949, respectively (Note 16).

Available-for-sale (AFS) Financial Assets

AFS financial assets are those which are designated as such or do not qualify to be classified or designated as at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Unrealized gain on investments in AFS financial assets" in the accumulated other comprehensive income (loss) section of the statements of changes in shareholders 'equity.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statements of comprehensive income under "Other income (loss)" account. Where the Company holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. The losses arising from impairment of such investments are recognized in the statements of comprehensive income under the "Other income (loss)" account.

When the fair value of the AFS financial assets cannot be measured reliably because of lack of reliable estimation of future cash flows and discount rates necessary to calculate the fair value of computed equity instruments, these investments are carried at cost less allowance for impairment losses. AFS financial assets are classified as noncurrent assets unless the intention is to dispose such assets within twelve (12) months from reporting date.

Other Financial Liabilities

This category pertains to financial liabilities that are not held for trading or not designated at FVPL at the inception of the liability. This includes liabilities arising from operations or borrowings. These are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion for any related premium, discount and any directly attributable costs.

This accounting policy applies to the Company's accounts and other payables, insurance contract liabilities, such as due to reinsures and ceding companies, claims payable and commissions payable and loans payable that meet the above definition (other than liabilities covered by the other accounting standards, such as Income tax payable).

*Accounts and Other Payables*
Accounts payable are recognized initially at the transaction price and subsequently measured at cost less subsequent payments. Other payables include accruals. Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts if any due to employees. It is necessary to estimate the amount or timing of accruals, however, the uncertainty is generally much less than for provisions.

All interest-related charges are recognized as an expense in the statement of comprehensive income.

<u>Impairment of Financial Assets</u>
The Company assesses at each reporting 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 (a 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.

*Loans and Receivables*
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and recoverable value. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statements of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for probable losses' in the statements of comprehensive income. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directly consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the Company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

*Held-to-Maturity Financial Assets*
The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A debt-instrument financial asset is considered impaired and an impairment loss is recognized only if there is objective evidence of impairment as a result of one or more of the following loss events that have occurred after recognition of the asset.

(i) significant financial difficulty of the issuer or obligor;
(ii) breach of contract, such default or delinquency in interest or principal payments;
(iii) the lender, for economic or legal reasons relating to the borrowers financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

If debt-instrument financial asset accounted for at amortized cost is considered impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate. This amount is recognized in profit or loss.

*Available-for-sale (AFS) Financial Assets*
For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statements of comprehensive income - is removed from equity and recognized in the statements of comprehensive income in the "Other income (loss)" account. Impairment losses on equity investments are not reversed through the statements of comprehensive income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "other income (loss)" account in the statements of comprehensive income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statements of comprehensive income, the impairment loss is reversed through the statements of comprehensive income.

Derecognition 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 financial assets) is derecognized where:

(i) the rights to receive cash flows from the asset have expired; or
(ii) 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
(iii) the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

*Financial Liabilities*

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Company's 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.

## 3.7 Other Current Assets

Other current assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Other current assets include forms and supplies inventory which are valued at the lower of cost and net realizable value. It also includes input VAT, creditable income tax and prepayments such as prepaid authentication tax and prepaid expenses that are initially recorded at transaction cost and subsequently measured at cost less impairment loss, if any.

Forms and Supplies Inventory

Forms and Supplies Inventory pertains to various forms and office supplies that will be consumed in normal operations.

Input Value-added Tax

Input VAT imposed on the Company by its suppliers and contractors for the acquisition of goods and services under Philippine taxation laws and regulations and will be used to offset against Company's output VAT.

Creditable Income Tax
Creditable income taxes represents taxes withheld on certain income payments which are intended to equal or at least approximate the tax dues of the Company on said income and which can be claimed as credit against future income tax liability.

Prepayments
Prepayments are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefits will be received in the future. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Prepayments and other non-financial assets are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting period, which are then classified as non-current assets.

### 3.8 Property and Equipment

An item of property and equipment shall be qualified for recognition as an asset if and only if, (1) it is probable that future economic benefits associated with the item will flow to the entity; and (2) the cost of the item can be measured reliably.

Items of property and equipment are initially recognized at cost. It includes the purchase price and directly attributable costs and the estimate present value of any future unavoidable costs or dismantling and removing items. The corresponding liability is recognized within provisions.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred.

Property and equipment, except land, are subsequently carried at cost less accumulated depreciation and any impairment losses. Land held for use in production or administration, if any, is stated at cost less any impairment losses.

When assets are sold or retired, their cost, accumulated depreciation and amortization and accumulated impairment losses are eliminated from the accounts and any resulting gain or loss is included in the statement of comprehensive income of such period.

Depreciation is computed using the straight-line method over the estimated useful lives of the asset. The useful lives of the asset are as follows:

| | Estimated Useful Lives |
|---|---|
| Electronic processing data | 5 years |
| Transportation equipment | 5 years |
| Furniture and fixtures | 5 years |

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.
An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of comprehensive income in the year the asset is derecognized.

**3.9 Investment Property**

Initially, investment properties are measured at cost including certain transaction costs. Investment properties acquired through a non-monetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on derecognition of an investment property is recognized as Gain on sale of investment properties in the statement of income in the year of derecognition.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

**3.10 Impairment of Non-financial Assets**

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

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

### 3.11 Stockholders’ Equity

Stockholders’ equity is the residual interest in the assets of the Company after deducting all its liabilities. This includes investments by the shareholders, plus additions to those investments earned through profitable operation and retained for use in the Company’s operations, minus reductions to shareholders’ investments as a result of unprofitable operations and distributions to shareholders.

The Company shall recognize the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the Company in exchange for the instruments. If the equity instruments are issued before the entity receives the cash or other resources, the Company shall present the amount receivable as an offset to equity in its statement of changes in shareholders’ equity. Accordingly, the Company shall measure the equity instruments at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments.

Authorized Capital Stock

The Company’s authorized capital stock is composed only of common shares. Common stock is determined using the nominal value of shares that have been issued.

Capital Stock

Capital stock represents the nominal value of shares that have been issued.

Additional Paid-in Capital

Additional paid-in capital includes any premium received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Contributed Surplus

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

Retained Earnings

Retained earnings represent the accumulated earnings of the Company reduced by the losses that Company may incur during the period and or by dividend declaration.

Unrealized Gain (Loss) from Valuation of Available-for-sale Financial Assets

Unrealized gain (loss) from valuation of available for sale financial assets represents the difference between the acquisition costs in the fair value of the Company’s AFS financial assets as of the financial reporting date.

### 3.12 Deposits for Future Subscription

Deposit for future subscription represents payments made on subscription of shares which cannot be directly credited to ‘Capital stock’ pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. The paid-up subscription can be classified under equity if the nature of the transaction gives rise to a contractual obligation of the Company to deliver its own shares to the subscriber in exchange of the subscription amount.

In addition, deposit for future subscription shall be classified under equity if all of the following elements are present as at reporting date:

(i) The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;

(ii) There is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
(iii) There is stockholders' approval of said proposed increase; and
(iv) The application for the approval of the proposed increase has been filed with the SEC.

**3.13 <u>Earnings per Share (EPS)</u>**

Basic earnings per share (EPS) is computed by dividing net income attributable to common shareholders for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. The Company does not have dilutive potential common shares.

**3.14 <u>Book Value per Share</u>**

Book value per share is the amount that would be paid on each share assuming the Company is liquidated and the amount available to shareholders is exactly the amount reported as stockholders' equity. It is computed by simply dividing the total stockholders' equity to number of shares outstanding during the year since the Company has only one class of shares of stock.

**3.15 <u>Revenue and Cost Recognition</u>**

<u>Revenue Recognition</u>
*Premiums* – Premiums from short- duration insurance contracts are recognized as revenue over the period of the insurance contracts using the $24^{th}$ method, except for contracts covering marine cargo risk wherein the premiums written during the first ten (10) months of the current year and the last two (2) months of the preceding year are recognized as revenue in the current year. The portion of the premiums written that relates to the unexpired periods of the policies at the statements of financial position date is accounted for as reserve for unearned premiums and presented in the liability section of the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at statements of financial position date are accounted for as deferred reinsurance premiums shown as a part of assets in the statements of financial positions. The net changes in this account between statements financial positions date are credited to or charged against income.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Company; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

*Underwriting Income* – Premiums from short-duration insurance contracts are recognized as revenue over the period of the insurance contracts using the 24th method. The portion of the premiums written that relates to the unexpired periods of the policies at each reporting date is accounted for as reserve for unearned premiums and presented in the liability section of the statements of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at reporting dates accounted for as net changes in these between reporting dates are credited to or charged against income for the year.

Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

*Reinsurance* – Amounts of recoverable from reinsurers that relate to paid and unpaid claims and claim adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts. Reinsurance receivable and the related liabilities are reported separately.

*Reinsurance commissions* – Reinsurance commissions are deferred and deducted from the applicable deferred acquisition cost, subject to the same amortization method as the related acquisition costs.

The EIR method is a method of calculating the amortized cost of a financial assets or a financial liability and of allocating the interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the EIR, transaction cost, and all over premiums or discounts.

When financial asset or a Company of similar financial assets have been written down as a result of an impairment loss, interest income is recognized using the rate of the interest used to discount the future cash flows for the purpose of measuring impairment loss.

*Gain and losses on sale of investment/property* – Gains and losses on the sale of securities/property and equipment are calculated as the difference between the net sales proceeds and the carrying amount of the securities/ property and equipment. Realized gains and losses are recognized in the statements of comprehensive income when the sales transaction occurs.

*Interest income on deposits and placements* – revenue is recognized as interest accrues usually on time proportion basis taking into account the effective interest rate yield on the asset.

*Dividends* – Revenue is recognized when the Company's right to receive payment is established.

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods supplied and services provided, excluding Value-added Tax (VAT) and trade discounts.

Costs Recognition

Acquisition costs vary with and are primarily related to the acquisition of new and renewal insurance contracts such as commissions, certain underwriting, and policy issue costs and inspection fees are deferred and charged to expense in proportion to the premium revenue recognized. Unamortized acquisition costs are shown in the statements of financial positions as deferred acquisition costs.

*Claim Cost* – Share in liabilities for claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur. The share in liabilities for claims (including those for incurred but not reported) are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on settled claims are recognized in the statements of comprehensive income in the period the recoveries are made while estimated recoveries are presented as part of Insurance Balances Receivable.

