NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

2017 ANNUAL REPORT

Contents

OUR PROFILE

National Reinsurance Corporation of the Philippines was incorporated in 1978 pursuant to Presidential Decree No. 1270 as a domestic professional reinsurance firm to provide life and non-life reinsurance capacity to the Philippines and neighbouring insurance markets. The Company's registered office and principal place of business is located at the 31st Floor, BPI-Philam Life Makati, 6811 Ayala Avenue, Makati City. The Company is listed on the Philippine Stock Exchange with stock symbol NRCP.

FINANCIAL HIGHLIGHTS

(amounts in million pesos except book value per share)

	2017	2016	2015	2014	2013	2012
Gross Premiums	**3,205**	3,384	2,182	2,747	2,561	3,025
Net Premiums	**2,364**	1,693	928	1,022	820	779
Underwriting Income (Loss)	**204**	170	229	(72)	(428)	(795)
Investment & Other Income	**255**	282	507	433	664	702
Net Profit (Loss)	**50**	78	179	8	(288)	(396)
Total Assets	**14,288**	14,176	13,439	14,188	15,443	16,106
Stockholders' Equity	**5,254**	4,853	4,907	5,114	4,952	5,504
Book Value Per Share	**2.47**	2.29	2.31	2.41	2.33	2.59
Return on Average Equity	**0.99%**	1.60%	3.58%	0.17%	-5.50%	-6.85%
Expense Ratio	**13.4%**	19.1%	54.2%	29.4%	57.2%	30.4%
Loss Ratio	**63.7%**	58.5%	46.2%	73.8%	116.7%	163.8%
Combined Ratio	**101.8%**	99.1%	128.0%	131.6%	209.2%	232.6%

MESSAGE TO STOCKHOLDERS

WE ARE PLEASED TO REPORT THAT IN 2017 WE GENERATED PHP50 MILLION IN NET PROFIT ON THE BACK OF UNDERWRITING PROFIT OF PHP204 MILLION DUE TO FAVORABLE LIFE LOSS EXPERIENCE AND CASE RESERVE DEVELOPMENT.

Dear Stockholders,

We kicked off 2017 with bright prospects for your Company, Nat Re, as prompted by these key dynamics in play.

First, we were still riding on the growth momentum of our milestone year in 2016 wherein we saw new highs in our performance brought on by big changes we made in the past four years.

Another factor was the industry experts' encouraging outlook on the year's reinsurance growth in emerging markets. Reinsurers in these markets, particularly those in Asia, were anticipated to propel the increase in reinsurance premiums.

The Philippines again was seen to be one of the best performers in Asia with GDP growth prospects above six percent. We deemed this to also augur well for your Company's business as the benefits of this quick-paced economic expansion, spurred by the boost in government construction spending, were expected to spill over to the local insurance industry. In fact, the year 2017 was a remarkable one for the Philippine insurance industry with life and non-life insurance segments growing their assets, premiums earned, net worth, and paid-up capital at double-digit rates.

But even with this reassuring backdrop, Nat Re's results were not as good as one would hope. Global insured losses from catastrophe events were USD144 billion, the highest-ever recorded in a single year. The highest losses came from three hurricanes – Harvey, Irma, and Maria (HIM) – that struck the US and the Caribbean in quick succession. Natural catastrophes spared the Philippines in 2017 but large single fires affected the local non-life industry.

However, we were able to effectively safeguard your Company from severe losses. Because of significant improvement in our portfolio diversification and our limited exposure to US and North American risks (as compared to that of global reinsurers) we were able to minimize the effects of major disasters and deliver our fourth straight year of positive net income.

We are pleased to report that in 2017 we generated PHP50 million in net profit on the back of underwriting profit of PHP204 million due to favorable life loss experience and case reserve development.

Our combined ratio dipped slightly to 102% from 99% the previous year. However, we still outperformed most global reinsurers many times our size: they reported an average combined ratio of 107% in 2017.[1] While many global competitors continued to release reserves, in 2017 your Company continued to increase both net premium and net claim reserves. As a result of controlled business growth we also managed to improve our expense ratio to 13%.

We recorded gross written premiums above the PHP3 billion mark and grew our net written premiums by 40% year-on-year. We also posted a total comprehensive income of PHP401 million, a reversal of the PHP54 million total comprehensive loss the year before.

We have maintained our robust balance sheet strength. We are ahead of schedule with your Company's capital already beyond the regulator's minimum net worth requirement of PHP1.3 billion by 2021. As of end-2017, our regulatory capital adequacy ratio was at 257%[2] well-above the minimum set by the regulators.

We developed our leadership bench strength and welcomed Allan Santos as Chief Operating Officer to lead the standardization of systems and processes to match global best practice.

[1] *Reinsurance Market Report, Results for Year-End 2017*, Willis Re

[2] Using the 99.5% level of sufficiency under the new Risk-based Capital Framework regime framework (RBC2)

Turning now to developments in our business units, our life business' net written premiums swelled by 49% in 2017 brought on by the growing market for mortgages, employee benefits, and investment products. By the year's end our life gross written premiums peaked at PHP978 million. In 2017 we also added three clients to the list of those whose reinsurance programs we lead. We provided to our customers reinsurance services such as training on group life & health underwriting and pricing, and started development on Nat Re's now operational web-based life underwriting manual.

Meanwhile, our non-life business is seeing improving profitability as we move towards balancing domestic exposures with geographically spread foreign risks. Because of our diversified portfolio we have significantly reduced our vulnerability to Philippine natural catastrophes and lessened the potential volatility of Nat Re's underwriting results. Locally, the non-life business closed sixteen new contracts, increased shares in twenty-nine renewal contracts, and secured new overall lead reinsurer positions with two companies. Growth was tempered by prudence as 2017 also saw reduced shares in contracts with poor profit potential.

Our investments unit posted PHP255 million in realized income driven in part by the bullish equity market. We also recorded a healthy comprehensive investment income of PHP604 million in 2017, a 275% growth from the previous year.

Enterprise Risk Management strengthened, further evidenced by Nat Re's capital adequacy, retrocession purchases, reduction of portfolio concentration, and improved pricing and reserving. We documented and established a risk management framework which defines our structures and guidelines and our risk appetite and tolerances.

To help our most valuable resources transform our firm into a more customer-centric organization, we conducted a comprehensive review and revision of our organizational structure, our department charters, our role profiles, our performance management system, and our employee

Helen Y. Dee Board Chair

MESSAGE TO STOCKHOLDERS

MOVING FORWARD, WE WILL ENDEAVOR TO TRANSFORM YOUR COMPANY INTO A CUSTOMER-CENTRIC ORGANIZATION. WE WILL KEEP STRENGTHENING OUR TECHNICAL EXPERTISE AND LEVERAGING THE LATEST TECHNOLOGY SO WE CAN OPERATE MORE EFFICIENTLY AND DELIVER FAST AND CONVENIENT SERVICE.

engagement activities. To invigorate our workforce, our human resources team continued to provide our employees with more training opportunities and bring in young blood in various units such as analytics, investments, and accounting. We are confident that our deepening bench of talent will attract even more of these individuals into our organization.

In the finance division, we merged the collections and accounts settlement functions which will, in the long run, improve our operational efficiency and significantly lower our risk. Since 2014 we have been cleaning up our receivables, recoveries, and payables, resulting in positive net cash flow in 2017.

We pursued an initiative to improve the Nat Re image so we can effectively convey to the public the positive changes in your Company and encourage prospective and current clients to do more business with us. One important tangible aspect of this image is our office which has undergone a total renovation. We also engaged consultants who provided helpful insight as we updated our corporate mission, vision, values, brand differentiation, and value proposition.

Here at Nat Re we believe that with our burgeoning expertise of emerging markets and the tried-and-tested practices of global reinsurance we can help our clients accomplish their roadmaps to competitiveness. This is why we endeavor to create meaningful and lasting relationships with our partners, and find ways to share with them our industry knowledge and build their capabilities.

Since 2015 we have been ensuring greater visibility to our stakeholders by conducting regular client visits and organizing fora such as our Annual Life and Non-Life Technical Forum. In 2017 we held our first ever CEO Forum where we gathered together CEOs and Board Chairs of our client companies and curated for them compelling content to aid them in their decision-making.

We amended your Company's articles of incorporation to include among our secondary purposes consultancy, advisory, technical, and other related services in furtherance of the insurance and reinsurance business. With this we can further expand our role in the development of the industry and put our empirical knowledge to good use by taking part in (re)insurance-related partnerships. A case in point is Nat Re's appointment as local project manager in Oasis Loss Modelling Framework's project to create the first catastrophe model for flood in the Philippines.

Here at Nat Re we also uphold the value of sustainability, which is our profound understanding of our shared responsibility to the larger society, the national economy, and the global environment. We spent a good part of 2017 shaking hands and having discussions with key influencers in the sphere of disaster risk financing and insurance, and participating in national fora here and abroad as resource speakers. We do these to make known to our partners what we bring to the table as a good corporate citizen, and to encourage more discussions on concrete initiatives we can take.

We are also among the signatories—and the only one from the Philippines—of the global insurance industry's first statement on marine insurance and another statement against tobacco. It is also a first to have our CEO elected as a Co-Chair of the Board of the United Nations Environment Programme Finance Initiative (UNEP FI) Principles of

Sustainable Insurance, which is a global partnership between the international organization and the finance sector. As it has been in previous years we continued supporting Gawad Kalinga on its disaster resilience efforts.

Moving forward, we will endeavor to transform your Company into a customer-centric organization. We will keep strengthening our technical expertise and leveraging the latest technology so we can operate more efficiently and deliver fast and convenient service.

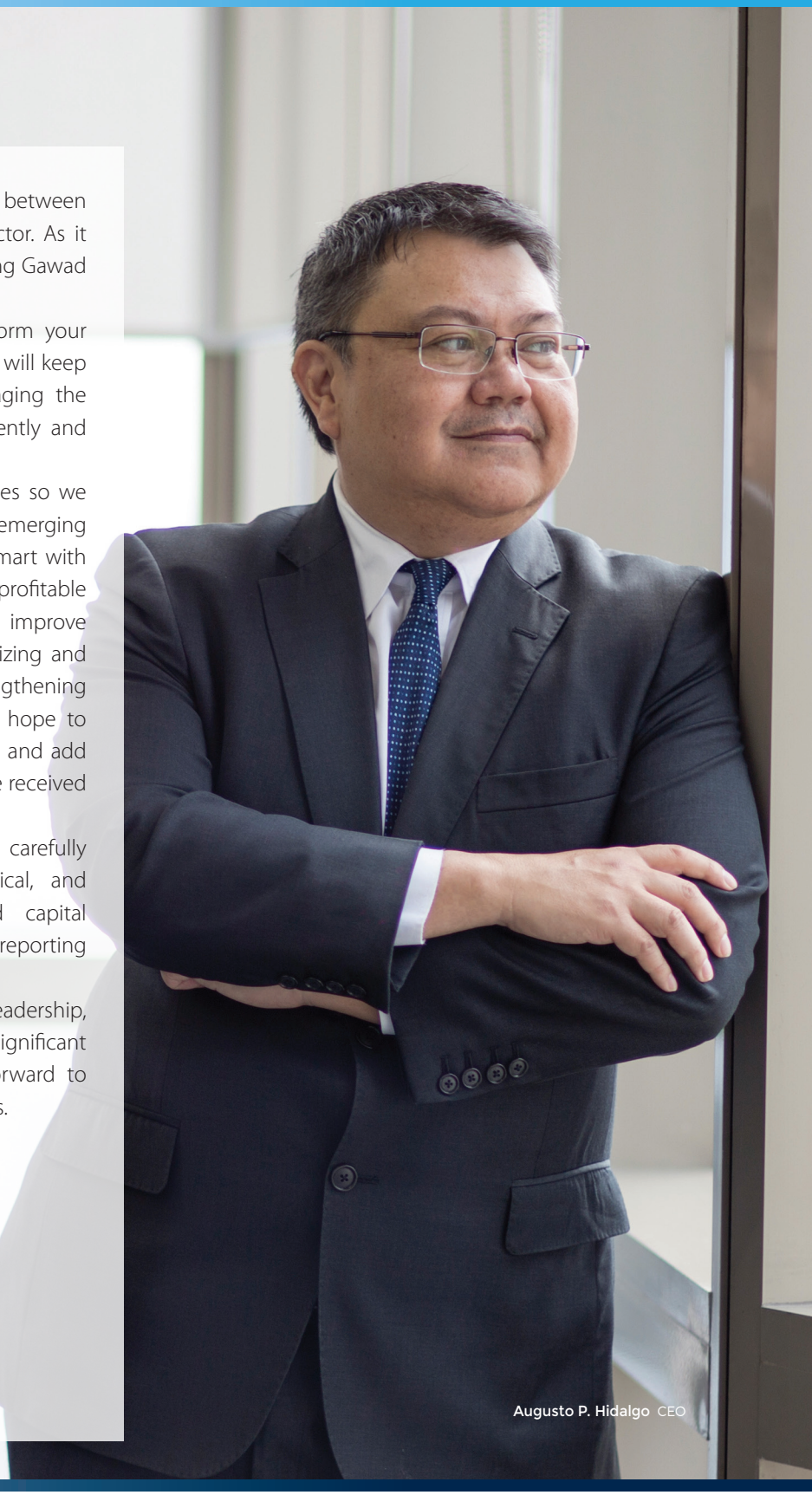
We will aim to operate at global best practices so we can elevate our status as a rising reinsurer in emerging markets. We will continue to be disciplined and smart with our underwriting, increase capital allocation in profitable lines and de-emphasize less profitable ones, and improve portfolio diversification. We will work on standardizing and documenting our policies and procedures and strengthening our risk management capabilities. Ultimately, we hope to gain more recognition from international agencies and add to the PRS A Plus Rating from PhilRatings which we received in 2017.

Finally, we will diligently prepare for and carefully navigate through the volatile economic, political, and regulatory environment where reserving and capital standards are expected to be elevated and new reporting standards will be introduced.

We thank you for putting your faith in our leadership, our management, and our workforce. We see significant opportunities ahead for Nat Re and we look forward to reporting to you our progress over the coming years.

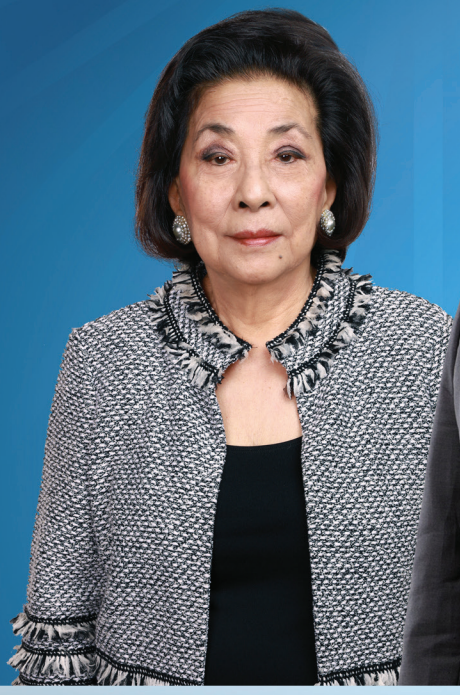
HELEN Y. DEE *Board Chair*

AUGUSTO P. HIDALGO *CEO*

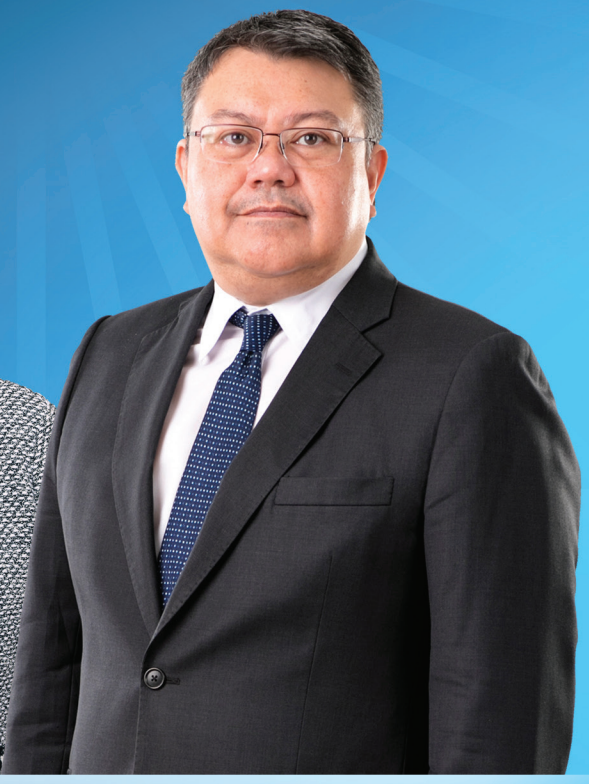


Augusto P. Hidalgo CEO

BOARD OF DIRECTORS

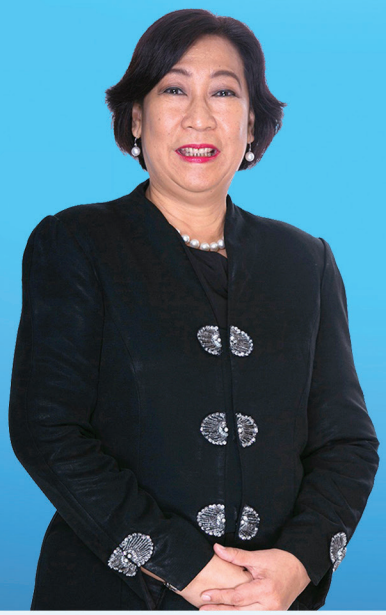


Helen Y. Dee
Chairperson of the Board



Augusto P. Hidalgo
Director / President
& Chief Executive Officer

Cezar P. Consing
Director



Jocelyn DG Cabreza
Director

Ermilando D. Napa
Independent Director

Romeo L. Bernardo
Independent Director

Yvonne S. Yuchengco
Director

Rafael G. Ayuste, Jr.
Director

Alan R. Luga
Director

Medel T. Nera
Independent Director

Joli Co Wu
Director / Treasurer

Antonio M. Rubin
Director

Luis C. Urcia
Director

Wilfredo C. Maldia
Director

Corporate Secretary
NOEL A. LAMAN

Assistant Corporate Secretary
MA. PILAR M. PILARES-GUTIERREZ

External Auditor
PUNONGBAYAN & ARAULLO

External Legal Counsel
CASTILLO LAMAN TAN PANTALEON & SAN JOSE LAW OFFICES

MANAGEMENT TEAM

EXECUTIVE SERVICES

AUGUSTO P. HIDALGO
President & Chief Executive Officer

REGINA S. RAMOS
Vice President
Risk and Compliance

LIFE REINSURANCE

VICTOR R. TANJUAKIO
First Vice President

BLESILDA S. BESABE
Senior Assistant Vice President

ANELISA TRINIDAD M. MERIDA
Assistant Vice President

NON-LIFE REINSURANCE

ALEXANDER L. REYES
Senior Vice President

SHARED SERVICES

ALLAN R. SANTOS
EVP & Chief Operating Officer

INVESTMENTS

DAISY C. SALONGA
Vice President

FINANCE

SANTINO U. SONTILLANO
Senior Assistant Vice President

CLAUDIA KAREN S. FIDELINO
Senior Assistant Vice President

HONORATA S. LUCOS
Assistant Vice President

DATA, ANALYTICS & TECHNOLOGY

CHERRY LOU R. LORENZO
Assistant Vice President

HUMAN RESOURCES

REGINA LOURDES D. PAPA
Senior Assistant Vice President

Left to right: Regina S. Ramos, Victor R. Tanjuakio, Daisy C. Salonga, Augusto P. Hidalgo, Allan R. Santos, Santino U. Sontillano, Alexander L. Reyes, Regina Lourdes D. Papa

Here at Nat Re we also uphold the value of sustainability, which is our profound understanding of our shared responsibility to the larger society, the national economy, and the global environment. We spent a good part of 2017 shaking hands and having discussions with key influencers in the sphere of disaster risk financing and insurance, and participating in national fora here and abroad as resource speakers. We do these to make known to our partners what we bring to the table as a good corporate citizen, and to encourage more discussions on concrete initiatives we can take.

REPORT OF THE AUDIT COMMITTEE

For the Year Ended December 31, 2017

In line with Article V. Board Committees of the Amended By-Laws of the National Reinsurance Corporation of the Philippines (Nat Re, the "Company") the Audit Committee assists the Board of Directors in carrying out its responsibilities as they relate to the oversight of the Company's internal control, internal audit function, independent auditors, legal or regulatory compliance, and corporate governance.

The Audit Committee's roles and responsibilities are likewise defined in the Audit Committee Charter approved by the Company's Board of Directors (Board).

In compliance with the Audit Committee Charter, we confirm that:

- The Audit Committee is composed of three (3) independent directors;
- We had six (6) meetings during the year. The Company's President & Chief Executive Officer (CEO) and other members of Management attended the Committee meetings. External subject experts, such as the appointed Independent External Auditors and other consultants, were also invited to the meetings;
- The Committee met with the Internal Audit Head and the Independent External Auditors in private sessions during the year;
- We have reviewed and discussed the quarterly unaudited financial statements and the audited financial statements of the Company, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, with the Management, who has the primary responsibility for the financial statements and the financial reporting process, the Internal Audit, and with Punongbayan & Araullo (P&A), the Independent External Auditor, who is responsible for expressing an opinion on the conformity of the Company's audited financial statements with Philippine Financial Reporting Standards (PFRS);
- We have reviewed the effectiveness of the system for monitoring compliance with laws and regulations and the results of Management's investigation and follow-up (including disciplinary action) of any instances of noncompliance;
- We have discussed and approved the overall scope and plans for the respective audit reviews of the Internal Auditors and P&A. We have also discussed the results of their audits and their assessments of the Company's internal controls and the overall quality of the financial reporting process;
- We have reviewed and discussed the reports of the Internal and Independent External Auditors ensuring that Management is taking appropriate corrective actions in a timely manner, including addressing internal control and any regulatory compliance issues;
- We have reviewed the effectiveness of the internal audit function, ensuring compliance with the International Standards for the Professional Practice of Internal Auditing (ISSPIA), and the Internal Audit's annual and quarterly reports to the Audit Committee covering:

  - Work plan and Key Performance Indicators (KPI) accomplishments
  - Critical Risk Areas, including investigative reviews and resolutions
  - Organizational Structure, Resource Utilization and Staff Competencies

- We have reviewed and recommended for Board approval the audit services of P&A and approved audit-related and permitted non-audit services provided by P&A to the Company and the related fees for such services, in accordance with existing policies, standards and regulatory requirements, and concluded that the non-audit fees are not significant to impair their independence;
- We have evaluated the performance of the Committee, for the year ended December 31, 2017 and benchmarked the practices against the expectations set out in the Audit Committee Charter. We have ascertained that the Audit Committee continues to fulfill its responsibilities in accordance with global best practices and in compliance with the Manual of Corporate Governance and other relevant regulatory requirements.

Based on the reviews and discussion undertaken, and subject to the limitation of our roles and responsibilities, the Audit Committee recommended to the Board of Directors the inclusion of the audited financial statements in the December 31, 2017 Annual Report, filed with the Securities and Exchange Commission.

Considering the independent auditor's performance and qualifications, we recommended to the Board of Directors, subject for ratification of the Stockholders during the annual stockholders meeting, the re-appointment of Punongbayan & Araullo as the Company's Independent Auditors for the year 2018.

By the Audit Committee:

Ermilando D. Naba
Chairman

Romeo L. Bernardo
Member

Medel T. Nera
Member

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **National Reinsurance Corporation of the Philippines** (the Company), is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

HELEN Y. DEE
Chairperson of the Board

AUGUSTO P. HIDALGO
President & Chief Executive Officer

JOLI CO WU
Treasurer

SANTINO U. SONTILLANO
Senior Assistant Vice President & Head of Finance

Signed this 15th day of March 2018.

SUBSCRIBED AND SWORN TO before me this 15th day of March 2018 at Makati City, Affiants exhibited to me their passport numbers.

Name	Passport No.	Date Issued	Place of issue
HELEN Y. DEE	EB9694250	27 November 2013	DFA Manila
JOLI CO WU	EC0653403	25 March 2014	DFA NCR East
AUGUSTO P. HIDALGO	P2113821A	04 March 2017	DFA Manila
SANTINO U. SONTILLANO	EC4590974	09 July 2015	DFA NCR Central

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Book No._____
Series of 2018.