*Reinsurance* – Amounts recoverable from insurers that relate to paid and unpaid claims and claims adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts. Reinsurance receivables and the related liabilities are reported separately. Reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs.

*Reinsurance commissions* – Commissions paid to cedants are deferred and are included in deferred acquisition costs, subject to the same amortization method.

Cost and expenses are recognized in the statements of comprehensive income upon utilization of the service or at date they are incurred. Except for borrowing cost attributable to qualifying assets, all finance costs are reported on an accrual basis.

### 3.16 <u>Insurance Contract</u>

Insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policy holder) by agreeing to compensate the policy holder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The Company assesses at each reporting date whether its recognized liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If the assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognized in the statements of comprehensive income.

<u>Insurance Receivables</u>
Insurance receivables are recognized when due and measured at original invoice amount, less an allowance for any uncollectible amounts. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statements of comprehensive income.

*Premiums receivable* – Premiums receivable are recognized when due and measured on initial recognition at the fair value of the consideration paid plus incremental cost. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method.

*Reinsurance Assets* - The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

The Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized in the profit or loss 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 associated reinsurance contract.

Claims receivable from reinsurers on businesses ceded are offset against premiums payable to the reinsurers which is customary in the industry. Details of the amount are shown in the exhibits of the Company’s Annual Statement submitted to the Insurance Commission (IC).

An impairment review is performed on all insurance receivables and reinsurance assets whenever events or circumstances indicate that impairment loss occurs. Insurance receivables and reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amounts due to it under the terms of the contract and that this can be measured reliably. If such evidence exists, impairment loss is recognized in the statements of comprehensive income.

The Company uses the statutory guideline in evaluating impairment wherein premiums remaining unpaid beyond a limit set by the IC are impaired and are no longer recognized in the financial statements.

<u>Insurance Liabilities</u>
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged. Provision for claims reported and claims incurred but not reported (IBNR) are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money and includes provision for unearned premiums, unexpired risks and inadequate premium levels. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract expires, is discharged or cancelled.

The provision for unearned premiums includes premiums received for risks that have not yet expired. Generally the provision is released over the term of the contract and is recognized as premium income.

At each reporting date, a liability adequacy test is performed. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the provision for outstanding claims. The provision for unearned premiums is increased to the extent that future claims in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Insurance contract liabilities are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

*Reserve for Unearned Premiums* **-** The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as provision for unearned premiums. The change in the provision for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24 method over the life of the contract. Amortization is charged to profit or loss. The unamortized acquisition costs are shown as deferred acquisition costs (DAC) in the statements of financial position.

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

Deferred acquisition costs are derecognized when the related contracts are settled or disposed of.

**3.17 <u>Leases</u>**

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

(i) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(ii) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(iii) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
(iv) There is a substantial change to the asset.

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

<u>Company as Lessee</u>
Leases which transfer to the Company substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statements of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Total rental expense incurred for the years ended December 31, 2017 and 2016 amounted to P3,137,861 and P3,331,849, respectively (Note 30 and 31).

**3.18 <u>Employee Benefits</u>**

<u>Short-term Benefits</u>
The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Company to its employees include compensation, social security contributions, short-term compensated absences, bonuses and other non-monetary benefits.

Post-employment Benefits
Post-employment benefits are provided to employees through a defined benefit plan, as well as several defined contribution.

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's post-employment defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for post-employment defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

Termination Benefits
Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Benefits falling due more than twelve (12) months after the reporting period are discounted to present value.

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.

Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Accounts payables account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

**3.19 Retirement Benefits Cost**

The Company has a partly-funded, non-contributory defined benefit retirement plan covering all of its regular employees. Retirement benefit cost is determined using the projected unit credit actuarial valuation method as determined by an independent actuary taking into account the factors of investment, mortality, disability and salary projection rates on actuarial basis.

Past service cost is recognized immediately as expense unless it is conditional on the employees remaining in service for a specified period of time or vesting period. In such case, the past service cost is amortized on a straight- line basis over the vesting period.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The Company recognizes a retirement benefit liability if the difference between total of the present value of the defined benefit obligation and any actuarial gains not recognized and the total of the past service cost and actuarial losses not yet recognized and the fair value of plan assets results to a positive. If such difference results to a negative, The Company recognizes a plan asset which is measured at the lower of such difference or the total of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

**3.20 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current Tax

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred Tax

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

Other Taxes
These accounts consist of the following:

*Premiums tax payable* - represents the unpaid and un-remitted balances of the premium tax liability.

*Documentary stamps tax payable* - represents documentary stamps not yet affixed as of cut-off date on policies already issued or in force and on original issues of stock certificates.

*Withholding tax payable* - represents income taxes withheld from the salaries of employees and creditable taxes withheld from source under the expanded withholding tax system from the remunerations of agents, brokers, general agents, medical examiners and other agencies/corporations for services rendered. These shall be remitted to the BIR on a monthly basis.

*FST Payable* - This represents the unpaid balance of the Fire Service Tax liability.

*Other Taxes & Licenses Payable* - This represents all unpaid taxes and licenses other than income and premium taxes due the government.

Optional Standard Deduction
Effective July 2008, Republic Act (RA) 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.

In 2017 and 2016, the Company opted to continue claiming itemized standard deductions.

Change in Applicable Tax Rate
Effective January 1, 2009, in accordance with Republic Act 9337, regular corporate income tax (RCIT) rate was reduced from 35% to 30% and non-allowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

### 3.21 Provisions and Contingencies

Provisions
Provisions for any restructuring costs and legal claims are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that a transfer of economic benefits will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions may comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Contingencies

Contingent liabilities are not recognized in the financial statements. They 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.

### 3.22 Prior Period Adjustments

Prior period adjustments are omissions from, and misstatements in, the Company's financial statements for one or more periods arising from a failure to use, or misuse of, reliable information.

A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

### 3.23 Related Parties Transactions

A related party is a person or entity that is related to the entity that is preparing its financial statements.

A person or a close member of that person's family is related to a reporting entity if that person: (1) has control or joint control of the reporting entity; (2) has significant influence over the reporting entity; or (3) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

An entity is related to a reporting entity if any of the following conditions applies: (1) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); (2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); (3) both entities are joint ventures of the same third party; (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity; (5) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity; (6) the entity is controlled or jointly controlled by a person identified in (1); (7) a person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and (8) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

### 3.24 Fair value Measurement

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

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

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

PFRS 13 requires that financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value, but for which fair value is required to be disclosed in accordance with other relevant PFRS to be categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

(b) Level 2: inputs other than quoted pries included within level 1 that are observable for the asset (i.e., derived from price); and,

(c) Level 3: inputs for the assets or liability that are not based on observable marked data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level significant input to the fair value measurement.

## NOTE 4 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the succeeding pages.

### 4.1 Critical Accounting Judgments

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

Going Concern Assessment

The Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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 the assets is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Distinction between Investment Properties and Owner-Managed Properties

The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generated cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to other assets used in the production or supply process.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment.

## 4.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of Financial Assets (Loans and Receivables, and Held-to-maturity Financial Assets and Available-for-sale Financial Assets)

The Company reviews its loan, held-to-maturity financial assets and available-for-sale financial assets portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statements of comprehensive income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Company carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

Allowance for Impairment of Insurance Receivables and Other Receivables

Allowance is made for specific groups of accounts, where objective evidence of impairment exits. The Company evaluates the accounts base on the available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

As of December 31, 2017 and 2016, the Company provided an allowance for impairment and credit losses on its receivable amounted to P5,244,205 (Note 21).

Estimated Useful Lives of Property and Equipment

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

The carrying value of property and equipment as of December 31, 2017 and 2016 amounted to P4,848,086 and P4,249,698, respectively (Note 19).

Realizability of Deferred Tax Assets

Deferred tax assets are recognized for all temporary future tax benefits to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed to determine the amount of deferred tax assets that can be recognized. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that deferred tax assets will be realized.

As at December 31, 2017 and 2016, deferred tax assets - net amounted to P5,923,595 and P8,305,101, respectively (Note 22).

Impairment of Non-financial Assets

The Company assesses the value of property and equipment which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, and require the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company to conclude that property and equipment and other long-lived assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations. The preparation of the estimated future cash flows involves significant judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of recoverable values and may lead to future additional impairment charges.

Based on the assessment of the Company, any of its non-financial assets showed no indication of impairment as at December 31, 2017 and 2016.

Valuation of Insurance Contract Liabilities

Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by the management in estimating the cost of IBNR using the past claims settlement trend to predict the future claims settlement. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provisions. Insurance contract liabilities are not discounted for the time value of money.

Claims Liability Arising from 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. Estimation of the ultimate cost of claims is a complex process and can be evaluated with the aid of the adjuster's estimates.

The Company considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the ultimate liability arising from claims made under insurance contracts as the major uncertainties may differ significantly. With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected including reserve for outstanding losses and related insurance balances.

As of December 31, 2017 and 2016, claims payable amounted to P44,055,832 and P8,245,196, respectively (Note 23).

Pension Assumptions

The costs, assets and liabilities of the defined benefit schemes operating by the Company are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions are set out in Note 36. The Company takes advice from independent actuaries relating to the appropriateness of the assumptions. Changes in the assumptions used may have a significant effect on the statements of comprehensive income and the statements of financial position.

Revenue and Expense Recognition

The Company’s revenue and expense recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and expenses in the statement of comprehensive income and other related accounts. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

Provision and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision are discussed in Note 3.21.

## NOTE 5 - FAIR VALUE MEASUREMENT

### *5.1 Fair Value Hierarchy*

The following table summarizes the carrying amounts and the fair values by level of the fair value hierarchy of the Company's financial assets and liabilities that are carried at fair value or for which fair value is disclosed as of December 31, 2017 and 2016:

| | | Carrying | Fair Value Hierarchy | | | |
|---|---|---|---|---|---|---|
| **2 0 1 7** | Notes | Amount | Level 1 | Level 2 | Level 3 | Total |
| ***Assets with recurring fair value measurements*** | | | | | | |
| Available-for-sale financial assets | 18 | 2,826,253 | 2,826,253 | - | - | 2,826,253 |
| ***Assets amortized using effective interest rate method*** | | | | | | |
| Held to maturity financial assets | 16 | 456,101,974 | - | - | 456,101,974 | 456,101,974 |
| ***Assets and liabilities for which fair values are disclosed*** | | | | | | |
| Financial Assets | | | | | | |
| Cash and cash equivalents* | 7 | 137,777,701 | - | - | 137,777,701 | 137,777,701 |
| Accounts and other receivable | 13 | 1,193,671 | - | - | 1,193,671 | 1,193,671 |
| Insurance receivables | | | | | | |
| Premiums receivable | 8 | 20,440,616 | - | - | 20,440,616 | 20,440,616 |
| Due from general agents and brokers | 9 | - | - | - | - | - |
| Due from ceding companies and reinsurers | 10 | 55,773,646 | - | - | 55,773,646 | 55,773,646 |
| Funds held by ceding companies | | 515,729 | - | - | 515,729 | 515,729 |
| Reinsurance recoverable on paid losses | 11 | 16,407,431 | - | - | 16,407,431 | 16,407,431 |
| Financial Liabilities | | | | | | |
| Insurance payables | | | | | | |
| Due to reinsurers and ceding companies | 12 | 38,795,786 | - | - | 38,795,786 | 38,795,786 |
| Reserve for unearned premiums | 12,15 | 112,226,237 | - | - | 112,226,237 | 112,226,237 |
| Claims payable | 23 | 44,055,832 | - | - | 44,055,832 | 44,055,832 |
| Commissions payable | 24 | 737,063 | - | - | 737,063 | 737,063 |
| Acounts and other payables** | 25 | 1,638,389 | - | - | 1,638,389 | 1,638,389 |
| Other liabilities | 26 | 14,868,670 | - | - | 14,868,670 | 14,868,670 |

| | | Carrying | Fair Value Hierarchy | | | |
|---|---|---|---|---|---|---|
| **2 0 1 6** | Notes | Amount | Level 1 | Level 2 | Level 3 | Total |
| ***Assets with recurring fair value measurements*** | | | | | | |
| Available-for-sale financial assets | 18 | 2,284,617 | 2,284,617 | - | - | 2,284,617 |
| ***Assets amortized using effective interest rate method*** | | | | | | |
| Held to maturity financial assets | 16 | 419,037,949 | - | - | 419,037,949 | 419,037,949 |
| ***Assets and liabilities for which fair values are disclosed*** | | | | | | |
| Financial Assets | | | | | | |
| Cash and cash equivalents* | 7 | 171,359,765 | - | - | 171,853,096 | 171,359,765 |
| Accounts and other receivable | 13 | 707,250 | - | - | 707,250 | 707,250 |
| Insurance receivables | | | | | | |
| Premiums receivable | 8 | 17,706,228 | - | - | 17,706,228 | 17,706,228 |
| Due from general agents and brokers | 9 | 1,826,313 | - | - | 1,826,313 | 1,826,313 |
| Due from ceding companies and reinsurers | 10 | 64,285,363 | - | - | 64,285,363 | 64,285,363 |
| Funds held by ceding companies | | 515,729 | - | - | 515,729 | 515,729 |
| Reinsurance recoverable on paid losses | 11 | 7,739,932 | - | - | 7,739,932 | 7,739,932 |
| Financial Liabilities | | | | | | |
| Insurance payables | | | | | | |
| Due to reinsurers and ceding companies | 12 | 47,523,054 | - | - | 47,523,054 | 47,523,054 |
| Reserve for unearned premiums | 12,15 | 109,876,501 | - | - | 109,876,501 | 109,876,501 |
| Claims payable | 23 | 8,245,196 | - | - | 8,245,196 | 8,245,196 |
| Commissions payable | 24 | 775,283 | - | - | 775,283 | 775,283 |
| | | - | - | - | - | |
| Acounts and other payables** | 25 | 1,482,866 | - | - | 1,482,866 | 1,482,866 |
| Other liabilities | 26 | 10,150,060 | - | - | 10,150,060 | 10,150,060 |

**Cash and cash equivalents excludes cash on hand amounting to P574,604 and P493,331 in 2017 and 2016, respectively.*

****Accounts and other payables exludes statutory obligations and taxes amounting to P7,848,378 and P9,832,174 in 2017 and 2016, respectively.*

### *5.2 Fair Value Information*

The methods and assumptions used by the Company in estimating the fair value of the financial instruments are as follows:

Cash and cash equivalents, loans and receivables, insurance receivables and payables, accounts and other payables - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments.

The fair value of AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

The description of the accounting policies for each category of financial instruments is disclosed in Notes 3.6. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 6.

## NOTE 6 - INSURANCE AND FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES

### *6.1 Insurance Risk*

Insurance risk is risks, other than the financial risk, transferred from the holder of a contract to the issuer. It is possibility that the insured events occur and the uncertainty of the amount of the resulting claim.

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

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risk is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Majority of insurance business ceded is placed on a quota share basis with retention limits varying by product line. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligation assumed under such reinsurance agreements. The Company‘s placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The details of the Company’s losses and claims payable are disclosed in Note 23.

The Company’s direct and reinsurance and retro-ceded premiums for the years ended December 31, 2017 and 2016 per line of risk are shown below.

| | 2 0 1 7 | | | |
|---|---|---|---|---|
| Line of Risk | Direct Business | Re-insurance Premium | Retro- ceded Premiums | Retention |
| Motor car | 87,999,856 | 8,379,340 | 3,096,360 | 93,282,835 |
| Bonds and surety | 27,068,655 | 1,335,145 | 197,989 | 28,205,812 |
| Fire | 43,526,040 | 1,658,371 | 9,547,036 | 35,637,375 |
| Car | 14,488,071 | - | 5,171,873 | 9,316,198 |
| Personal accident | 4,288,848 | 4,791 | 1,228 | 4,292,410 |
| Marine cargo | 1,211,891 | 133,370 | 35,000 | 1,310,261 |
| Property floater | 2,946,241 | - | - | 2,946,241 |
| Miscellaneous | 28,259,209 | 1,574,033 | 825,074 | 29,008,169 |
| | 209,788,811 | 13,085,050 | 18,874,560 | 203,999,301 |

| | 2 0 1 6 | | | |
|---|---|---|---|---|
| Line of Risk | Direct Business | Re-insurance Premium | Retro- ceded Premiums | Retention |
| Motor car | 77,465,140 | 11,814,790 | 8,662,464 | 80,617,466 |
| Bonds and surety | 19,991,343 | 2,815,300 | 207,138 | 22,599,505 |
| Fire | 36,644,865 | 1,552,853 | 879,615 | 37,318,103 |
| Personal accident | 3,297,127 | - | 2,235 | 3,294,892 |
| Marine cargo | 2,162,974 | 171,011 | - | 2,333,985 |
| Property floater | 3,128,088 | - | - | 3,128,088 |
| Miscellaneous | 30,955,406 | 1,362,962 | 1,088,592 | 31,229,776 |
| Total | 173,644,943 | 17,716,916 | 10,840,044 | 180,521,815 |

Miscellaneous includes all risk insurance, money securities and payroll (MSPR), comprehensive general liability, fidelity guarantee, electronic equipment, public liability, engineering insurance and others.

Key Assumptions

The principal assumption underlying the estimates is the company's past claims development experience. This includes assumptions in respect of average claim cost, claims handling coat, claims inflation factors and claim numbers for each accident year. These assumptions are handled by the company's adjusters. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

The table below sets out the concentration of the Company's losses and claims payable as of December 31, 2017 and 2016:

| | 2 0 1 7 | | |
|---|---|---|---|
| Line of Risk | Direct Losses | Share in Losses for RI-Assumed | Net |
| Motor car | 7,296,605 | - | 7,296,605 |
| Personal accident | 135,086 | - | 135,086 |
| Fire | 120,454 | - | 120,454 |
| Bonds | 875,772 | - | 875,772 |
| Micro insurance | 397,872 | - | 397,872 |
| Miscellaneous | 50,000 | - | 50,000 |
| Total | 8,875,789 | - | 8,875,789 |

| | 2 0 1 6 | | |
|---|---|---|---|
| Line of Risk | Direct Losses | Share in Losses for RI-Assumed | Net |
| Motor car | 6,890,806 | 320,789 | 7,211,595 |
| Personal accident | 25,500 | - | 25,500 |
| Fire | 1,328,950 | - | 1,328,950 |
| Bonds | - | 312,600 | 312,600 |
| Miscellaneous | - | - | - |
| | - | 3,375 | 3,375 |
| Total | 8,245,256 | 636,764 | 8,882,019 |

### 6.2 Financial Risk

In the course of the business cycle, the Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Company adheres to the proactive and prudent approach of managing the business that recognized and manages risks to continuously provide quality services to the client and to protect shareholders' value

Its risk management is coordinated by its Board of Directors and focuses principally on securing short to medium term cash flows by minimizing exposures to financial markets. The Company does not actively engage in the trading of financial assets nor does it write options. It has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency. Its exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting period date.

There were no changes in the Company's financial risk management objectives and policies in 2017 and 2016.

<u>Credit Risk</u>
Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company manages and controls credit risk by maintains defined credit policies, setting limits on the amount of risk it is willing to accept for individual counterparties and limiting loans concentrations within the institution, and by continuously monitoring exposures in relation to such limits.

*Maximum exposure to credit risk*
The maximum credit exposure of the Company's financial instruments is equal to their carrying value. No collateral and other credit enhancement was held against its financial assets.

The table below shows the maximum exposure to credit risk for the components of December 31, 2017 and 2016 statements of financial position. The maximum exposure is shown gross, without taking into account collateral and other credit enhancement.

The details of the Company's maximum exposure to credit risk are as follows:

| | 2017 | 2016 |
|---|---|---|
| Cash in bank and cash equivalents* | 137,777,701 | 171,359,765 |
| Premiums receivable | 20,440,616 | 17,706,228 |
| Due from general agents and brokers, net | - | 1,826,313 |
| Due from ceding companies and reinsurers, net | 55,773,646 | 64,285,363 |
| Funds held by ceding companies | 515,729 | 515,729 |
| Reinsurance recoverable on paid losses | 16,407,431 | 7,739,932 |
| Accounts and other receivable, net | 1,193,671 | 707,250 |
| HTM investments | 456,101,974 | 383,477,607 |
| Total | 688,210,768 | 647,618,187 |

**Cash and cash equivalents excludes of cash on hand amounting to P574,604 and P493,331 in 2017 and 2016, respectively.*

AFS financial assets are not presented above as these financial assets do not have maturity dates and are due and demandable at will by the Company.