ATTY. HENRY [illegible]
NOTARY PUBLIC CITY OF PASAY
UNTIL DECEMBER 31, 2018
NOTARIAL COMMISSION [illegible]
KNIGHT OF RIZAL BLDG.
GROUND FLOOR BESIDE PASAY CITY HALL
IBP (NO. 022011 / 01/03/2018 Makati
PTR NO. 5826667 / 01/03/2018 Pasay
MCLE COMPLIANCE NO. [illegible]
ROLL OF ATTORNEYS NO. [illegible]
TIN: 172-526-620-000

P&A
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Financial Statements
and Independent Auditors' Report

National Reinsurance Corporation of the Philippines

December 31, 2017, 2016 and 2015

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and the Stockholders
National Reinsurance Corporation of the Philippines
31st floor BPI-Philam Life Makati
(formerly: Ayala Life FGU Center)
6811 Ayala Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Reinsurance Corporation of the Philippines (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years for the period ended December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

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

(a) Recognition of Reinsurance Premiums and the Related Commission Expense, and Retroceded Premiums and the Related Commission Income

Description of the Matter

Revenue is one of the key performance measures used to assess business performance. There is a risk that the amount of revenue presented in the financial statements is higher than what has been actually generated by the Company. The Company recognizes premiums from short duration insurance contracts over the period of the contracts using the "24th method". The related commission expense is deferred and charged to profit or loss in proportion to premium revenue recognized. Retroceded premium and the related commission income are also recognized using the "24th method". For the year ended December 31, 2017, the reinsurance premium and retroceded premium accounts and the related commission expense and income accounts recognized in the 2017 statement of income amounted to ₱3,205.1 million, ₱841.4 million, ₱651.7 million and ₱68.4 million, respectively. Based on the possible effects of misstatement in the recording of revenue transactions and the related expense accounts, and the materiality of the amounts involved to the financial statements, we have concluded that the Company's revenue and expense recognition is considered to be a matter of audit significance.

The Company's disclosures about reinsurance premiums and the related commission expense, and retroceded premiums and the related commission income are included in Notes 13, 18, 19 and 21.

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How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to revenue and expense recognition, which was considered to be a significant risk, included:

- testing of design, existence and operating effectiveness of activities-level internal controls related to the Company's process of recording reinsurance premiums assumed, retroceded premiums, commission expense and commission income in the reinsurance accounts subsystem;
- performing detailed analysis of reinsurance premiums, commission expense, retroceded premiums and commission income by appropriate measures, such as, but not limited to, premiums assumed and retroceded by source (life and non-life) and by major line of business (treaty and facultative);
- testing outstanding balance of receivables, including, among others, positive confirmation (through sampling), testing subsequent collections and originating documents for non-responding customers, to ascertain its validity and existence;
- performing premium cut-off test, including, among others, examining date of approval and receipt date for insurance contracts near period end and subsequent to period end;
- testing the reasonableness of the balances of reserves for unexpired risks on both premiums assumed and ceded, as well as the deferred acquisition costs and deferred reinsurance commissions using the 24th method; and,
- testing the reasonableness of recorded accruals of reinsurance premiums assumed and retroceded premiums for treaty contracts and analysis of assumptions used in order to determine the proprietary of recorded accrual balances.

(b) Valuation of Reinsurance Balances Receivable

Description of the Matter

Reinsurance balances receivable is measured at amortized cost and the carrying amount is reduced by the amount of allowance for impairment. In determining impairment, the Company first assesses whether objective evidence of impairment exists individually for reinsurance balances receivable that are individually significant and individually or collectively for reinsurance balances receivable that are not significant. If there is objective evidence that an impairment loss on reinsurance balances receivable carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The allowance for impairment of reinsurance balances receivable is considered to be a matter of significance as it requires the application of judgment and use of subjective assumptions by management. In addition, this allowance for impairment was significant to our audit because the outstanding balance of reinsurance receivable amounting to ₱1,949.9 million as of December 31, 2017 is material to the financial statements.

The Company's disclosures about reinsurance balances receivable, detailing the movements in the account and reconciliation of the allowance for impairment, are included in Note 6.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to impairment of reinsurance balances receivable included:

- performing detailed analysis of the appropriateness of the method of estimation used (i.e., specific identification) and the specific criteria developed to compute the allowance for impairment account;
- testing the reasonableness of the balance of allowance for impairment account using the criteria and method used by management;
- determining the consistency of the method and criteria used throughout the period and from prior periods; and,
- performing analysis of the adequacy of the balance by testing the aging of reinsurance balances receivable and identifying potential troubled accounts considering, among others, past due accounts, accounts under litigation, accounts from closed companies, and customers with prior credit issues, and whether changes should be made to reflect a more accurate estimate of allowance for impairment.

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(c) Valuation of Losses and Claims Payable

Description of the Matter

The valuation of the Company's reinsurance contract liabilities was a key focus area in our audit due to the degree of complexity involved in valuing these liabilities and the significance of the judgments and estimates made by management. Losses and claims payable include the provisions for incurred but not reported (IBNR) losses which are estimated through the use of past claims settlement trends to predict future claims settlement trends and the estimate of the ultimate loss. These Company's liability estimates are ascertained by an independent actuary with the use of additional qualitative judgments to assess the extent to which the full tail of the claim development is influenced by the different internal and external factors. In addition, in compliance with an Insurance Commission circular, the Company's losses and claims payable include certain percentage of margin for adverse deviation (MfAD) to allow for inherent uncertainty of the best estimate of the policy reserves arising from the variability of claims experience, the diversification between classes of business and conservatism in the best estimate.

The Company's disclosures about losses and claims payable is disclosed in Note 17.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the valuation of reinsurance contract liabilities included:

- testing of design, existence and operating effectiveness of activities-level internal controls related to the Company's process of recording losses and claims payable in the claims subsystem;
- validating the propriety of the data used by the independent actuary in computing the Unexpired Risk Reserves (URR) and IBNR, and evaluating the reasonableness of the assumptions and methodologies used in the determination of URR and IBNR;
- testing the reasonableness of the amount of IBNR following the methodology applied by the actuary;
- performing detailed analysis of claims and loss adjustment expenses by appropriate measures, such as, but not limited to, claims liability by source (life and non-life) and by major line of business (treaty and facultative);
- examining relevant reports and documents to establish the propriety of the outstanding claims; and,
- testing subsequent disbursements and cut-off tests to determine whether disbursements represent previously unrecorded losses and claims payable.

(d) Valuation of Available-for-sale Financial Assets

Description of the Matter

The fair valuation of the Company's available-for-sale (AFS) financial assets was a key focus area in our audit as the Company uses inputs from external sources in computing the market value of the AFS financial assets.

As discussed in Note 30, the fair value of AFS financial assets are categorized into Level 1, 2 or 3 based on the significance of inputs used to measure the fair value. As at December 31, 2017, ₱5,476.7 million of the Company's AFS financial assets, that include government and corporate debt securities, and equity securities carried at fair value, were classified as Level 1. On the other hand, ₱17.9 million of the Company's AFS financial assets, which include golf club shares and mutual funds, were carried at fair value and were classified as Level 2. Lastly, equity security held in a private company amounting to ₱32.5 million was carried at fair value and was classified as Level 3.

The Company's disclosures about AFS financial assets and the disclosures on fair value measurement are included in Notes 7 and 30, respectively.

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How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to valuation of AFS financial assets included:

- evaluating the appropriateness of the valuation process of investments and tested the inputs against reliable market sources and the valuation formulas used in fair market valuation;
- evaluating whether fair value prices used were appropriate;
- recomputing the fair values based on the inputs and comparing with the market values used by the Company; and,
- testing the validity of the Company's assessment on whether there is any objective evidence that AFS financial assets are impaired.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, both of which do not include the financial statements and our auditors' report thereon, and the Annual Report for the year ended December 31, 2017. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

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

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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 PFRS, 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 PSA 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, 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 PSA, 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.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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 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 of such communication.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 34 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS; neither it is a required disclosure under Securities Regulation Code Rule 68, as amended, of the SEC. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the 2017 audit resulting in this independent auditors' report is Sheryl G. Llovido.

PUNONGBAYAN & ARAULLO

By: **Sheryl G. Llovido**
Partner

CPA Reg. No. 0108392
TIN 221-750-103
PTR No. 6616012, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1554-A (until Apr.14, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-36-2015 (until Nov. 1, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

March 15, 2018

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

(Amounts in Philippine peso)

	Notes	**2017**	2016
ASSETS			
Cash and cash equivalents	*5*	**₱1,310,540,587**	₱920,425,229
Reinsurance balances receivable – net	*6*	**1,949,930,671**	1,445,939,323
Available-for-sale (AFS) financial assets	*7*	**5,527,119,969**	5,857,571,100
Held-to-maturity (HTM) investments	*8*	**1,034,687,360**	-
Loans and receivables	*9*	**201,888,184**	464,887,025
Property and equipment – net	*10*	**80,010,993**	65,978,125
Reinsurance recoverable on unpaid losses	*11*	**3,360,623,519**	4,200,404,577
Deferred acquisition costs	*12*	**280,946,282**	258,617,319
Deferred reinsurance premiums	*13*	**202,935,270**	394,816,767
Other assets – net	*14*	**338,880,378**	567,104,396
TOTAL ASSETS		**₱14,287,563,213**	₱14,175,743,861
LIABILITIES AND EQUITY			
Liabilities			
Reinsurance balances payable	*15*	**₱1,269,638,118**	₱1,086,930,932
Accounts payable and accrued expenses	*16*	**75,291,612**	128,792,280
Losses and claims payable	*17*	**6,343,569,632**	6,728,805,241
Premium reserves	*18*	**1,339,837,217**	1,337,254,844
Deferred reinsurance commissions	*19*	**5,435,218**	41,201,206
Total Liabilities		**9,033,771,797**	9,322,984,503
Equity	*24*	**5,253,791,416**	4,852,759,358
TOTAL LIABILITIES AND EQUITY		**₱14,287,563,213**	₱14,175,743,861

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME
For the years ended December 31, 2017, 2016 and 2015
(Amounts in Philippine peso)

	Notes	**2017**	2016	2015
Reinsurance premium income				
Reinsurance premiums - net of returns		**₱3,205,113,517**	₱3,383,940,377	₱2,182,359,780
Retroceded premiums		**(841,428,489)**	(1,690,722,077)	(1,254,410,812)
Net premiums retained		**2,363,685,028**	1,693,218,300	927,948,968
Increase in premium reserves – net	*13,18*	**(194,463,870)**	(404,310,476)	(27,537,307)
		2,169,221,158	1,288,907,824	900,411,661
Underwriting deductions				
Share in claims and losses – net	*21.1*	**1,382,214,233**	754,428,460	415,753,287
Commissions – net	*21.2*	**583,327,726**	364,339,977	255,718,544
		1,965,541,959	1,118,768,437	671,471,831
Net underwriting income		**203,679,199**	170,139,387	228,939,830
Investment and Other income and expenses – net	*20*	**254,806,432**	281,570,657	507,267,145
Profit after Investment and Other income and expenses		**458,485,631**	451,710,044	736,206,975
General and administrative expenses	*22*	**317,343,136**	322,929,650	503,290,546
Profit before tax		**141,142,495**	128,780,394	232,916,429
Tax expense	*23*	**91,043,481**	50,726,437	53,782,989
Net profit		**₱50,099,014**	₱78,053,957	₱179,133,440
Earnings Per Share - Basic and Diluted	*27*	**₱0.024**	₱0.037	₱0.084

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2017, 2016 and 2015
(Amounts in Philippine peso)

	Notes	**2017**	2016	2015
Net profit		**₱50,099,014**	₱78,053,957	₱179,133,440
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit liability	*22.2*	**3,612,946**	(11,779,274)	10,432,221
Items that are and will be reclassified subsequently to profit or loss				
Fair value gains during the year	*7*	**407,024,769**	(98,495,832)	(170,754,065)
Amortization of unrealized gains on reclassified HTM securities to profit or loss		**(1,519,326)**	-	-
Fair value gains on disposal of AFS financial assets reclassified to profit or loss	*7*	**(120,782,788)**	(25,561,793)	(225,170,806)
Fair value losses on impairment of AFS financial assets reclassified to profit or loss	*7*	**64,873,264**	3,303,884	-
Income tax effect		**(2,275,821)**	-	-
		347,320,098	(120,753,741)	(395,924,871)
Total other comprehensive income (loss)		**350,933,044**	(132,533,015)	(385,492,650)
Total comprehensive income (loss)		**₱401,032,058**	(₱54,479,058)	(₱206,359,210)

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017, 2016 and 2015
(Amounts in Philippine peso)

	Notes	Capital Stock		Additional Paid-in Capital
		No. of shares	Amount	
Balance at January 1, 2017		**2,181,954,600**	**₱2,181,954,600**	**₱3,019,218,458**
Net income		-	-	-
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss		-	-	-
Item that are and will be reclassified subsequently to profit or loss		-	-	-
Reclassification		-	-	-
Total comprehensive income	*7, 22*	-	-	-
Appropriated for contingencies	*24*	-	-	-
Balance at December 31, 2017		**2,181,954,600**	**₱2,181,954,600**	**₱3,019,218,458**
Balance at January 1, 2016		2,181,954,600	₱2,181,954,600	₱3,019,218,458
Net income		-	-	-
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss		-	-	-
Item that are and will be reclassified subsequently to profit or loss		-	-	-
Total comprehensive income	*7, 22*	-	-	-
Appropriated for contingencies	*24*	-	-	-
Balance at December 31, 2016		2,181,954,600	₱2,181,954,600	₱3,019,218,458
Balance at January 1, 2015		2,181,954,600	₱2,181,954,600	₱3,019,218,458
Net income		-	-	-
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss		-	-	-
Item that are and will be reclassified subsequently to profit or loss		-	-	-
Total comprehensive income	*7, 22*	-	-	-
Balance at December 31, 2015		2,181,954,600	₱2,181,954,600	₱3,019,218,458

See Notes to the Financial Statements.

	Revaluation Reserves					
Treasury Shares at Cost	AFS Financial Assets	HTM Investments	Defined Benefit Liability	Retained Earnings (Deficit) Appropriated	Retained Earnings (Deficit) Unappropriated	Total Equity
(₱100,525,432)	**(₱186,392,779)**	**₱-**	**(₱75,147,148)**	**₱7,805,396**	**₱5,846,263**	**₱4,852,759,358**
-	**-**	**-**	**-**	**-**	**50,099,014**	**50,099,014**
-	**-**	**-**	**3,612,946**	**-**	**-**	**3,612,946**
-	**348,839,424**	**(1,519,326)**	**-**	**-**	**-**	**347,320,098**
-	**(4,775,605)**	**4,775,605**	**-**	**-**	**-**	**-**
-	**344,063,819**	**3,256,279**	**3,612,946**	**-**	**50,099,014**	**401,032,058**
-	**-**	**-**	**-**	**5,009,901**	**(5,009,901)**	**-**
(₱100,525,432)	**₱157,671,040**	**₱3,256,279**	**(₱71,534,202)**	**₱12,815,297**	**₱50,935,376**	**₱5,253,791,416**
(₱100,525,432)	(₱65,639,038)	₱ -	(₱63,367,874)	₱ -	(₱64,402,298)	₱4,907,238,416
-	-	-	-	-	78,053,957	78,053,957
-	-	-	(11,779,274)	-	-	(11,779,274)
-	(120,753,741)	-	-	-	-	(120,753,741)
-	(120,753,741)	-	(11,779,274)	-	78,053,957	(54,479,058)
-	-	-	-	7,805,396	(7,805,396)	-
(₱100,525,432)	(₱186,392,779)	₱ -	(₱75,147,148)	₱7,805,396	₱5,846,263	₱4,852,759,358
(₱100,525,432)	₱330,285,833	₱ -	(₱73,800,095)	₱ -	(₱243,535,738)	₱5,113,597,626
-	-	-	-	-	179,133,440	179,133,440
-	-	-	10,432,221	-	-	10,432,221
-	(395,924,871)	-	-	-	-	(395,924,871)
-	(395,924,871)	-	10,432,221	-	179,133,440	(206,359,210)
(₱100,525,432)	(₱65,639,038)	₱ -	(₱63,367,874)	₱ -	(₱64,402,298)	₱4,907,238,416

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017, 2016 and 2015
(Amounts in Philippine peso)

	Notes	**2017**	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**₱141,142,495**	₱128,780,394	₱232,916,429
Adjustments for:				
Increase in incurred but not reported losses - net	*11, 17*	**326,711,382**	249,530,930	59,962,450
Increase in premium reserves - net	*13, 18*	**194,463,870**	404,310,476	27,537,307
Interest income	*20*	**(192,510,482)**	(196,697,334)	(231,297,911)
Impairment losses - net	*20, 22*	**147,390,656**	77,431,774	220,391,105
Gain on sale of AFS financial assets	*20*	**(120,782,788)**	(25,561,793)	(215,133,833)
(Increase) decrease in deferred acquisition costs – net	*12, 19*	**(58,094,951)**	(113,897,526)	10,486,905
Dividend income	*20*	**(55,885,496)**	(47,894,868)	(47,659,949)
Unrealized foreign currency loss (gain)		**35,457,809**	(6,021,409)	(3,639,300)
Depreciation and amortization	*22*	**12,138,652**	18,604,856	24,073,131
Loss on asset retirement	*20*	**8,178,708**	226,934	-
Increase (decrease) in outstanding loss reserves - net		**3,390,575**	(19,146,289)	(6,123,067)
Gain on sale of non-financial assets	*20*	**(201,738)**	(750,199)	(171,782)
Operating income before working capital changes		**441,398,692**	468,915,946	71,341,485
(Increase) decrease in reinsurance balances receivable		**(454,266,585)**	(123,845,357)	173,876,537
(Increase) decrease in loans and receivable		**(35,991,809)**	5,854,565	2,599,065
(Increase) decrease in reinsurance recoverable on unpaid losses		**726,269,433**	(170,132,780)	259,133,994
Increase in other assets		**(33,530,382)**	(228,677,881)	(74,528,993)
Increase (decrease) in reinsurance balances payable		**186,488,635**	21,868,375	(91,569,785)
Increase (decrease) in accounts payable and accrued expenses		**13,159,168**	4,359,707	(27,179,681)
Increase (decrease) in losses and claims payable		**(621,906,322)**	63,095,128	(604,166,502)
Cash generated from (used in) operations		**221,620,830**	41,437,703	(290,493,880)
Cash paid for income taxes		**(36,602,391)**	(35,152,163)	(43,794,061)
Net Cash From (Used in) Operating Activities		**185,018,439**	6,285,540	(334,287,941)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal/maturities of:				
AFS financial assets	*7*	**2,428,509,757**	2,358,965,006	5,172,530,259
Other investments	*9*	**305,070,069**	-	-
HTM investments	*8*	**73,000,000**	-	-
Property and equipment	*10*	**3,030,675**	1,791,283	932,357
Investment properties	*14*	**-**	704,000	-
Interest received		**193,168,455**	197,407,609	244,246,013
Dividends received		**51,797,746**	46,974,124	47,659,949
Acquisitions of:				
AFS financial assets	*7*	**(2,789,781,764)**	(2,733,008,190)	(4,961,897,763)
Property and equipment	*10*	**(35,046,521)**	(7,083,824)	(8,307,062)
HTM investments	*8*	**(15,100,199)**	-	-
Intangible assets	*14*	**(5,785,626)**	(1,598,014)	(3,689,306)
Net Cash from (Used in) Investing Activities		**208,862,592**	(135,848,006)	491,474,447
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**393,881,031**	(129,562,466)	157,186,506
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		**(3,765,673)**	2,515,119	3,642,232
CASH AND CASH EQUIVALENTS - January 1		**920,425,229**	1,047,472,576	886,643,838
CASH AND CASH EQUIVALENTS - December 31		**₱1,310,540,587**	₱920,425,229	₱1,047,472,576

Supplemental Information on Noncash Investing Activity –
In 2017, the Company reclassified certain investments previously classified under AFS financial assets to HTM investments and Other assets amounting to ₱1.09 billion and ₱0.14 million, respectively (see Note 7).

See Notes to the Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Philippine Peso)

1. CORPORATE INFORMATION

National Reinsurance Corporation of the Philippines (the Company) was incorporated on June 7, 1978 by virtue of Presidential Decree No. 1270 (the Decree), as a domestic professional reinsurance firm to provide life and non-life reinsurance capacity to the Philippines and neighboring insurance markets. Under the Decree, it became the vehicle for the Philippine insurance industry's participation in the Asian Reinsurance Corporation (ARC), a multi-government-initiated reinsurance entity, based in Bangkok, Thailand, which was established to foster regional cooperation among insurance companies doing business in Asia. The Company's shares are listed in the Philippine Stock Exchange (PSE).

The Company's registered office and principal place of business is located at 31st floor BPI-Philam Life Makati (formerly: Ayala Life FGU Center), 6811 Ayala Avenue, Makati City.

The financial statements of the Company as at and for the year ended December 31, 2017 (including the comparative financial statements as at December 31, 2016 and for the years ended December 31, 2016 and 2015) were authorized for issue by the Company's Board of Directors (BOD) on March 15, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

Certain comparative amounts in the statements of income have been reclassified as a result of a change in the classification of certain accounts during the current year (see Note 33).

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

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

(c) *Functional and Presentation Currency*

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

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

2.2 Adoption of New and Amended PFRS

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

The Company has adopted the following amendments to standards starting January 1, 2017. The adoption of these amendments to standards did not have any significant impact on the Company's financial statements.

- 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). The amendments 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, this 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 those changes identified immediately above.

  The application of this amendment had no impact on the Company's financial statements as the Company has no financing activity during the years presented.

- PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendment 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 had no impact on the Company's financial statements.

(b) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2017, which were adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions:

- PFRS 4 (Amendments), *Insurance Contracts* (effective from January 1, 2018). The amendments address the temporary accounting consequences of the different effective dates of PFRS 9, *Financial Instruments*, and the anticipated new insurance contracts standard by introducing the following options: (a) overlay approach, which is an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of PFRS 9; or, (b) an optional temporary exemption from applying PFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of PAS 39, *Financial Measurements: Recognition and Measurement*. The Company plans to apply the second option as allowed by this amendment.

- PFRS 9 (2014) (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

  - three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management plans to exercise the second option provided by the PFRS 4 (Amendments) effectively deferring application of PFRS 9 (2014) to periods beyond January 1, 2018. Consequently, the Company will continue to apply the existing financial instrument requirements of PAS 39.

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this interpretation has no material impact on the Company's financial statements.

- PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

  For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

  Management is currently assessing the impact of this new standard on the Company's financial statements.

- IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

  Management is currently assessing the impact of this interpretation on the Company's financial statements.

- PFRS 17, *Insurance Contracts (*effective January 1, 2021). The new standard will solve the comparison problems created by International Financial Reporting Standards (IFRS) 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investor and insurance companies. Insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

  The standard introduces insurance contract measurement principles requiring current, explicit and unbiased estimates of future cash flows, discount rates that reflect the characteristics of the contracts' cash flows, and explicit adjustment for non-financial risk.

  Management is currently assessing the impact of this new standard on the Company's financial statements.

2.3 Reinsurance Contracts

Product Classification
Reinsurance contracts are those contracts under which the Company (the reinsurer) has accepted significant insurance risk from another party (the cedants) by agreeing to compensate the cedants if a specified uncertain future event (the insured event) adversely affects the cedants. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid when an insured event occurs with benefits payable if the insured event did not occur. Reinsurance contracts can also transfer financial risks.

Once a contract has been classified as reinsurance contract, it remains reinsurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period, unless all rights and obligations are extinguished or expired.

Retrocession Contracts Held
Contracts entered into by the Company with retrocessionaires under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for reinsurance contracts above are classified as retroceded contracts held. Contracts that do not meet those classification requirements are classified as financial assets.

The Company retrocedes insurance risk in the normal course of business. Reinsurance recoverable on unpaid losses represents balances due from retrocessionaires for its share on the unpaid losses incurred by the Company. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the retroceded contract. Reinsurance recoverable on paid losses are included as part of Reinsurance balances receivable.

Reinsurance receivables are reviewed for impairment at the end of each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the cedants and retrocessionaires can be measured reliably.

The impairment loss is recorded as part of General and administrative expenses in the statements of income.

Ceded insurance risk does not relieve the Company from its obligations to ceding companies.

The Company also assumes insurance risks in the normal course of business for reinsurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies and retrocessionaires. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

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

2.4 Financial Assets

Financial assets are recognized when the Company becomes a party to an agreement and agrees to sell goods or services for a fixed amount of money. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, i.e., the date that the Company commits to purchase the asset.

For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Financial assets are recognized initially at fair value of the consideration given. Except for financial assets at FVTPL, the initial measurement of financial assets includes transaction costs.

As at December 31, 2017 and 2016, the Company has no financial assets classified as FVTPL.

(i) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Company provides money or services directly to a debtor with no intention of trading the receivables.

The Company's financial assets categorized as loans and receivables are presented as cash and cash equivalents, reinsurance balances receivable, loans and receivables, and funds at Lloyd's (presented under Other assets - net account in the statements of financial position). Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three (3) months or less, readily convertible to known amount of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method subject to any impairment loss.

(ii) HTM Investments

This category includes are non-derivative financial assets with fixed or determinable payments and fixed maturity, and that the Company has the intention and ability to hold to maturity other than: (a) those that Company designates as financial assets at FVTPL upon initial recognition; (b) those that the Company designates as AFS; and, (c) those that meet the definition of loans and receivables. This category includes corporate bonds which the Company has the intent and ability to hold until maturity.

HTM investments are subsequently measured at amortized cost using the effective interest method subject to any impairment loss.

(iii) AFS Financial Assets

This category includes non-derivative financial assets that are designated as AFS financial assets or are not classified as loans and receivables, HTM investments or financial assets at FVTPL. The Company's AFS financial assets include listed and unlisted equity securities, mutual funds, and government and corporate bonds.