The Company's credit risk is primarily attributable to its cash and cash equivalents. Receivable balances are being monitored on a periodic basis to ensure timely execution of necessary intervention efforts. As of the reporting period, there were no significant concentrations of credit risk. Credit risk does not include cash on hand.

Aging of receivables are presented below:

| | 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | | |
| | Total | Current | less than 30 days | 31-180 days | 181-360 days | 1-3 years | 3 years above | Impaired |
| Accounts and other receivables | - | - | - | - | - | - | - | - |
| Premiums receivable | 21,818,140 | - | 19,337,955 | 1,102,661 | - | - | - | 1,377,524 |
| Due from general agents and brokers | - | - | - | - | - | - | - | - |
| Due from ceding companies and reinsurers | 57,761,507 | - | 13,304,339 | 20,117,199 | 7,016,993 | 7,895,025 | 7,440,091 | 1,987,861 |
| Funds held by ceding companies | 515,729 | - | - | - | - | - | 515,729 | - |
| Reinsurance recoverable on paid losses | 18,286,250 | - | 5,833,150 | 3,370,096 | 2,523,988 | 2,945,706 | 1,734,491 | 1,878,820 |
| Total | 98,381,626 | - | 38,475,444 | 24,589,956 | 9,540,981 | 10,840,731 | 9,690,311 | 5,244,205 |

| | 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | | |
| | Total | Current | less than 30 days | 31-180 days | 181-360 days | 1-3 years | 3 years above | Impaired |
| Accounts and other receivables | 707,250 | - | 707,250 | - | - | - | - | - |
| Premiums receivable | 17,706,228 | - | 13,254,014 | 4,452,214 | - | - | - | - |
| Due from general agents and brokers, net | 3,203,837 | - | 952,501 | 502,491 | 371,321 | - | - | 1,377,524 |
| Due from ceding companies and reinsurers | 66,273,224 | - | 13,896,527 | 23,282,557 | 9,362,358 | 7,895,025 | 9,848,895 | 1,987,861 |
| Funds held by ceding companies | 515,729 | - | - | - | - | - | 515,729 | - |
| Reinsurance recoverable on paid losses, net | 9,618,753 | - | 2,146,215 | 1,991,023 | 1,269,017 | 1,332,884 | 1,000,794 | 1,878,820 |
| Total | 98,025,020 | - | 30,249,257 | 30,228,284 | 11,002,697 | 9,227,909 | 11,365,418 | 5,244,205 |

Liquidity Risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of generated funds. Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due. The Company manages this risk through periodical monitoring of cash flows in consideration of future payment due dates and daily collection amounts. The Company also ensures that there are sufficient, available and approved working capital lines that it can draw from anytime.

The Company maintains an adequate amount of cash and cash equivalents in the event of unforeseen interruption of its cash collections. The Company also maintains accounts with several relationship banks to avoid significant concentration of cash with one institution.

The table below summarizes the liquidity risk of the Company's financial liabilities at December 31, 2017 and 2016 based on contractual undiscounted payments.

| | Due within 1 year | |
|---|---|---|
| | 2017 | 2016 |
| Accounts payable | 492,549 | 475,565 |
| Accrued expenses | 791,072 | 742,947 |
| Claims payable | 44,055,832 | 8,245,196 |
| Commission payable | 737,063 | 775,283 |
| Due to reinsurers and ceding companies | 38,795,786 | 47,523,054 |
| Other liabilities | 14,868,670 | 10,150,060 |
| Total | 99,740,972 | 67,912,104 |

*Liquidity risk does not include statutory obligations of the Company.

Market Risk

The Company's investments are regulated under the pertinent provisions of Presidential Decree No. 612, otherwise known as The Insurance Code of the Philippines. The Code generally requires all insurance companies to obtain prior approval of the IC for any and all of their investments. It further requires companies to submit to the IC a monthly report on all investments made during the previous month. The IC reviews the investments and may suggest or require the immediate sale or disposal of investments deemed too risky.

For equity investments, Section 200 of the Insurance Code further provides, among other things that insurance companies may only invest in stocks of Philippine corporations which have prior three-year dividend payment record. Moreover, the same section limits exposure to any one institution to 10% an insurer's total admitted assets.

Beyond the provisions of the Insurance Code, the Company has established additional guidelines to control the risks inherent in equity investments. The Company's investment policy requires that they invest only in shares of companies that are listed in the Philippine Stock Exchange.

The Company regularly reviews and approves a list of publicly traded stocks authorized for investments on the basis of the foregoing considerations. Furthermore, the Company seeks to avoid unwarranted concentration of funds in a single asset class by regularly monitoring and limiting the proportion of equity investments to the Company's total investment portfolio.

Principal Financial Instruments

The Company's principal financial instruments comprise of cash and cash equivalents, insurance balances receivables, notes and other receivables, net, HTM financial assets, AFS financial assets, accounts payable, accrued expenses and taxes payable, claims payable, commissions payable, due to reinsurers and ceding companies, bond deposit and premium deposit. A summary of the financial instruments held by category is provided below.

Financial instruments measured at fair value.

The carrying amounts of cash and cash equivalents, insurance balances receivables, notes and other receivables, accounts payable, accrued expenses and taxes payable, claims payable, commissions payable, due to re-insurers and ceding companies, and other liabilities approximate their fair values due to the relatively short-term maturities of financial instruments. The carrying amount of HTM financial assets approximates their fair values.

The fair values of AFS financial assets have been determined directly by reference to published prices in active market.

## NOTE 7 - CASH AND CASH EQUIVALENTS

This account consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Cash in banks | 106,326,381 | 144,201,945 |
| Cash equivalents | 31,451,320 | 493,331 |
| Cash on hand | 574,604 | 27,157,820 |
| Total | 138,352,305 | 171,853,096 |

Cash in banks represent unrestricted deposits with various banks (Commercial and Rural banks) that generally earn interest at rates based on prevailing banks deposit rates.

Cash equivalents consists of short-term placements made for various periods up to three months depending on the immediate cash requirements of the Company and earns interest at the respective short-term deposit rates.

Interest income earned from bank deposits and short-term deposits amounted to P915,823 and P2,012,945 in 2017 and 2016, respectively (Note 28).

Cash on hand includes petty cash fund, production fund, commission fund, postage and mailing fund and security fund which was used in the Company's daily operation.

Petty cash fund is used to defray small expenditures of the Company on its day to day operations when issuance of check is inappropriate and not advisable. This is maintained under imprest fund system of recording.

The above assets were free from lien, condition or hold-out and maybe withdrawn anytime. Furthermore, none of the foregoing assets was used to secure any liability of the Company.

Also, as of the latest synopsis by Insurance Commission (IC), the admitted asset of the Company is as follows for 2016.

| | Balance per Company | Admitted per IC |
|---|---|---|
| Cash on hand and in banks | 171,853,096 | 171,079,656 |

**NOTE 8 - <u>PREMIUM RECEIVABLE</u>**

This account consists of the following:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Motor car insurance | 6,767,541 | 5,201,285 |
| Surety insurance | 4,257,136 | 2,575,600 |
| Fire insurance | 1,635,505 | 1,309,282 |
| Other insurance | 4,598,927 | 4,303,536 |
| Total | 17,259,109 | 13,389,703 |
| Documentary stamps | 2,200,055 | 2,092,406 |
| Value added tax | 2,111,635 | 2,020,942 |
| Local government tax | 23,069 | 20,216 |
| Other charges | 224,272 | 182,963 |
| Total | 21,818,140 | 17,706,228 |
| Less: Allowance for probable loss | (1,377,524) | - |
| Premium receivable | 20,440,616 | 17,706,228 |

Other insurance includes all risks insurance, money securities and payroll, comprehensive general liability, fidelity guarantee, electronic equipment, public liability, engineering insurance and others.

The aforementioned receivables were not pledged nor assigned to secure any liability of the Company. As of the latest synopsis of IC, the above receivables are all admitted for the year 2016.

**NOTE 9 - <u>DUE FROM GENERAL AGENTS AND BROKERS</u>**

This account consists of the following:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Due from general agent and brokers | - | 3,203,837 |
| Less: Allowance for impairment | - | (1,377,524) |
| Net | - | 1,826,313 |

Allowance for impairment was determined by the Company using specific identification method.

None of the foregoing receivable was pledged/assigned to secure the Company's liabilities.

## NOTE 10 - DUE FROM CEDING COMPANIES AND REINSURERS

This account consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Premiums due from ceding company- facultative | 55,454,642 | 63,966,359 |
| Premiums due from ceding company- treaty | 2,306,865 | 2,306,865 |
| Total | 57,761,507 | 66,273,224 |
| Allowance for impairment | (1,987,861) | (1,987,861) |
| Net | 55,773,646 | 64,285,363 |

The Company used the specific identification method in recognizing the allowance for impairment of the foregoing assets.

Furthermore, as of the latest synopsis by IC, the admitted receivables of the Company are as follows for 2016:

| | Balance per Company | Admitted per IC |
|---|---|---|
| Due from ceding companies and reinsurers | 64,285,363 | 60,374,965 |

None of the foregoing receivable was pledged/assigned to secure the Company's liabilities.

## NOTE 11 - REINSURANCE RECOVERABLE ON PAID LOSSES

This account consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Reinsurance recoverable on paid losses - facultative | 13,026,883 | 8,484,879 |
| Reinsurance recoverable on paid losses - treaty | 5,259,368 | 1,133,873 |
| Less: Allowance for impairment | (1,878,820) | (1,878,820) |
| Net | 16,407,431 | 7,739,932 |

The Company used the specific identification method in recognizing the allowance for impairment of the foregoing assets.

As of the latest synopsis by IC, the admitted receivables of the Company are as follows for 2016:

| | Balance per Company | Admitted per IC |
|---|---|---|
| Reinsurance recoverable on paid losses | 7,739,932 | 7,739,932 |

## NOTE 12 - REINSURANCE ACCOUNTS

This account consists of the following:

| | As Reported | | Net of Reinsurance | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Due from ceding companies and reinsurance | 55,773,646 | 64,285,362 | 16,977,859 | 17,399,072 |
| Claims outstanding | 9,612,853 | 9,657,242 | 9,612,853 | 9,657,242 |
| Reserve for unearned premiums | 112,226,237 | 109,876,501 | 105,686,054 | 104,770,960 |

The Company enters into reinsurance agreement to minimize its exposure to material risk resulting from its insurance business. Reinsurance allows the Company to recover portion of losses arising from its reinsurers. However, this does not discharge the liability of the Company as direct insurer of the risk reinsured.

Due from ceding companies and reinsurers, net of reinsurance, are derived after deducting due to reinsurers and ceding companies amounting to P38,795,786 and P47,523,054 as of December 31, 2017 and 2016, respectively.

## NOTE 13 - ACCOUNTS AND OTHER RECEIVABLES

This account consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Accrued interest income | 1,146,820 | 574,703 |
| Salvage recoverable | 46,851 | 132,547 |
| Total | 1,193,671 | 707,250 |

Accrued interest income pertains to earned interest income on government securities during the year that were not yet received by the Company.

Notes receivable represents interest-bearing loans granted to officers and employees that are secured by promissory notes and payable within three years at minimal rate. These where fully paid during the year.

As of the latest synopsis of IC, accrued interest income amounting to P574,940 was considered as admitted asset for the year 2016.

None of the notes receivable was assigned/pledged as collateral against the Company's liabilities.

**NOTE 14 - DEFERRED ACQUISITION COST**

Movements of this account are shown as follows:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Balance at January 1 | 23,187,048 | 21,976,055 |
| Released during the year | (23,187,048) | (21,976,055) |
| Deferred commission expense | 25,551,432 | 23,351,704 |
| Unearned commission income | 1,275,040 | (164,656) |
| Balance at December 31 | 26,826,472 | 23,187,048 |

This account represents unamortized acquisition cost which was shown as an asset account in the statements of financial position.

The related reinsurance premiums ceded that pertains to the unexpired periods at statements of the financial position date are accounted for as deferred reinsurance premiums shown as part of assets in the financial positions. Unamortized acquisition costs are shown in the statements of financial position as deferred acquisition costs.

**NOTE 15 - RESERVE FOR UNEARNED PREMIUMS**

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

The portion of the premiums written that relates to the unexpired periods of the policies at the financial position date are accounted for as Reserve for Unearned Premiums and presented as liability in the financial positions.

Comparison of reserve for unearned premiums between the $24^{th}$ method and the statutory rate were as follows:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Reserve using 24th method | 112,226,237 | 109,876,501 |
| Deferred reinsurance premiums | (6,540,182) | (5,105,541) |
| Net reserve | 105,686,055 | 104,770,960 |
| Statutory reserve at 40% rate | (81,599,720) | (72,208,726) |
| Difference | 24,086,335 | 32,562,235 |

## NOTE 16 - HELD-TO-MATURITY (HTM) FINANCIAL ASSETS

HTM financial assets consist of various bonds and treasury bills with terms from one (1) year to twenty (20) years from issue date with an annual interest rates ranging from 4.00% to 7.75%. Movements of the account were shown below:

| | 2017 | 2016 |
|---|---|---|
| Beginning balance | 400,426,342 | 249,354,009 |
| Acquisition | 85,556,518 | 182,665,130 |
| Maturities | (26,443,999) | (31,592,797) |
| Total | 459,538,861 | 400,426,342 |
| Unamortized premium (discount) | (3,436,887) | 18,611,607 |
| Total | 456,101,974 | 419,037,949 |

The credit status of the aforementioned financial asset is presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Current | 8,657,589 | 165,660,000 |
| Non-current | 447,444,385 | 253,377,949 |
| Total | 456,101,974 | 419,037,949 |

Held-to-maturity financial assets classified as current will mature within one year while accounts classified as non-current have maturity ranging from two (2) years to fifteen (15) years.

In compliance with section 203/191/281 of Insurance Commission (IC), the Company assigned its treasury bills to IC amounting to P137,837,000. The Company shall not withdraw the proceeds of the treasury bills without a release order from Insurance Commission.

Total interest earned on held-to-maturity financial assets amounted to P13,789,046 and P9,606,619 for the years ended December 31, 2017 and 2016, respectively (Note 28).

## NOTE 17 - OTHER CURRENT ASSETS

This account consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Forms and supplies inventory | 2,548,580 | 2,548,580 |
| Input tax | 1,274,101 | 806,803 |
| Creditable income tax | 2,058,429 | 687,460 |
| Prepaid expenses | 569,295 | 518,936 |
| Total | 6,450,405 | 4,561,779 |

## NOTE 18 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account consists of the following:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Cost | | |
| At January 1 | 1,844,379 | 1,844,379 |
| Disposal | - | - |
| At December 31 | 1,844,379 | 1,844,379 |
| Unrealized gain | 981,874 | 440,238 |
| Carrying value | 2,826,253 | 2,284,617 |

The movements in the account of unrealized gain on available-for-sale financial assets are as follow:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| At January 1 | 440,238 | 910,476 |
| Fair value adjustment | 541,636 | (470,238) |
| At December 31 | 981,874 | 440,238 |
| Less: Deferred tax liability | 294,562 | 132,072 |
| Net | 687,311 | 308,166 |

The fair values of available-for-sale financial assets have been determined by reference to Circular Letter issued by the Insurance Commission and published prices in active market.

Dividend income earned from AFS financial assets amounted to P38,532 and P117,076 for years ended December 31, 2017 and 2016, respectively (Note 28).

The Company determined that there was no indication of impairment on the foregoing investments and none was used to secure the Company’s liabilities.

**NOTE 19 - PROPERTY AND EQUIPMENT**

The reconciliation of the carrying value at the beginning and ending of property and equipment as of December 31, 2017 and 2016, respectively, is presented below.

| Cost | 2015 | Addition | Disposal | 2016 | Addition | Disposal | Adjustments | 2017 |
|---|---|---|---|---|---|---|---|---|
| Electronic data processing | 19,837,519 | 632,995 | - | 20,470,514 | 1,088,116 | (57,589) | (175,953) | 21,325,088 |
| Transportation equipment | 4,412,048 | 1,129,000 | 654,604 | 4,886,444 | 964,643 | (1,148,000) | 36,603 | 4,739,690 |
| Furniture and fixtures | 10,469,215 | 150,179 | - | 10,619,394 | 237,517 | - | 139,348 | 10,996,259 |
| Total | 34,718,782 | 1,912,174 | 654,604 | 35,976,352 | 2,290,276 | (1,148,000) | (2) | 37,061,037 |

| Accumulated Depreciation | 2015 | Depreciation | Disposal | 2016 | Depreciation | Disposal | Adjustments | 2017 |
|---|---|---|---|---|---|---|---|---|
| Electronic data processing | 18,007,625 | 413,068 | - | 18,420,693 | 689,216 | (57,589) | - | 19,052,320 |
| Transportation equipment | 3,090,519 | 521,007 | 654,603 | 2,956,923 | 587,526 | (983,332) | - | 2,561,116 |
| Furniture and fixtures | 9,840,793 | 508,245 | - | 10,349,038 | 250,477 | - | - | 10,599,515 |
| Total | 30,938,937 | 1,442,320 | 654,603 | 31,726,654 | 1,527,219 | (1,040,921) | - | 32,212,951 |
| Carrying value | 3,779,845 | | | 4,249,698 | | | | 4,848,086 |

The Company sold transportation equipments for P1,148,000 and P57,589 with the carrying value of P1, resulting to a gain of P286,554 and P27,965 for the years ended December 31, 2017 and 2016, respectively (Note 28).

There was no objective evidence which warrants the impairment of the account. Moreover, these were not used as security against the Company's liabilities. Furthermore, as of the latest synopsis of IC, electronic data processing amounting to P1,750,310 were considered as admitted asset for the year 2016.

**NOTE 20 - INVESTMENT PROPERTY**

This account consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Land | 96,872,572 | 97,513,350 |

There was no appraisal report as of December 31, 2017 to determine the fair value of the properties. However, the Company is planning of appraising the properties to determine the fair value of the investment properties.

Furthermore, no impairment loss was recognized for these properties and these were not used as collateral for any liability of the Company. Also, as of the latest synopsis by IC, the admitted investment properties of the Company are as follows for 2016:

| | Balance per Company | Admitted per IC |
|---|---|---|
| Investment property | 97,513,350 | 78,491,358 |

**NOTE 21 - ALLOWANCE FOR IMPAIRMENT LOSSES**

This account is related to allowances provided to accounts receivable, due from ceding companies and reinsurers, reinsurance recoverable on paid losses, and due from general agents and brokers.

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Beginning balance | 5,244,205 | 5,244,205 |
| Provision charged to operations | - | - |
| Total allowance for impairment losses | 5,244,205 | 5,244,205 |

The breakdown of allowance for impairment losses is as follows:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Due from ceding companies and reinsurers | 1,987,861 | 1,987,861 |
| Reinsurance recoverable on paid losses | 1,878,820 | 1,878,820 |
| Premium receivable | 1,377,524 | - |
| Due from general agents and brokers | - | 1,377,524 |
| Total | 5,244,205 | 5,244,205 |

**NOTE 22 - DEFERRED TAXES**

This account consists of the following:

| | 2 0 1 7 | | 2 0 1 6 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Deferred acquisition cost | - | 8,047,942 | - | 6,956,114 |
| Unrealized gain (loss) on AFS investments | - | 294,562 | - | 132,072 |
| Reserve for unearned premiums | 7,225,899 | - | 9,768,670 | - |
| Allowance for credit and impairment losses | 1,573,262 | - | 1,573,262 | - |
| Provision for retirement | 1,006,337 | - | 1,006,337 | - |
| Provision for deposits | 4,460,601 | - | 3,045,018 | - |
| Total | 14,266,099 | 8,342,504 | 15,393,287 | 7,088,186 |

Movement of temporary difference in 2017 and 2016 are as follows:

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reserve for Unearned Premiums | Allowance for Doubtful Accounts | Provision for Retirement | Provision for Deposits | Deferred Acquisition Cost | Unrealized Gain(loss) on Investment | Total |
| At January 1 | 9,768,670 | 1,573,262 | 1,006,337 | 3,045,018 | (6,956,114) | (132,072) | 8,305,101 |
| Credited (Charged) to net income | (2,542,771) | - | - | 1,415,583 | (1,091,828) | - | (2,219,014) |
| Charged to equity | - | - | - | - | - | (162,490) | (162,491) |
| At December 31 | 7,225,899 | 1,573,262 | 1,006,337 | 4,460,601 | (8,047,942) | (294,562) | 5,923,595 |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reserve for Unearned Premiums | Allowance for Doubtful Accounts | Provision for Retirement | Provision for Deposits | Deferred Acquisition Cost | Unrealized Gain(loss) on Investment | Total |
| At January 1 | 6,407,674 | 1,573,262 | 1,006,337 | 1,837,013 | (6,592,817) | (273,143) | 3,958,326 |
| Credited (Charged) to net income | 3,360,996 | - | - | 1,208,005 | (363,298) | - | 4,205,704 |
| Charged to equity | - | - | - | - | - | 141,071 | 141,071 |
| At December 31 | 9,768,670 | 1,573,262 | 1,006,337 | 3,045,018 | (6,956,114) | (132,072) | 8,305,101 |

## NOTE 23 - CLAIMS PAYABLES

This account represents estimated liability for reported claims and accrual of estimated losses incurred as of reporting date which consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Outstanding claims reserve | 8,875,789 | 8,245,196 |
| Claims handling expenses | 1,019,742 | - |
| IBNR reserve | 34,160,301 | - |
| Total | 44,055,832 | 8,245,196 |

## NOTE 24 - COMMISSIONS PAYABLE

This account represents unpaid commission to agents and reinsurers amounting to P737,063 and P775,283 as of December 31, 2017 and 2016, respectively.