All financial assets within this category are subsequently measured at fair value, except for certain equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost less any impairment loss. Fair value gains and losses are recognized in other comprehensive income, and are reported as part of the Revaluation reserves account in statements of changes in equity except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in the statements of income.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value losses recognized in other comprehensive income is reclassified from equity to statements of income and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(b) Impairment of Financial Assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Company recognizes impairment loss based on the category of financial assets as follows:

(i) Carried at Amortized Cost – Loans and Receivables and HTM Investments

If there is objective evidence that an impairment loss on financial assets carried at cost has been incurred, the amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the statements of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed.

The amount of the reversal is recognized in the statements of income.

(ii) Carried at Fair Value – AFS Financial Assets

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in statements of income – is reclassified from Revaluation reserves to statements of income as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in statements of income on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) Items of Income and Expense Related to Financial Assets

All income and expenses, except for impairment losses and reversal of reinsurance balance receivable, relating to financial assets that are recognized in the statements of income are presented as part of Investment and Other income and expenses. Provision for and reversal of impairment losses on reinsurance balances receivable are presented at net as part of Impairment losses – net under General and administrative expenses account in the statements of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in the statements of income when earned, regardless of how the related carrying amount of financial assets is measured.

(d) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.5 Deferred Acquisition Costs

Commissions are recognized as expense over the period of the policy using the 24th method [see Note 2.16 (a)], except for the marine cargo where commissions for the last two months of the policy are considered expense the following year. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as Deferred acquisition costs and is presented in the Assets section of the statements of financial position. The net change in the account between each end of reporting periods are recognized as Increase (decrease) in Deferred acquisition costs under Commissions – net in the statements of income.

2.6 Deferred Reinsurance Premiums

The ceded reinsurance premiums that pertain to the unexpired period of the policies at end of the reporting period are accounted for as Deferred reinsurance premiums and presented in the Assets section of the statements of financial position. Subsequent to initial recognition, the amount is amortized using the 24th method [see Note 2.16 (a)], except for the marine cargo where premiums ceded for the last two months of the policy are considered expense the following year. The net change in the account between each end of reporting periods are recognized as Increase (decrease) in Deferred reinsurance premiums under Increase in premium reserves – net in the statements of income.

2.7 Reinsurance Recoverable on Unpaid Losses

Reinsurance recoverable on unpaid losses represents the amount recoverable from retrocessionaires under retroceded contracts as their share on unpaid losses, including unreported losses and loss adjustment expenses, net of salvage of recoveries.

2.8 Property and Equipment

Property and equipment represents tangible items that are held for use in the Company's business operations or for administrative purposes and are expected to be used more than one (1) year. An item of property and equipment that qualifies for recognition as an asset shall be measured at its cost less any accumulated depreciation, and any accumulated impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

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

Condominium unit	40 years
Office improvements	10 years
Office furniture and equipment	5 years
Transportation equipment	5 years
Electronic data processing (EDP) equipment	5 years

Fully depreciated assets are retained in the accounts until these are no longer in use. No further charge of depreciation is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.20).

The residual values, estimated useful lives and method of depreciation of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included as part of Investment and Other income and expenses in the statements of income in the period the item is derecognized.

2.9 Other Assets

Other 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. They may include the following accounts:

(a) Investment Properties

Investment properties are property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Except for land, investment properties are stated at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value. The cost of the investment properties comprise their purchase price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Depreciation is computed using the straight-line basis over the estimated useful life of the property which is 10 years.

The carrying amount of investment properties is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.20).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of the investment properties are recognized in the statements of income in the period of retirement or disposal.

(b) Intangible Assets

Intangible assets include acquired software licenses which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire the asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over five (5) years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.20.

Acquired computer software licenses are capitalized on the cost incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in the statements of income as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in the statements of income.

(c) Creditable Withholding Tax

Creditable withholding tax (CWT) mainly arises from taxes withheld by the ceding companies upon payment of reinsurance premiums to the Company.

CWT is recorded at cost. It can either be used to offset against future income tax liabilities or be claimed as a tax refund from the Bureau of Internal Revenue (BIR).

(d) Input Value-added Tax

The input value-added tax (VAT) pertains to the 12% tax paid by the Company on commissions and local purchase of goods or services.

The input VAT is recorded at cost. It is used to offset against output VAT due to the BIR. Excess input VAT is recorded under the Other assets – net account in the statements of financial position.

(e) *Deferred Input VAT*

Deferred input VAT pertains to the 12% tax arising from acquisition of capital assets exceeding ₱1.00 million. Deferred input VAT arising from capital assets is amortized to input VAT over the useful lives of the capital assets or 60 months, whichever is shorter.

(f) *Deferred Withholding VAT*

Deferred withholding VAT pertains to the unapplied input VAT on unpaid premiums from a certain government entity.

(g) *Prepayments*

Prepayments pertain to expenditure paid for in one (1) accounting period, but for which the underlying asset will not be consumed until a future period. When the asset is eventually consumed, it is charged to expense. If consumed over multiple periods, there may be a series of corresponding charges to expense.

2.10 Financial Liabilities

Financial liabilities, which include Reinsurance balances payable and Accounts payable and accrued expenses (excluding deferred output VAT and other taxes payable), are recognized when the Company becomes a party to an agreement and agrees to purchase goods or services for a fixed amount of money. All interest-related charges are recognized as an expense in the statements of income.

Reinsurance balances payable and Accounts payable and accrued expenses are initially recognized at their fair value and subsequently measured at amortized cost, using the effective interest method for those with maturities beyond one (1) year, less settlements.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Company.

Financial liabilities are derecognized from the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in the statements of income.

2.11 Losses and Claims Payable

(a) Losses and claims payable is 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 reduced for the expected value of salvage and other recoveries. This includes outstanding claim reserves, estimate for incurred but not reported (IBNR) losses, loss adjustment expenses payable plus a Margin for Adverse Deviation (MfAD). The MfAD is an additional percentage of the total outstanding claim reserves losses, IBNR and loss adjustment expenses payable to allow for inherent uncertainty of the best estimate of the policy reserves.

(b) *Liability Adequacy Test*

At end of each reporting period, liability adequacy tests are performed, to ensure the adequacy of contract liabilities. In performing the test for premium liabilities, the Unearned Risk Reserve (URR) is compared to the Unearned Premium Reserve (UPR). If the URR is greater than the UPR, the excess is set up as an additional premium liability on top of the UPR.

For claims liabilities, IBNR is calculated based on the standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, the expected loss ratio approach, and the Bornhuetter-Ferguson method. The Actuary determines the appropriateness of the methodology considering the characteristics of the data available. The Actuary also assesses the reliability of the expected loss ratios by obtaining estimates from various sources, such as underwriters, the business plan, pricing actuaries, market statistics, or from a historic view of profitability and loss ratios. In valuing the claims liabilities, the Actuary also considers other factors such as, but not limited to, varying expense structure in run-off situations, large losses arising from significant past events, operational changes in claims management, underwriting changes such as business mix and premium rate changes, changes in reinsurance program, changes in claims handling process, and external conditions. To ensure sufficiency of reserves, the Actuary conducts a back-testing exercise by comparing actual and expected experience based on previous valuations. Claim liabilities also include MfAD to allow for inherent uncertainty of the best estimate.

2.12 Premium Reserves

Premium reserves refer to all future claim payments arising from future events after the valuation date that are insured under unexpired policies, as well as expenses for policy management and claims settlement, and is computed as the higher of the UPR and URR at a designated level of confidence, on both gross and net of reinsurance basis.

UPR is the reserve for that portion of the premium received which is attributable to a period of risk falling beyond the valuation date, and is recognized as revenue over the period of the policy using the 24th method [see Note 2.16 (a)], except for the marine cargo where the premiums for the last two months of the year are considered earned the following year.

URR is an estimate of the total liability (including expenses), at a designated level of confidence, in respect of the risk after the valuation date of policies written prior to that date including expenses for policy management and claims settlement costs.

In estimating URR, the Company adopted the loss ratio approach by multiplying the UPR with loss ratios adjusted by taking into account all potential future payments including but not limited to future claims payments, retrocession costs, unallocated loss adjustment expense and ongoing policy administration costs arising from the unearned portion of premium collected.

A computation is performed to determine whether the URR required is greater or less than the UPR. If the URR is greater, then the difference should be booked as an additional reserve on top of the UPR.

2.13 Deferred Reinsurance Commissions

Commissions earned reinsurance contracts are recognized as revenue over the period of the policy using the 24th method [see Note 2.16 (a)], except for the marine cargo where the deferred reinsurance commissions for the last two months of the year are considered earned the following year. The portion of the commissions that relates to the unexpired periods of the policies at end of the reporting period is accounted for as Deferred reinsurance commissions and is presented in the liabilities section of the statements of financial position. The net change in the account between each end of reporting periods are recognized as Increase (decrease) in Deferred reinsurance commissions under Commissions – net in the statements of income.

2.14 Other Liabilities

These represent other liabilities which cannot be appropriately classified under the foregoing liability accounts. These comprise, among others, the following accounts:

(a) Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using pre-tax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

(b) Deferred Output VAT

Deferred output VAT, presented as part of Accounts payable and accrued expenses, represents the 12% tax due on commission income on retroceded premiums and other goods based on amounts still to be collected from counterparties. Such amounts are still not due for remittance to the BIR until the receivables are collected.

2.15 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right to offset must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.16 Revenue Recognition

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 as described below must also be met before revenue is recognized:

(a) *Reinsurance premiums* – Premiums are recognized over the period of the contracts using the 24th method, except for marine except for the marine cargo where the premiums for the last two months of the year are considered earned the following year. The 24th method assumes that the average date of issue of all policies written during any one month is the middle of that month. Accordingly, 1/24th of the net premiums are considered earned in the month the reinsurance contracts are issued and 2/24th for every month thereafter (or 1/24th for every 15-day period after the issue month). The portion of the gross reinsurance premiums that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as Premium reserves and is presented in the liabilities section of the statements of financial position while the portion of the retroceded reinsurance premiums that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as Deferred reinsurance premiums and is presented in the Assets section of the statements of financial position.

The net changes in the Unearned premium reserves and Deferred reinsurance premiums accounts between the end of the reporting periods are recognized in the statements of income.

(b) *Commission on retrocession* – Commission is deferred and is subjected to the same amortization as the retroceded reinsurance premiums. Deferred portion is presented in the statements of financial position as Deferred reinsurance commissions.

(c) *Interest income* – Interest income for all interest-bearing financial instruments are recognized using the effective interest rate method.

(d) *Dividend income* – Revenue is recognized when the Company's right to receive the dividend is established.

(e) *Gain on sale of assets* – Revenue is recognized when the risks and rewards of ownership of the investments and non-financial assets have passed to the buyer.

2.17 Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distribution to equity participants.

(a) *Claims and Losses Recognition*

Share in claims and losses relating to insurance contracts are accrued when insured events occur. These arise from events that have occurred up to reporting date even if these have not yet been reported to the Company. The share in claims (including those for IBNR losses) are based on the estimated ultimate cost of settling the claims and are not discounted for time value of money. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claims and losses resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the aggregate share of the retrocessionaire on the claims and losses and adjustment expenses of the Company on business ceded under reinsurance arrangements. Recoveries on paid and unpaid claims are recognized in statements of income in the period the claims are made. Uncollected balances are presented as part of Reinsurance balances receivable account in the statements of financial position.

(b) *Acquisition Costs*

Costs that vary with and are primarily related to the acquisition of new and renewal reinsurance contracts such as commissions and certain underwriting costs, are recognized as expense over the period of the contracts using the 24th method. Unamortized acquisition costs are presented in the statements of financial position as Deferred acquisition costs (see Note 2.5).

(c) *General and Administrative Expenses*

Costs and expenses are recognized in the statements of income upon utilization of goods or services at the date they are incurred.

2.18 Leases – Company as Lessee

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 statements of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

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.

2.19 Foreign Currency Transactions and Translation

The accounting records of the Company are maintained in Philippine peso. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of income as part of Investment and Other income and expenses (see Note 20).

2.20 Impairment of Non-financial Assets

The Company's property and equipment, investment properties, intangible assets and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in the statements of income for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount which is the higher of its fair value less costs to sell and its value-in-use. In determining value-in-use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.21 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan.

(a) *Defined Benefit Plan*

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 defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The asset recognized in the statements of financial position for a defined benefit plan is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation (asset) is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing & Exchange Corp., 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.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest), are reflected immediately in the statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance costs under General and administrative expenses in the statements of income.

Past service costs are recognized immediately in the statements of income in the period of plan amendment and curtailment.

(b) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days remaining at the end of the reporting period. These are included in the Accounts payable and accrued expenses account in the statements of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.22 Income Taxes

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

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 end of 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 the statements of income.

Deferred tax is accounted for 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 carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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.

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.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statements of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.23 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close member of the family of any such individual; and, (d) the Company's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.24 Equity

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

Additional paid-in capital includes any premiums 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.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Company's holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise gains and losses due to the revaluation of AFS financial assets, unamortized fair value gains and losses from HTM investments, and remeasurements of defined benefit plan.