**NOTE 25 - ACCOUNTS AND OTHER PAYABLES**

This account consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Documentary stamps payable | 3,680,975 | 4,911,028 |
| Value-added tax payable | 2,383,915 | 3,236,711 |
| Withholding tax payable (Note 33) | 859,233 | 764,150 |
| Accrued expenses | 791,072 | 742,947 |
| Accounts payable | 492,549 | 475,565 |
| SSS and HDMF payable | 374,293 | 367,054 |
| Local government tax | 355,723 | 350,751 |
| Fire service tax payable | 194,240 | 202,480 |
| Other liabilities | 354,768 | 264,354 |
| Total | 9,486,768 | 11,315,040 |

Documentary stamp taxes payable are related with insurance premiums receivable, which the Company remits to the respective government agency upon collection from insured.

Accrued expenses pertain to Company's liability to government and other accruals, which are expected to be settled within twelve (12) months from the reporting date.

Other liabilities represent unrecorded collections of insurance premiums made by the Company's agents and brokers.

**NOTE 26 - OTHER LIABILITIES**

This account consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Bond deposit | 14,561,236 | 9,847,188 |
| Premium Deposit | 307,434 | 302,872 |
| Total | 14,868,670 | 10,150,060 |

## NOTE 27 - CAPITAL STOCK

### 27.1 Capital Stock

The roll-forward analysis of the capital stock follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Amount | Number of Shares | Amount | Number of Shares |
| Common Shares- P100 par | | | | |
| Authorized at January 1 | 550,000,000 | 5,500,000 | 300,000,000 | 3,000,000 |
| Increase in authorized share capital | - | - | 250,000,000 | 2,500,000 |
| At December 31 | 550,000,000 | 5,500,000 | 550,000,000 | 5,500,000 |
| Issued and fully paid | | | | |
| At January 1 | 300,000,000 | 3,000,000 | 282,685,200 | 2,826,852 |
| Additional subscription | 140,932,800 | 1,409,328 | 17,314,800 | 173,148 |
| At December 31 | 440,932,800 | 4,409,328 | 300,000,000 | 3,000,000 |

### 27.2 Deposit for future subscription

On April 28, 2016, the Board of Directors and stockholders representing two-thirds (2/3) of the outstanding capital stock of the Corporation approved the increase of authorized capital stock from P300 million divided into 3 million shares with a par value of P100 each, to P550 million divided into P5.5 million shares with a par value of P100 each out of which, at least twenty five percent (25%) of the said increase in the authorized capital stock shall be subscribed and at least twenty five percent (25%) of the said subscription shall be paid.

In 2016, the Company entered into a subscription agreement with the stockholders of the Company in their exercise of their pre-emptive right. Considerations received from the subscription amounting to P202,000,200 were in the form of the following:

| | |
|---|---|
| Cash | 119,983,800 |
| Real estate (Note 20) | 82,016,400 |
| Total | 202,000,200 |

On November 11, 2016, the Company initially filed an application with the SEC to increase its authorized capital stock which was subsequently approved on March 3, 2017.

### 27.3 Capital Management

The Company's capital management objectives are:

(i) To ensure the Company's ability to continue as a going concern; and

(ii) To provide an adequate return to shareholders by pricing services commensurately with the level of risk. The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the statements of financial position.

The Company's debt-to-equity ratio is computed as follows:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Total liabilities | 220,170,356 | 187,885,134 |
| Divided by: total stockholders' equity | 620,042,526 | 641,128,567 |
| Debt-to-equity ratio | 35.51 : 1.00 | 29.31 : 1.00 |

The Company sets the amount of capital in proportion to its over-all financing structure as indicated in its debt-to-equity ratio. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the amount of the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies of processes for the years ended December 31, 2017 and 2016, respectively.

**27.4 Contributed Surplus**

Contributed surplus includes any contribution of the stockholders of the Company, in addition to the paid-up capital stock, in order to comply with the pre-licensing requirements as provided under the Insurance Code. As of December 31, 2017 and 2016 total contributed surplus amounted to P66,067,386 and P4,999,986, respectively.

**27.5 Additional Paid-in Capital**

Additional paid-in capital includes any premium received on the initial issuance of capital stock. As of December 31, 2017 and 2016, total additional paid-in capital amounted to P5,490,883.

**27.6 Retained Earnings**

Retained earnings include all current and prior period results as disclosed in the statements of comprehensive income. As of December 31, 2017 and 2016, total retained earnings amounted to P106,864,146 and  P128,329,332, respectively.

**27.7 Unrealized Gain from Valuation of AFS Financial Assets**

The revaluation reserve for AFS financial assets comprises gains and losses arising from the revaluation of Available-for-sale financial assets. As of December 31, 2017 and 2016, total unrealized gain from valuation of AFS financial assets amounted to P687,311 and P308,166, respectively.

### 27.8 Capital Management, Objectives and Policies

The primary objectives of the Company for capital management are to ensure its ability to continue as a going concern; to maintain quality ratios especially liquidity; and to ensure compliance with IC regulations.
The President is responsible for managing the Company's capital structure and makes the necessary adjustments to address the risks and adapt to changes in economic conditions and regulatory requirements.

The Company regards the following items as the capital it manages as of December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Share capital | 440,932,800 | 300,000,000 |
| Additional paid-in capital | 5,490,883 | 5,490,883 |
| Contributed surplus | 66,067,386 | 4,999,986 |
| Deposit for future subscription | - | 202,000,200 |
| Retained earnings | 106,864,146 | 128,329,332 |
| Unrealized gain in market value of AFS investments | 687,311 | 308,166 |
| Total | 620,042,526 | 641,128,567 |

Margin of Solvency
Under existing insurance regulations, the Company is required to maintain a minimum paid-up capital of P550 million as of December 31, 2016. The Company is also required to maintain at all times a margin of solvency equal to P500,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher.

The margin of solvency is the excess of the value of a company's admitted assets as defined under existing insurance regulations, exclusives of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserved in the Philippines.

In accordance with pertinent provisions of the Code, the Company is restricted from declaring dividends on its outstanding capital stock except from profits attested to be remaining on hand after retaining unimpaired its entire paid-up capital stock, the required MOS, unearned premiums and a sum sufficient to pay all net losses reported, or in the course of settlement, and all other liabilities.

The final amount of the margin of solvency can be determined only after the accounts have been examined by IC particularly with respect to the determination of admitted and non-admitted assets.

### 27.9 Capital Management Framework

The Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which the Company are exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly, the anticipated impact on the realistic statement of financial position and comprehensive income account, are reported to the Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

Capitalization Requirement

On November 29, 2006, the IC issued the Insurance Memorandum Circular No. 10-2006., the purpose of which is to integrate the compliance standards under DO No. 27-06, as issued by the Department of Finance on September 1, 2006 prescribing the fixed capitalization increase and IMC Nos. 6-2006 and 7-2006, prescribing the Risk-Based Capital (RBC) framework for insurers.

On June 1, 2012, the Department of Finance issued D.O. No. 15-2012 for the imposition of higher minimum paid-up capital (PUC) to further supplement D.O. No. 27-06 after December 31, 2012, that any domestic non-life insurance company existing, operating, or otherwise doing business in the Philippines must have a PUC in accordance with the amounts and schedule of compliance provided hereunder:

| Compliance Date | Minimum Paid-up Capital |
|---|---|
| On or before December 31, 2012 | Php 250,000,000 |
| *(Pursuant to DO 27-06 and IMC No. 10-2006)* | |
| On or before December 31, 2014 | Php 400,000,000 |
| On or before December 31, 2016 | Php 600,000,000 |
| On or before December 31, 2018 | Php 800,000,000 |
| On or before December 31, 2020 | Php 1,000,000,000 |

Pursuant to Chapter III, Title 1, Section 194 of the Republic Act No. 10607, otherwise known as “The Insurance Code”, a domestic insurance company already doing business in the Philippines shall have the following net worth:

| Minimum Statutory Net Worth | Compliance Date |
|---|---|
| 250 Million | June 30, 2013 |
| 550 Million | December 31, 2016 |
| 900 Million | December 31, 2019 |
| 1.3 Billion | December 31, 2022 |

As of December 31, 2017, the Company is in compliance with the capital requirement of minimum statutory net worth of P550 Million.

## NOTE 28 - OTHER INCOME

This account consists of the following:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Interest income on government securities (Note 16) | 13,789,046 | 9,606,619 |
| Interest income on bank deposits (Note 7) | 915,823 | 2,012,945 |
| Gain on sale of transportation equipment (Note 19) | 286,554 | 27,965 |
| Dividend income (Note 18) | 38,532 | 117,076 |
| Miscellaneous income | 16,114 | 29,010 |
| Total | 15,046,069 | 11,793,615 |

**NOTE 29 - UNDERWRITING EXPENSES**

This account consists of the following:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Losses paid | 67,852,059 | 63,011,302 |
| Commission expense | 53,837,368 | 51,024,546 |
| Marketing expense | 8,356,359 | 7,211,577 |
| Agency expense | 2,039,109 | - |
| Losses adjustment expense | 1,563,562 | 724,208 |
| Other underwriting expense | 1,028,120 | 823,897 |
| Total | 134,676,577 | 122,795,530 |

Other underwriting expense consists of petty expenses that are attributable in preparing the documents and executing the policy, such as supplies and notary fees.

**NOTE 30 - OPERATING EXPENSES**

This account consists of the following:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Salaries and allowances | 29,421,085 | 28,565,058 |
| Taxes and licenses (Note 33.1) | 10,309,585 | 886,649 |
| Employee benefits | 7,268,951 | 4,124,696 |
| Retirement fund expense | 5,954,400 | 5,234,222 |
| Rent (Note 31) | 3,137,861 | 3,331,849 |
| Communication and postage | 2,649,414 | 2,222,708 |
| Transportation and travel | 2,647,447 | 1,147,656 |
| Representation and entertainment | 2,392,145 | 1,246,122 |
| Printing, stationary and supplies | 2,303,661 | 2,064,200 |
| Light and water | 1,922,738 | 1,822,263 |
| Depreciation (Note 19) | 1,527,219 | 1,442,320 |
| Directors' fees and allowances | 1,489,444 | 1,435,000 |
| Professional fees | 1,409,649 | 923,723 |
| Sports and recreation | 1,102,970 | 596,062 |
| Repairs and maintenance | 688,316 | 209,250 |
| Association and pool dues | 423,591 | 451,999 |
| Donation and contribution | 190,495 | 90,419 |
| Meal allowance | 143,980 | 115,039 |
| Insurance expense | 111,254 | 98,732 |
| Fines and penalties | 80,000 | - |
| Recruitment expense | 34,500 | 49,194 |
| Periodical and subscriptions | 4,788 | 4,068 |
| Advertising and promotions | - | 66,314 |
| Other operating expense | 376,543 | 664,789 |
| Total | 75,590,036 | 56,792,332 |

Other operating expenses consist of petty expenses that are attributable in an ordinary business operation of the Company.

## NOTE 31 - LEASE

The Company has lease agreement, which is terminated upon thirty (30) days written notice by either party to the other or may be extended upon mutual agreement with the Country Bankers Life Insurance Corporation, the lessor. Monthly rental amounted to P247,988 and is payable on or before 5th day of each month without need of demand. Total rental payments amounted to P3,137,861 and P3,331,849 for the years ended December 31, 2017 and 2016, respectively.

The future minimum lease payment is as follows:

| Period | Amount |
|---|---|
| Due in one month | 247,988 |
| Due in six months | 1,487,928 |
| Due in one year | 2,975,856 |
| Due in five years | 14,879,280 |

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

## NOTE 32 - INCOME TAXATION

The Company's income tax is computed as follows:

| REGULAR CORPORATE INCOME TAX (RCIT) - 30% | | 2 0 1 7 | 2 0 1 6 |
|---|---|---|---|
| Income before tax | | 15,682,406 | 31,918,636 |
| Add: | Non-deductible expense | | |
| | Fines and penalties | 80,000 | - |
| | Disallowed Representation and entertainment | | |
| | [(210,902,950 x 0.01) - 2,392,145] | 283,116 | - |
| Less: | Income already subjected to tax | | |
| | Interest income on deposits and government securities | 14,704,869 | 11,619,564 |
| | Dividend income | 38,532 | 117,076 |
| Taxable income | | 1,302,121 | 20,181,996 |
| RCIT Rate | | 30% | 30% |
| Provision for income tax | | 390,636 | 6,054,599 |

| MINIMUM CORPORATE INCOME TAX (MCIT) - 2% | | 2 0 1 7 | 2 0 1 6 |
|---|---|---|---|
| Gross revenues: | | | |
| | Net premiums earned | 201,649,565 | 180,521,815 |
| | Commissions earned | 2,595,503 | 3,040,525 |
| | Other underwriting income | 6,657,882 | 16,150,543 |
| | Miscellaneous income | 302,667 | 56,975 |
| Total | | 211,205,617 | 199,769,857 |
| Less: | Direct cost | | |
| | Underwriting expenses | 134,676,577 | 122,795,531 |
| Gross income subject to MCIT | | 76,529,040 | 76,974,326 |
| MCIT rate | | 2% | 2% |
| Minimum Corporate Income Tax | | 1,530,581 | 1,539,487 |

| CREDITABLE INCOME TAX | | 2 0 1 7 | 2 0 1 6 |
|---|---|---|---|
| Income tax due (higher between RCIT and MCIT) | | 1,530,581 | 6,054,599 |
| Less: | Prior years excess credits | 687,459 | 2,415,131 |
| | Current year tax credit - 1st to 3rd quarter | 399,690 | 338,610 |
| | Current year tax credit - 4th quarter | 133,653 | - |
| | Quarterly tax payments | 2,368,207 | 3,988,317 |
| Creditable income tax | | (2,058,428) | (687,459) |

| DEFERRRED MCIT | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Incurred in 2017, carry forward benefit up to 2020 | 1,139,945 | - |
| Incurred in 2014, expired in 2017 | - | 134,708 |
| Total | 1,139,945 | 134,708 |

## NOTE 33 - SUPPLEMENTAL INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)

Presented below is the supplementary information which is required by the BIR under its existing revenue regulations to be disclosed as part of the notes to the financial statements. This supplementary information is not a required disclosure under PFRS.

### 33.1 Requirements under Revenue Regulations No. 15-2010

In compliance with BIR Revenue Regulations No. 15-2010 (amending certain provision of Sec. 2 of RR No. 21-2002), which requires addition to the disclosures mandated under the Philippine Financial Reporting Standards, and such other standards and convention, the notes to the financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year, particularly on the following which is applicable to the Company:

Value Added Tax
The amount of VAT paid during the year amounted to P9,996,771.

Taxes on Importation
The Company did not have any importation during the year.

Excise Tax
The Company did not have any transaction which is subject to excise tax during the year.

Documentary Stamp Tax
The Company paid documentary stamp tax arising on the issuance of premiums amounting to P2,349,290.

Taxes and Licenses
The details of taxes and licenses account are as follows:

| | |
|---|---|
| Capital gains tax | 4,821,353 |
| Documentary stamp tax | 2,349,290 |
| Donors tax | 1,192,007 |
| Transfer tax | 703,131 |
| Filing fee | 545,910 |
| Business permit | 252,992 |
| Supervision fee | 85,850 |
| Real property tax/Real estate tax | 85,157 |
| Registration | 51,895 |
| Maintenance fee-ROSS | 12,000 |
| CTC | 10,500 |
| Others | 199,500 |
| Total | 10,309,585 |

Others consist of LRA fees and PNBTR/IT services fee.

Withholding taxes
The Company paid and accrued withholding taxes during the year as follow:

| | Paid | Accrued |
|---|---|---|
| Withholding tax on compensation | 3,312,712 | 308,270 |
| Expanded withholding tax | 7,803,201 | 550,963 |
| Total | 11,115,913 | 859,233 |

Deficiency Tax Assessments and Tax Cases

As of December 31, 2017, the Company does not have any final deficiency tax assessment 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 taxable years.

**33.2 Requirements under Revenue Regulations No. 19-2011**

Revenue Regulations No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and/or services, itemized deductions and other significant tax information, to be disclosed in the notes to the financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts of revenues reflected in the 2017 statements of comprehensive income, which is based on PFRS.

Taxable Revenue

The Company had taxable revenue for the year ended December 31, 2017 amounting to P210,902,950 arising from underwriting income.

Deductible Cost of Services

Deductible costs of services under the regular tax regime for the year ended December 31, 2017 comprise the following:

| | |
|---|---|
| Losses paid | 67,852,059 |
| Commission expense | 53,837,368 |
| Marketing expense | 8,356,359 |
| Agency expense | 2,039,109 |
| Losses adjustment expense | 1,563,562 |
| Other underwriting expense | 1,028,120 |
| Total | 134,676,577 |

Taxable Other Income

The Company has the following other income subject to regular income tax rate.

| | |
|---|---|
| Gain on sale of transportation equipment | 286,554 |
| Miscellaneous income | 16,114 |
| Total | 302,668 |

Itemized Deductions

The amounts of itemized deductions under the regular tax regime for the year ended December 31, 2017 follow:

| | |
|---|---|
| Salaries and allowances | 29,421,085 |
| Taxes and licenses | 10,309,585 |
| Employee benefits | 7,268,951 |
| Retirement fund expense | 5,954,400 |
| Rent | 3,137,861 |
| Communication and postage | 2,649,414 |
| Transportation and travel | 2,647,447 |
| Representation and entertainment | 2,109,029 |
| Printing, stationary and supplies | 2,303,661 |
| Light and water | 1,922,738 |
| Depreciation | 1,527,219 |
| Directors' fees and allowances | 1,489,444 |
| Professional fees | 1,409,649 |
| Sports and recreation | 1,102,970 |
| Repairs and maintenance | 688,316 |
| Association and pool dues | 423,591 |
| Donation and contribution | 190,495 |
| Meal allowance | 143,980 |
| Insurance expense | 111,254 |
| Recruitment expense | 34,500 |
| Periodical and subscriptions | 4,788 |
| Other operating expense | 376,543 |
| Total | 75,226,920 |

**NOTE 34 - BOOK VALUE PER SHARE**

The Company’s book value per share is computed as follow:

| | 2 0 1 7 | 2 0 1 6 |
|---|---|---|
| Total stockholders' equity | 620,042,526 | 641,128,567 |
| Divided by: Average outstanding common stocks | 4,409,328 | 3,000,000 |
| Book value per share | P141 | P214 |

**NOTE 35 - EARNINGS PER SHARE**

The Company's earnings per share are computed as follows:

| | 2017 | 2016 |
|---|---|---|
| Net income for the year | 13,072,756 | 30,069,741 |
| Divided by: Average outstanding common stocks | 4,409,328 | 3,000,000 |
| Earnings per share | P3 | P10 |

**NOTE 36 - RETIREMENT BENEFITS**

The Company has a funded, noncontributory tax-qualified defined benefit type of retirement plan covering substantially all of its employees. The benefits are generally based on defined contribution formula with minimum lump-sum guarantee ranging from fifty percent (50%) to one hundred fifty percent (150%) of plan salary per year of service.

Actuarial valuations are made at least every one (1) to two (2) years. The Company's annual contribution to the defined benefit plan consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

Retirement recognized as expense amounting to P5,954,400 and P5,234,222 for the years ended December 31, 2017 and 2016, respectively (Note 30).

The Company's actuarial valuation as of December 31, 2012 indicates a Defined Benefit Obligation of P20,103,027; Fair Value of Plan Assets of P24,447,071; and Unrecognized Actuarial Gain of P3,382,069 resulting in an asset of P991,975. No actuarial valuation as of December 31, 2017.