Retained earnings (deficit) represent all current and prior period results of operations as reported in the statements of income, reduced by the amounts of dividends declared. The appropriated portion of the retained earnings is intended as additional reserve for contingencies (see Note 24.2).

2.25 Earnings Per Share

Basic earnings per share is determined by dividing net profit by the weighted average number of shares issued, adjusted for stock dividends and stock split, less shares held in treasury during the period.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

2.26 Segment Reporting

For purposes of segment reporting, the Company does not have other reportable segments. The Company has one reportable business segment which is the reinsurance market. The financial information about the sole business segment is presented in the financial statements.

The management monitors the operating results of its business segment for the purpose of making decisions about resource allocation and performance assessment. The segment performance is evaluated based on operating profit or loss and is measured consistently with the income before income tax in the financial statements.

2.27 Events After the End of the Reporting Period

Any event subsequent to the balance sheet date that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Events subsequent to the balance sheet date that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the 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 the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the judgments as presented in the succeeding pages, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

(a) Impairment of Financial Assets

Financial Assets at Fair Value
The Company considers that investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share/market price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Based on the recent evaluation of information and circumstance affecting the Company's AFS financial assets, management concluded that decline in fair value of certain AFS financial assets amounting to ₱64.87 million and ₱3.30 million are impaired as at December 31, 2017 and 2016, respectively (see Note 7). Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Financial Assets at Amortized Cost
The Company reviews its financial assets at amortized cost to assess impairment at least on an annual basis, or as the need arises due to significant movements on certain accounts. These financial assets that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment either on an individual or on collective basis.

In determining whether an impairment loss should be recorded in the statements of income, the Company makes judgment as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets before the decrease can be identified with an individual financial asset in that portfolio.

As at December 31, 2017 and 2016, the Company has recognized allowance for impairment loss amounting to ₱630.34 million and ₱729.15 million, respectively (see Note 6).

(b) Classification of Financial Instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position. In addition, the Company classifies assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether 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.

As at December 31, 2017, the Company classified its financial instruments as AFS financial assets, HTM investments, loans and receivables, and other financial liabilities.

As at December 31, 2016, the Company classified its financial instruments as AFS financial assets, loans and receivables, and other financial liabilities.

(c) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.14(a) and relevant disclosures are presented in Note 28.

3.2 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 amount of assets and liabilities within the next reporting period:

(a) Impairment of Financial Assets

Management uses estimates based on historical loss experience for assets with credit risk characteristics. Adequate amount of allowance for impairment is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates the amount of allowance for impairment based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the counterparties, the counterparties' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

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 carrying value of reinsurance balances receivable and the analysis of allowance for impairment on such financial assets are shown in Note 6. The carrying values of HTM investments and loans and receivables are shown in Notes 8 and 9, respectively.

(b) Fair Value Measurement of AFS Financial Assets

The Company carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. 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 or loss and other comprehensive income.

The carrying value of the Company's AFS financial assets and the amounts of fair value changes recognized are disclosed in Note 7.

(c) Estimation of Useful Lives of Property and Equipment, Investment Properties and Intangible Assets

The Company estimates the useful lives of property and equipment, investment properties and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, investment properties and intangible assets 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 assets.

The carrying amount of property and equipment is analyzed in Note 10, and of investment properties and intangible assets in Note 14. Based on management's assessment as at December 31, 2017 and 2016, there is no change in the estimated useful lives of those assets during these years. Actual results, however, may vary due to changes in estimates brought about by the changes in factors mentioned above.

(d) Impairment of Non-financial Assets

The Company's policy on estimating the impairment of non-financial assets is discussed in Note 2.20. Though management believes that the assumptions used in the estimation of fair value reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(e) Determination of Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Any deferred tax asset will be re-measured if it might result to derecognition where the expected tax law to be enacted has a possible risk on the realization.

As at December 31, 2017 and 2016, the Company recognized deferred tax assets amounting to ₱7.30 million and ₱17.86 million, respectively. However, unrecognized deferred tax assets amounted to ₱545.90 million and ₱489.92 million as at December 31, 2017 and 2016, respectively (see Note 23).

(f) Valuation of Post-employment Defined Benefit Obligation

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by an independent actuary in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 22.2.

(f) Valuation of Reinsurance Contract Liabilities

The Company's Reinsurance contract liabilities are composed of premium liabilities and claim liabilities. Premium liabilities are calculated as the higher of the UPR and the URR. Claims liabilities are equal to the Losses and claims payable account in the statements of financial position which include outstanding losses, IBNR losses, loss adjustment expenses payable plus the MfAD.

The Company estimates IBNR losses through the use of past claims settlement patterns to predict future claims settlement trends and to estimate the ultimate loss. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Claim liabilities are not discounted for the time value of money.

The principal assumption underlying the claim liability estimates is that the Company's future claims development will depend on the estimate of the ultimate loss during a period of time for a particular risk exposure and then estimate the percentage of this ultimate loss that was not reported as of the reporting date.

The Company's claim liability estimates, as ascertained by an independent actuary, are determined by calculating the estimated ultimate losses as the sum of reported losses plus IBNR losses. Ultimate losses were estimated using generally accepted actuarial methods such as the Incurred Claim Development Method and the Expected Loss Ratio Method. The Company also included MfAD as a percentage of the total outstanding losses, IBNR best estimate and loss adjustment expenses payable, to allow for inherent uncertainty of the best estimate of the policy reserves.

Additional qualitative judgments are used by the independent actuary to assess the extent to which the full tail of the claims development is influenced by the different factors, for example, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix and policy conditions. Judgment is further used to assess the extent to which external factors such as juridical decisions and government legislation affect the estimates.

As at December 31, 2017 and 2016, the carrying value of provision for claims reported and IBNR losses are recognized as Losses and claims payable account in the statements of financial position (see Note 17).

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks from both its operating and investing activities. The Company's main risk mitigation strategies generally include adoption of underwriting and investment policies and guidelines, annual budget provision and internal audit checks and assessments.

The Company has implemented an Enterprise Risk Management Process, which is an organization-wide approach to the identification, assessment, communication and management of enterprise risks which are, defined as issues which may prevent the Company from achieving its strategic objectives. This process has been fully integrated into the Company's operations and is overseen by a Risk Management Team,who reports the results of the review and risk assessment to members of senior management. At the same time, a Risk Oversight Committee has been established by the Company's BOD to assist them in the development and oversight of the Company's risk management program. The Risk Oversight Committee is required to provide the BOD with a comprehensive enterprise risk assessment at least annually and to establish plans to ensure that risks are being managed and monitored effectively. The Risk Oversight Committee's main task is to oversee that risk management is an integral part of the planning and operations of the Company in order to meet corporate goals and objectives.

The Company's risk management, in close cooperation with the respective duly constituted Board Committees on Underwriting, Investment and Budget, Risk Oversight and Audit, focuses on implementing risk control measures addressing underwriting acceptances, catastrophe exposures, retrocession programs, claims control, and securing short to medium-term cash flows by minimizing financial market risks while managing long-term financial investments to generate expected returns.

The most significant financial risks to which the Company may be exposed to are described below and in the succeeding pages.

4.1 Underwriting Risk

As a reinsurer, the Company underwrites reinsurance business from life and non-life insurance companies and intermediaries, with the objective of realizing profits and being a dependable partner to its clients. To attain this objective, it is essential for the Company to have a balanced portfolio, wherein there is diversification of risks. For non-life business, each risk that is accepted or treaty arrangement entered into is carefully evaluated based on the Company's underwriting guidelines, such as maximum limits per type of risk, existing exposures, premium adequacy and financial condition of the client.

The Company's retention on the larger risks that the Company accepts, or possible accumulation of the same in a given area, including losses that could arise from catastrophes such as earthquakes and typhoons, is protected by an excess of loss coverage to limit the Company's exposure up to a specified amount. Significant risk concentrations may result in potential losses not only in certain areas but also within a particular type of business such as property, motor and casualty. The Company monitors and controls its exposures in various lines.

Retrocession or reinsuring what the Company had earlier accepted as reinsurance is resorted to enable the Company to write risk with amounts in excess of its retention, and to reduce the volatility of its results and protect its capital. In doing so, the Company also sets minimum requirements and standards in determining with whom it retrocedes to, foremost of which is the rating of the retrocessionaires by international rating agencies such as Standard and Poor's and A.M. Best.

On the other hand, life business, which constitutes about 31% of gross premium written, follows a schedule of retention per life or group life as set by the Underwriting Committee. Any amount in excess of this is retroceded with reputable foreign reinsurers whose ratings from the same rating agencies are above par and meet the Company's standards.

Also, the Company continues to practice prudent claims management control. In evaluating a claim, the Company follows set of guidelines such as setting up of reserves upon its receipt of a preliminary loss advice, and requiring the cedant-claimant to submit other necessary documents such as the adjuster's report, affidavits and proof of loss, among others. In addition, the Company establishes claim reserves to provide for losses that have been incurred but not yet paid. At the end of each reporting date, the Company assesses the adequacy of reserves for future claims that are not yet reported by setting up IBNR best estimate and inclusion of MfAD as ascertained by an independent actuary.

Concentration of Insurance Risk

The tables below set out the concentration of premiums by line of risk.

	December 31, 2017		
	Gross Written Premiums	**Retroceded Premiums**	**Net Written Premiums**
Fire	₱1,194,577,773	₱286,670,519	₱907,907,254
Marine and aviation	55,730,294	7,333,280	48,397,014
Motor	340,909,176	10,262,667	330,646,509
Casualty	635,958,754	93,008,535	542,950,219
Life	977,937,520	475,080,893	502,856,627
Adjustments	-	(30,927,405)	30,927,405
	₱3,205,113,517	**₱841,428,489**	**₱2,363,685,028**

	December 31, 2016		
	Gross Written Premiums	Retroceded Premiums	Net Written Premiums
Fire	₱1,512,211,487	₱1,052,906,239	₱459,305,248
Marine and aviation	99,837,060	65,230,409	34,606,651
Motor	170,179,606	6,631,952	163,547,654
Casualty	873,747,406	176,252,691	697,494,715
Life	727,964,818	389,700,786	338,264,032
	₱3,383,940,377	₱1,690,722,077	₱1,693,218,300

Claims Development

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

The risks vary significantly in relation to the location of the risk insured by the Company, type of risks insured and in respect of commercial and business interruption by industry.

The following table reflects the cumulative claims paid and losses and claims payable, gross of retrocession, as at December 31, 2017 and 2016, net of foreign revaluation of ₱70.38 million and ₱99.82 million, respectively.

Underwriting Year	Claims Paid	Claims Liabilities	Premiums Earned	Total
2017	**₱62,855,615**	**₱1,093,687,921**	**₱ -**	**₱1,156,543,536**
2016 and prior	**5,746,984,402**	**5,179,503,831**	**(903,662,502)**	**10,022,825,731**
December 31, 2017	**5,809,840,017**	**6,273,191,752**	**(903,662,502)**	**11,179,369,267**
2016	44,743,232	1,302,238,690	-	1,346,981,922
2015 and prior	4,704,543,956	5,326,744,359	-	10,031,288,315
December 31, 2016	4,749,287,188	6,628,983,049	-	11,378,270,237
Development	**₱997,697,214**	**(₱1,449,479,218)**	**(₱903,662,502)**	**(₱1,355,444,506)**

The following table reflects the cumulative claims paid and losses and claims payable, net of retrocession, as at December 31, 2017 and 2016, net of foreign revaluation of ₱37.84 million and ₱17.76 million, respectively.

Underwriting Year	Claims Paid	Claims Liabilities	Premiums Earned	Total
2017	**₱62,855,615**	**₱1,015,450,778**	**₱ -**	**₱1,078,306,393**
2016 and prior	**2,082,108,988**	**1,929,659,380**	**(621,754,144)**	**3,390,014,224**
December 31, 2017	**2,144,964,603**	**2,945,110,158**	**(621,754,144)**	**4,468,320,617**
2016	44,743,232	600,360,301	-	645,103,533
2015 and prior	1,152,472,205	1,910,284,791	-	3,062,756,996
December 31, 2016	1,197,215,437	2,510,645,092	-	3,707,860,529
Development	**₱884,893,551**	**(₱580,985,712)**	**(₱621,754,144)**	**(₱317,846,305)**

Sensitivities

As a reinsurer, the insurance contract liabilities of the Company are sensitive to key factors such as claims experience, the observed claims reporting and payment patterns, and the occurrence of catastrophic events as observed in the historical loss ratios of the Company.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on the Company's income before income tax. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

		Impact on Income before Income Tax Increase (Decrease)	
	Change in Assumption	**2017**	2016
Loss ratio	+5%	**(₱108,461,058)**	(₱64,445,391)
	-5%	**108,461,058**	64,445,391

4.2 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause another party to incur a financial loss. The Company is exposed to credit risk primarily through its cash and cash equivalents, investments, reinsurance receivables and loans and receivables. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

The table below provides information regarding the credit risk exposure of the Company as at December 31, 2017 and 2016 by classifying assets according to the Company's credit grading of counterparties.

	December 31, 2017				
	Neither Past Due nor Impaired				
	Investment High Grade	**Non-investment Grade**	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents	**₱1,310,540,587**	**₱ -**	**₱ -**	**₱ -**	**₱1,310,540,587**
Reinsurance balances receivable	**888,529,941**	**924,050,826**	**137,349,904**	**630,343,864**	**2,580,274,535**
AFS financial assets - debt securities	**3,124,823,394**	**-**	**-**	**-**	**3,124,823,394**
HTM investments	**1,034,687,360**	**-**	**-**	**-**	**1,034,687,360**
Loans and receivables	**193,745,644**	**8,142,540**	**-**	**-**	**201,888,184**
	₱6,552,326,926	**₱932,193,366**	**₱137,349,904**	**₱630,343,864**	**₱8,252,214,060**

	December 31, 2016				
	Neither Past Due nor Impaired				
	Investment High Grade	Non-investment Grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents	₱920,425,229	₱ -	₱ -	₱ -	₱920,425,229
Reinsurance balances receivable	716,138,984	457,733,228	272,067,111	729,153,843	2,175,093,166
AFS financial assets - debt securities	3,689,501,733	-	-	-	3,689,501,733
Loans and receivables	457,532,349	7,354,676	-	-	464,887,025
	₱5,783,598,295	₱465,087,904	₱272,067,111	₱729,153,843	₱7,249,907,153

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

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

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

Past Due but not Impaired – Rating given to borrowers and counterparties where outstanding obligation is already past due without impairment indicator.

Impaired – This pertains to accounts with impairment indicator and uncertain collectability. Allowance for impairment losses were recognized by the Company for these accounts.

The Company continuously monitors defaults of ceding companies and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on ceding companies and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties.

As part of Company's policy, bank deposits are only maintained with reputable financial institution having high quality external credit ratings. Cash in banks which are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of ₱0.50 million per depositor per banking institution, as provided for under Republic Act (RA) No. 9576, *Amendment to Charter of PDIC*, are still exposed to credit risk. However, the credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The reinsurance balances receivable that are past due but not impaired are as follows:

	2017	2016
More than six months but not more than one year	**₱74,306,807**	₱147,932,771
More than one year	**63,043,097**	124,134,340
	₱137,349,904	₱272,067,111

Except for Reinsurance recoverable on paid losses which is presented under Reinsurance balances receivable (see Note 6) that is secured by the Funds held for retrocessionaires (see Note 15), no other financial assets by the Company are secured by collateral or other credit enhancements.

4.3 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company manages its cash and investment position to meet its obligations arising from reinsurance agreements and other financial liabilities. Currently, the Company's excess cash is invested in short-term placements and AFS financial assets.

As at December 31, 2017 and 2016, the Company's obligations arising from reinsurance agreements totaling ₱1.27 billion and ₱1.09 billion, respectively, have contractual maturities within the normal operating cycle of the business. In addition, as at December 31, 2017 and 2016, other financial liabilities included as part of Accounts payable and accrued expenses account in the statements of financial position amounted to ₱35.54 million and ₱16.62 million, respectively, and have contractual maturities within one year after the end of the reporting period.

As at December 31, 2017 and 2016, the Company has a current ratio of 2.84:1.00 and 2.54:1.00, respectively, which does not include losses and claims payable.

4.4 Market Risk

Market risk embodies the potential for both gains and losses and includes foreign exchange risk, market price risk and interest rate risk.

The Company's market risk is managed on a daily basis in accordance with policies and procedures in place. The Company's overall market positions are monitored by the Investment Committee of the Company.

The market risks to which the Company may be exposed are as follows:

(a) Foreign Exchange Risk

Foreign currency risk is the risk that fluctuations in foreign exchange rates will adversely affect the fair value or cash flow of a recognized financial instrument. The Company may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Company is exposed to risk that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company's assets or liabilities denominated in currencies other than in Philippine peso.

Exposures to currency exchange rates arise from the foreign currency denominated short-term placements, investments, receivables and payables. The Company recognized net foreign currency losses of ₱30.70 million in 2017 and net foreign currency gains of ₱21.27 million in 2016 and ₱19.50 million in 2015 (see Note 20).

To mitigate the Company's exposure to foreign exchange risk, foreign-currency denominated cash flows and positions are monitored and hedged as it deems necessary.

	2017		2016	
	U.S. Dollars	**Other Currencies**	U.S. Dollars	Other Currencies
Financial assets	**₱1,311,057,093**	**₱78,541,142**	₱1,560,796,964	₱100,341,843
Financial liabilities	**(839,583,588)**	**(158,242,523)**	(1,236,314,542)	(195,223,676)
Total net exposure	**₱471,473,505**	**(₱79,701,381)**	₱324,482,422	(₱94,881,833)

The table below illustrates the sensitivity of the Company's profit before tax with respect to changes on Philippine peso (Php) against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility rates, using standard deviation, in the previous 12 months. If the Philippine peso had strengthened against the foreign currencies, the effect is presented below.

	2017			2016		
	Reasonably Possible Change in Rate	**Effect in Profit Before Tax**	**Effect in Equity**	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Effect in Equity
Php - U.S. Dollars	**4.07%**	**₱19,178,609**	**₱13,425,026**	5.04%	(₱16,364,730)	(₱16,364,730)
Php - Indian Rupee	**5.55%**	**(1,204,418)**	**(843,092)**	4.46%	72,951	72,951
Php - Singaporean Dollars	**4.04%**	**(1,136,742)**	**(795,719)**	6.05%	2,075,835	2,075,835
Php - Hong Kong Dollars	**4.02%**	**(802,301)**	**(561,611)**	4.87%	976,639	976,639
Php – Euro	**6.85%**	**(467,985)**	**(327,590)**	7.25%	649,592	649,592
Php - South Korean Won	**7.82%**	**(414,055)**	**(289,839)**	-	-	-
Php – Thailand Baht	**4.21%**	**(269,121)**	**(188,385)**	4.58%	687,226	687,226
Php - Malaysian Ringgit	**2.51%**	**261,520**	**183,064**	8.35%	(747,489)	(747,489)
Php - Vietnamese Dong	**4.59%**	**(231,025)**	**(161,718)**	4.71%	274,457	274,457
Php - Indonesian Rupiah	**5.57%**	**99,212**	**69,448**	7.64%	990,292	990,292
Php - Nepalese Rupee	**5.65%**	**79,321**	**55,525**	5.44%	77,018	77,018
Php - Japanese Yen	**6.34%**	**(45,749)**	**(32,024)**	13.74%	53,483	53,483
Php - China Yuan	**5.32%**	**(13,290)**	**(9,303)**	4.73%	24,740	24,740
Php - Sri Lankan Rupee	**4.95%**	**(2,893)**	**(2,025)**	7.12%	2,090	2,090
Php - British Pound	**5.63%**	**(1,479)**	**(1,035)**	14.79%	2,657	2,657
Php - Lao Kip	**5.27%**	**(108)**	**(75)**	-	-	-
Php - North Korean Won	**4.18%**	**-**	**-**	7.87%	(652,839)	(652,839)
Php - Myanmar Kyat	**4.40%**	**-**	**-**	7.78%	102,107	102,107
Php - Pakistan Rupee	**6.80%**	**-**	**-**	5.55%	54,871	54,871
Php - New Zealand Dollar	**10.93%**	**-**	**-**	9.77%	12,368	12,368
Php - Seychelles Rupee	**10.78%**	**-**	**-**	20.33%	5,584	5,584
Php - Canadian Dollar	**9.10%**	**-**	**-**	7.68%	499	499
Php - Bangladesh Taka	**6.42%**	**-**	**-**	6.20%	(205)	(205)
Total		**₱15,029,496**	**₱10,520,647**		(₱11,702,854)	(₱11,702,854)

If the Philippine peso had weakened against the foreign currencies, the effect would be the reverse of the amounts presented.

Exposures to foreign currency rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis is considered to be a representative of the Company's currency risk.

(b) Equity Price Risk

Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from fluctuations in interest rate or currency), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Company, through its Investment Committee, has established more conservative guidelines and policies to better control the risks inherent in equity investments. The Company's own investment policy requires that it invests only in shares of common stock of companies listed in the PSE. Also, these listed companies must have profitable business operations and market capitalizations supportive of the overall strategic direction of the Company.

The Investment Committee regularly reviews and approves a list of publicly traded stocks authorized for investments on the basis of the foregoing considerations. Furthermore, the Investment Committee 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. As at December 31, 2017 and 2016, investments in listed equities amounted to 32% of the Company's total investment portfolio.

The observed volatility rates of the fair value of the Company's AFS financial assets held at fair value and their impact on the Company's other comprehensive income for the years ended December 31, 2017 and 2016 are summarized as follows:

	2017		**2016**	
	Observed Volatility Rates	**Effect in Other Comprehensive Income**	Observed Volatility Rates	Effect in Other Comprehensive Income
Common shares	**10.55%**	**₱213,600,282**	16.43%	₱294,495,429
Preferred shares	**9.70%**	**31,646,213**	6.45%	20,386,209
		₱245,246,495		₱314,881,638

(c) *Interest Rate Risk*

There are two types of interest rate risk:

- Fair Value Interest Rate Risk - the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash Flow Interest Rate Risk - the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Significant portion of the Company's investments is composed mainly of fixed interest-bearing debt instruments carried at fair value. Its total consolidated bond holdings amounted to 57% of its total investment portfolio. As a result, the Company is exposed to fair value interest rate risk.

The Company does not carry debt instrument with variable interest rate and, thus, is not exposed to cash flow interest rate risk.

Risk limits on issuer exposure, credit ratings, duration, and gapping of its portfolio are being monitored and managed to ensure protection of capital and address the Company's liquidity needs as they arise.

The analysis below details the impact of changes in market interest rate to the fair value of the Company's investment in fixed-rate debt instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2017		
	Observed Volatility Rates	**Effect in Other Comprehensive Income**	
		Increase in variable	**Decrease in variable**
Peso denominated securities:			
Government bonds	**20.06%**	**(₱57,691,900)**	**₱60,276,693**
Dollar denominated securities:			
Government bonds	**6.71%**	**(1,647,822)**	**1,677,707**
Corporate bonds	**11.43%**	**(792,441)**	**807,696**
		(₱60,132,163)	**₱62,762,096**

	2016		
		Effect in Other Comprehensive Income	
	Observed Volatility Rates	Increase in variable	Decrease in variable
Peso denominated securities:			
Government bonds	33.32%	(₱179,509,237)	₱199,402,616
Corporate bonds	19.02%	(4,524,836)	34,681,687
Dollar denominated securities:			
Government bonds	46.83%	(10,177,469)	11,240,857
Corporate bonds	36.21%	(4,202,741)	4,414,419
		(₱198,414,283)	₱249,739,579

In 2017 and 2016, the Company determined the reasonably possible change in interest rate based on the historical percentage changes in weighted average yield rates of outstanding investments of the Company.

5. CASH AND CASH EQUIVALENTS

This account consists of:

	2017	2016
Cash on hand and in banks	**₱328,507,755**	₱82,098,842
Short-term placements	**982,032,832**	838,326,387
	₱1,310,540,587	₱920,425,229

Cash in banks generally earn interest at rates based on daily bank deposit rates. Interest income recognized is presented as part of the Investment and Other income and expenses account in the statements of income (see Note 20).

Short-term placements include time deposits and special deposit accounts made for varying periods of up to three months depending on the liquidity requirements of the Company.

Peso short-term placements earn annual interest ranging from 0.50% to 2.63% in 2017, from 0.25% to 2.63% in 2016 and from 0.25% to 2.55% in 2015, while dollar short-term placements earn annual interest ranging from 0.50% to 1.38% in 2017, from 1.50% to 1.60% in 2016 and from 1.50% to 1.85% in 2015.

The Cash and cash equivalents account includes cash denominated in U.S. Dollar amounting to $6.79 million or ₱338.96 million in 2017 and $3.43 million or ₱170.60 million in 2016.