**NOTE 37 - RELATED PARTY TRANSACTION**

In the ordinary course of business, the Company entered into a lease agreement with Country Bankers Life Insurance Corporation (CBLIC) as a lessee. The statements of comprehensive income include the following amounts resulting from the above transaction with related party.

| | 2017 | 2016 |
|---|---|---|
| Rent expense | 2,975,861 | 2,975,861 |

As of the end of reporting period, total related party pertains to compensation of key management personnel amounted to P3,012,044 and P2,076,500 for the years ended December 31, 2017 and 2016, respectively.

**NOTE 38 – PRIOR PERIOD ADJUSTMENT**

Prior period adjustments are omissions from, and misstatements in, the Company's financial statements for one or more periods arising from a failure to use, or misuse of, reliable information. This account consists of the following:

| | |
|---|---|
| Unrecorded reserve for claims payable | (34,403,234) |
| Expired MCIT | (134,708) |
| Total | (34,537,942) |

**NOTE 39 – EVENTS AFTER THE REPORTING PERIOD**

An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period.

An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting period. If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions of users taken on the basis of financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

a) the nature of the event; and
b) an estimate of its financial effect or a statement that such an estimate cannot be made.

The Company has evaluated subsequent events through April 25, 2018, which is the date of the financial statements were available to be issued.

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION FILED SEPARATELY FROM THE BASIC FINANCIAL STATEMENTS**

**The Stockholders and the Board of Directors**
**COUNTRY BANKERS INSURANCE CORPORATION**
**3rd Floor Country Bankers Centre, T.M. Kalaw Ave.**
**Ermita, Manila**

We have audited the financial statements of **COUNTRY BANKERS INSURANCE CORPORATION** as at and for the year ended December 31, 2017, on which we have rendered the attached report, dated April 25, 2018. The supplementary information of the Schedule of Financial Reporting Framework as at December 31, 2017, as required by Part I, Section 4 (J) of Rule 68 of the Securities Regulation Code, is presented for purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Part I, Section 4 (J) of Rule 68 of the Securities Regulation Code.

**BANARIA, BANARIA AND COMPANY, CPAs**

By: GRACIA SEVERA A. BANARIA-ESPIRITU
Partner
CPA Certificate No. 27621
Tax Identification No. 131-938-548
PTR No. 5642328-C, January 11, 2018, Quezon City
CTC No. 22111479, January 11, 2018, Quezon City
BOA Accreditation No. 0030, valid until December 31, 2018 (Firm)
SEC Accreditation No. 0260-FR-1, valid until May 1, 2019 (Firm)
BIR Accreditation No. 07-001323-002-2017, valid until June 27, 2020 (Firm)
BIR Accreditation No. 07-001324-002-2017, valid until June 27, 2020 (Partner)
IC Accreditation No. F-2016-001-R, valid until July 17, 2019 (Firm)
IC Accreditation No. SP-2017-005-O, valid until May 7, 2020 (Partner)

April 25, 2018

**COUNTRY BANKERS INSURANCE CORPORATION**
**SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**
**Adopted by the Securities and Exchange Commission and Financial Reporting Standards Council**
**As of December 31, 2017**

| | Philippine Financial Reporting Standards 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 qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | ✓ | | |
| ***Philippine Accounting Standards (PAS)*** | | | | |
| PAS 1 (Revised) | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendment to PAS 1: Disclosure Initiative | ✓ | | |
| PAS 2 | Inventories | | | ✓ |
| PAS 7 | Statement of Cash Flows | ✓ | | |
| | Amendment 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 Underlying Assets | ✓ | | |
| | Amendment to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses | ✓ | | |
| | Amendment to PAS 12 - Income tax consequences of payments on financial instruments classified as equity (part of Annual Improvements to PFRS Standards 2015–2017)** | | Not early adopted | |

| | Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2017 | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| PAS 16 | Property, Plant and Equipment | ✓ | | |
| | Amendment to PAS 16: Classification of servicing equipment | ✓ | | |
| | Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation | ✓ | | |
| | Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | ✓ | | |
| | Amendments to PAS 16: Bearer Plants | | | ✓ |
| PAS 17 | Leases | ✓ | | |
| PAS 18 | Revenue | ✓ | | |
| PAS 19 | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans - Employee Contributions | ✓ | | |
| | Amendments to PAS 19: Plan Amendment, Curtailment or Settlement** | ✓ | | |
| PAS 19 (Revised) | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans - Employee Contributions | ✓ | | |
| | Amendments to PAS 19: Regional Market Issue regarding Discount Rate | | ✓ | |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | ✓ | | |
| PAS 23 (Revised) | Borrowing Costs | | ✓ | |
| | Amendment to PAS 23 - Borrowing costs eligible for capitalization (part of Annual Improvements to IFRS Standards 2015–2017)** | | Not early adopted | |
| PAS 24 (Revised) | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Entities providing key management personnel services | ✓ | | |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plan | | | ✓ |
| PAS 27 (Amended) | Separate Financial Statements | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | ✓ | | |
| | Amendment to PAS 27: Equity Method in Separate Financial Statements | ✓ | | |
| PAS 28 (Amended) | Investments in Associates and Joint Ventures | | | ✓ |

| | Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2017 | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendment to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | | | ✓ |
| | Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| | Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value | | | ✓ |
| | Amendment to PAS 28: Long-term Interests in Associates and Joint Ventures* | | | ✓ |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| PAS 32 | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32: 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 | ✓ | | |
| | Amendments to PAS 32: Tax effect of equity distributions | | | ✓ |
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | | | ✓ |
| | Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities | | | ✓ |
| | Amendments to PAS 34: Disclosure of Information ‘elsewhere in the interim financial report’ | | | ✓ |
| PAS 36 | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| PAS 38 | Intangible Assets | | | ✓ |
| | Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization | | | ✓ |
| | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| 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 | ✓ | | |

| | Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2017 | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendments to PAS 39: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | | ✓ |
| PAS 40 | Investment Property | | | ✓ |
| | Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40 | | | ✓ |
| | Amendmend to PAS 40: Transfers of Investment Property | | | ✓ |
| PAS 41 | Agriculture | | | ✓ |
| | Amendment to PAS 41: Bearer Plants | | | ✓ |
| ***<u>Philippine Financial Reporting Standards</u>*** | | | | |
| 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 | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Amendments to PFRS 1: Borrowing costs | | | ✓ |
| | Amendments to PFRS 1: Meaning of 'Effective PFRSs | ✓ | | |
| | Amendments to PFRS 1: Deletion of short-term exemptions for first-time adopters | | | ✓ |
| PFRS 2 | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |

| | Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2017 | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | 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 | | | ✓ |
| | Amended to PFRS 3: Previously held interest in a joint operation (part of Annual Improvements to IFRS Standards 2015–2017)** | | | ✓ |
| PFRS 4 | Insurance Contracts | ✓ | | |
| | Amendments to PFRS 4: Financial Guarantee Contracts | ✓ | | |
| | Amendmendts to PFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' | ✓ | | |
| PFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| | Amendments to PFRS 5: Changes in Methods of Disposal | | | ✓ |
| 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 Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | Not early adopted | |
| | Amendments to PFRS 7: Amendments to PFRS 7: Servicing Contracts | | | ✓ |
| | Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | | | ✓ |
| 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 Assets | | | ✓ |

| | Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2017 | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| PFRS 9 | Financial Instruments (2010 version) | Not early adopted | | |
| | Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)* | | | ✓ |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | Not early adopted | | |
| | Financial Instruments (2014 or final version) | Not early adopted | | |
| | Applying PFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts" to address concerns about the different effective dates of IFRS 9 and the new insurance contracts standard | | | ✓ |
| | Amendments to PFRS 9: Prepayment Features with Negative Compensation* | | | ✓ |
| PFRS 10 | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | | | ✓ |
| | Amendment to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | | | ✓ |
| | Amendment to PFRS 10 and PAS 28: Investment Entities - Applying the Consolidation Exemption | | | ✓ |
| PFRS 11 | Joint Arrangements | | | ✓ |
| | Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✓ |
| | Amended to PFRS 3: Previously held interest in a joint operation (part of Annual Improvements to IFRS Standards 2015–2017)** | | | ✓ |
| PFRS 12 | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | ✓ | | |
| | Amendments to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014- 2016 Cycle) | ✓ | | |
| PFRS 13 | Fair Value Measurement | ✓ | | |
| | Amendments to PFRS 13: Short-term receivable and payables | ✓ | | |
| | Amendments to PFRS 13: Portfolio Exception | ✓ | | |
| PFRS 14 | Regulatory Deferral Accounts | | | ✓ |
| PFRS 15 | Revenue from Contracts with Customers | | | ✓ |
| PFRS 16 | Leases | ✓ | | |
| PFRS 17 | Insurance Contracts | | | ✓ |

| Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| ***Philippine Interpretations - International Financial Reporting Interpretation Committee (IFRIC)*** | | | | |
| IFRIC 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| IFRIC 2 | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| IFRIC 4 | Determining whether an Arrangement contains a Lease | ✓ | | |
| IFRIC 5 | Rights to Interests 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 in Hyperinflationary Economies | | | ✓ |
| IFRIC 9 | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC–9: Embedded Derivatives | | | ✓ |
| | Improvements to IFRSs (scope of IFRIC 9 and revised IFRS 3) | | | ✓ |
| IFRIC 10 | Interim Financial Reporting and Impairment | | | ✓ |
| IFRIC 12 | Service Concession Arrangements | | | ✓ |
| IFRIC 13 | Customer Loyalty Programmes | | | ✓ |
| IFRIC 14 | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendment to Philippine Interpretation IFRIC–14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| IFRIC 15 | Agreements for the Construction of Real Estate*** | | | ✓ |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC–16: Improvements to IFRSs (entity that can hold hedging instruments) | | | ✓ |
| 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 | | | ✓ |

| Philippine Financial Reporting Standards and Interpretations Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| IFRIC 21 | Levies | | | ✓ |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | | | ✓ |
| IFRIC 23 | Uncertainty over Income Tax Treatments* | Not early adopted | | |
| ***Philippine Interpretations - Standing Interpretation Committee (SIC)*** | | | | |
| 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 - Web Site Costs | | | ✓ |

* *Subject to approval by the Board of Accountancy*

** *New standard issued by the IASB has not yet been adopted by the FRSC.*

*** *The effective date of Philippine Interpretation IFRIC-15 was deferred, until the final Revenue standard is issued by the Internationa Accounting Standards Board, and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.*