6. REINSURANCE BALANCES RECEIVABLE

The details of this account are as follows:

	2017	2016
Due from ceding companies	**₱1,998,131,699**	₱1,524,450,006
Reinsurance recoverable on paid losses	**477,897,636**	535,884,884
Funds held by ceding companies	**104,245,200**	114,758,276
	2,580,274,535	2,175,093,166
Allowance for impairment	**(630,343,864)**	(729,153,843)
	₱1,949,930,671	₱1,445,939,323

The movements in these accounts are as follows:

	2017			
	Due from ceding companies	**Reinsurance recoverable on paid losses**	**Funds held by ceding companies**	**Total**
Balance at beginning of year	₱1,524,450,006	₱535,884,884	₱114,758,276	₱2,175,093,166
Loss recoveries during the year	-	211,492,400	-	211,492,400
Premiums written net of funds held during the year	3,143,451,232	-	-	3,143,451,232
Funds held during the year	-	-	61,662,285	61,662,285
Reclassified to due from ceding companies	73,106,554	-	(73,106,554)	-
Collections during the year	(2,735,254,746)	(227,084,587)	-	(2,962,339,333)
Write-off during the year	(1,684,237)	(40,570,282)	-	(42,254,519)
Revaluation adjustment	(5,937,110)	(1,824,779)	931,193	(6,830,696)
	1,998,131,699	477,897,636	104,245,200	2,580,274,535
Allowance for impairment	(303,313,903)	(301,999,593)	(25,030,368)	(630,343,864)
Balance at end of year	**₱1,694,817,796**	**₱175,898,043**	**₱79,214,832**	**₱1,949,930,671**

	2016			
	Due from ceding companies	Reinsurance recoverable on paid losses	Funds held by ceding companies	Total
Balance at beginning of year	₱1,231,923,154	₱794,903,982	₱144,000,408	₱2,170,827,544
Loss recoveries during the year	-	481,922,480	-	481,922,480
Premiums written net of funds held during the year	3,279,248,249	-	-	3,279,248,249
Funds held during the year	-	-	104,692,128	104,692,128
Reclassified to due from ceding companies	135,101,805	-	(135,101,805)	-
Collections during the year	(3,121,771,958)	(623,549,426)		(3,745,321,384)
Write-off during the year	-	(129,050,882)	-	(129,050,882)
Revaluation adjustment	(51,244)	11,658,730	1,167,545	12,775,031
	1,524,450,006	535,884,884	114,758,276	2,175,093,166
Allowance for impairment	(314,314,943)	(390,840,600)	(23,998,300)	(729,153,843)
Balance at end of year	₱1,210,135,063	₱145,044,284	₱90,759,976	₱1,445,939,323

The Company's collections of these reinsurance receivable include collections equivalent to underwriting costs and claims deducted by cedants from their statement of accounts.

All of the Company's reinsurance balances receivables have been reviewed for indicators of impairment. Certain reinsurance balances receivable was found to be impaired and provisions have been recorded accordingly.

A reconciliation of the allowance for impairment at the beginning and end of 2017 and 2016 is shown below.

	2017			
	Due from ceding companies	**Reinsurance recoverable on paid losses**	**Funds held by ceding companies**	**Total**
Balance at beginning of year	₱314,314,943	₱390,840,600	₱23,998,300	₱729,153,843
Write-off during the year	(1,684,237)	(40,570,282)	-	(42,254,519)
Reversal during the year	(15,883,577)	(45,166,967)	(2,584,751)	(63,635,295)
Revaluation	6,566,774	(3,103,758)	3,616,819	7,079,835
Balance at end of year	**₱303,313,903**	**₱301,999,593**	**₱25,030,368**	**₱630,343,864**

	2016			
	Due from ceding companies	Reinsurance recoverable on paid losses	Funds held by ceding companies	Total
Balance at beginning of year	₱245,455,569	₱578,515,996	₱105,270	₱824,076,835
Impairment loss during the year	80,966,699	18,021,142	23,893,030	122,880,871
Write-off during the year	-	(129,050,882)	-	(129,050,882)
Reversal during the year	(12,107,325)	(76,645,656)	-	(88,752,981)
Balance at end of year	₱314,314,943	₱390,840,600	₱23,998,300	₱729,153,843

The fair value of these short-term financial assets is not individually determined as the carrying amount is considered reasonable approximation of their fair value.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account is composed of the following:

	2017	2016
Bonds	**₱3,124,823,394**	₱3,689,501,733
Equity securities - net	**2,369,749,019**	2,136,666,156
Investment in ARC shares	**32,547,556**	31,335,823
Various funds	**-**	67,388
	₱5,527,119,969	₱5,857,571,100

Bonds include investments in corporate bonds and government securities. These also include government securities amounting to ₱562.50 million in 2017 and ₱500.00 million in 2016, which are deposited with the Insurance Commission (IC) as security for the benefit of cedants and creditors of the Company in accordance with the provisions of the Insurance Code.

Bonds earn interest at annual rates ranging from 2.13% to 8.00% in 2017, 1.63% to 9.13% in 2016 and 2.13% to 15.00% in 2015. Interest income is presented as part of Investment and Other income and expenses account in the statements of income (see Note 20).

The following presents the fair value of investment in bonds by contractual maturity dates:

	2017	2016
Due within one year	**₱319,342,442**	₱159,522,861
Due after one year through five years	**1,014,187,260**	849,633,928
Due after five years through ten years	**1,528,447,790**	2,367,382,106
Due after ten years	**262,845,902**	312,962,838
	₱3,124,823,394	₱3,689,501,733

The balance of equity securities classified as AFS financial assets consists of:

	2017	2016
Cost:		
Quoted in the stock exchange	**₱2,132,927,548**	₱2,165,094,045
Not quoted in the stock exchange	**34,296,008**	34,296,008
	2,167,223,556	2,199,390,053
Unrealized foreign currency losses	**(110,500)**	-
Fair value gains (losses):		
Quoted in the stock exchange	**219,046,669**	(46,210,562)
Not quoted in the stock exchange	**(16,410,706)**	(16,513,335)
	202,635,963	(62,723,897)
	₱2,369,749,019	₱2,136,666,156

Equity securities consist mainly of investment in companies listed in the PSE.

Dividend income from these equity securities is presented under the Investment and Other income and expenses account in the statements of income (see Note 20).

The shares of ARC have been issued in the name of the Government of the Philippines (GoP) as the Philippine government's participation in the joint undertaking of Asian countries to organize a reinsurance company that will service the needs of the region. The GoP assigned such shares, including any interest accruing thereon, to the Company. The GoP designated the Company as the national institution authorized to subscribe and pay for the said shares of stock. The shares of stock of ARC, while not for sale, were classified under this category since these do not qualify for inclusion in any other categories of financial assets. The fair value of investment in ARC shares amounted to ₱32.55 million and ₱31.34 million as at December 31, 2017 and 2016, respectively.

The reconciliation of the carrying amount of AFS financial assets is as follows:

	2017	2016
Cost		
Balance at beginning of year	**₱6,043,963,879**	₱5,794,014,626
Acquisitions	**2,789,781,764**	2,733,008,190
Reclassification	**(1,090,076,980)**	(165,246,880)
Disposals/maturities	**(2,307,726,969)**	(2,330,099,329)
Impairment losses	**(64,873,264)**	(3,303,884)
Unrealized foreign currency gains (losses)	**(3,895,322)**	15,591,156
	5,367,173,108	6,043,963,879
Fair value adjustment		
Balance at beginning of year	**(186,392,779)**	(65,639,038)
Changes in fair value	**407,024,769**	(98,495,832)
Fair value gains on disposal	**(120,782,788)**	(25,561,793)
Impairment losses	**64,873,264**	3,303,884
Reclassification	**(4,775,605)**	-
	159,946,861	(186,392,779)
Balance at end of year	**₱5,527,119,969**	₱5,857,571,100

Fair value gains or losses recognized in the statements of comprehensive income amounted to a fair value gains of ₱407.02 million in 2017, and fair value losses of ₱98.50 million and ₱170.75 million in 2016 and 2015, respectively.

In 2017, the Company reclassified certain investments classified under AFS financial assets to HTM investments and Other assets - net amounting to ₱1.09 billion and ₱0.14 million, respectively.

In 2016, the Company reclassified certain investments classified under AFS financial assets to Loans and receivables amounting to ₱165.25 million.

The Company recognized an impairment loss amounting to ₱64.87 million and ₱3.30 million in 2017 and 2016, respectively, which pertains to certain investments in equity securities with significant or prolonged decline in fair values. These were recorded as part of Investment and Other income and expenses account in the statements of income (see Note 20) after transferring the same amount of fair value losses on AFS financial assets from the Other comprehensive income account. There were no impairment losses recognized in 2015.

The Company sold AFS financial assets with carrying amount of ₱2.21 billion in 2017, ₱1.15 billion in 2016 and ₱4.13 billion in 2015. Accordingly, the Company recognized gain on sale of AFS financial assets amounting to ₱120.78 million, ₱25.56 million and ₱215.13 million in 2017, 2016 and 2015, respectively. These are presented as part of Investment and Other income and expenses account in the statements of income (see Note 20).

Fair value gains reclassified to profit or loss, as presented in the statements of comprehensive income, amounted to ₱120.78 million in 2017, ₱25.56 million in 2016 and ₱225.17 million in 2015.

The fair value of majority of the AFS financial assets has been determined directly by reference to published prices in active market (see Note 30.2).

8. HELD-TO-MATURITY INVESTMENTS

In May 2017, the Company's BOD approved the reclassification of certain investment in corporate bonds amounting to ₱1.09 billion previously classified as AFS financial assets to HTM investments as these investments were purchased with the intention of collecting interest coupons until maturity. New effective interest rates at the date of reclassification range from 2.36% to 6.24%.

The Company recognized interest income of ₱55.14 million (see Note 20) and nil fair value gain or loss as a result of the reclassification. If the reclassification had not been made, interest income (calculated using the original effective interest rate) amounting to ₱55.75 million would have been recognized in the statements of income, and a decrease of ₱4.41 million on the fair value of the bonds would have been recognized directly in other comprehensive income.

As at December 31, 2017, the face amount and fair value of corporate bonds that were reclassified to HTM investments amounted to ₱1.01 billion and ₱1.03 billion, respectively, with coupon rates ranging from 3.92% to 6.94%.

The carrying amount and fair value of AFS financial assets reclassified to HTM investments amounted to ₱1.07 billion as at December 31, 2016.

The reconciliation of the carrying amount of HTM investment in 2017 is as follows:

Balance at beginning of year	**₱ -**
Reclassification	**1,094,714,573**
Additions	**15,100,199**
Maturities	**(73,000,000)**
Amortization	**(2,127,412)**
Balance at end of year	**₱1,034,687,360**

The Company did not carry any financial assets classified as HTM investments in 2016.

The following presents the carrying value of corporate bonds by contractual maturity dates:

Due within one year	**₱ -**
Due after one year through five years	**824,321,240**
Due after five years through ten years	**210,366,120**
	₱1,034,687,360

9. LOANS AND RECEIVABLES

This account is comprised of the following:

	2017	2016
Current:		
Loans and notes receivable	**₱50,635,865**	₱253,245,751
Time deposits	**50,000,000**	65,070,069
Dividend and interest receivable	**45,006,904**	40,969,038
	145,642,769	359,284,858
Non-current:		
Loans and notes receivable	**56,245,415**	55,602,167
Time deposits	**-**	50,000,000
	56,245,415	105,602,167
	₱201,888,184	₱464,887,025

In 2017, Loans and notes receivable mainly pertain to bank notes with original maturities of 10 years and an effective interest rate of 5.38%.

In 2016, Loans and notes receivable mainly pertain to the Company's participation in syndicated loans of other companies. These loans are unsecured, interest-bearing, which matured in 2017. The annual effective interest rate of these loans range from 3.80% to 5.86%.

Loans and notes receivable also include car loans extended to certain officers as part of their benefits. These loans are collected through salary deductions for a period of five years with an annual effective interest rate of 8.00%.

Time deposits are not subject to any restrictions or covenants and have original maturity dates of five years in 2017 and four to five years in 2016. The annual interest rate of these deposits is 5.00% in 2017 and 5.00% to 5.25% in 2016.

Interest income on Time deposits and Loans and notes receivable are presented as part of Investment and Other income and expenses account in the statements of income (see Note 20).

The carrying value of these financial assets approximate their fair value as the interest rates approximate the prevailing market interest rates. No impairment loss was recorded for loans and receivables in 2017 and 2016.

10. PROPERTY AND EQUIPMENT

A reconciliation of the carrying amount at the beginning and end of 2017 and 2016 of property and equipment is shown below.

	2017					
	Condominium Unit	**Office Improvements**	**Office Furniture and Equipment**	**Transportation Equipment**	**EDP Equipment**	**Total**
Cost						
Balance at beginning of year	₱101,310,361	₱10,027,229	₱9,038,741	₱10,472,603	₱41,620,695	₱172,469,629
Additions	-	25,135,863	6,707,229	2,809,970	393,459	35,046,521
Reclassification	-	-	-	-	(20,693,728)	(20,693,728)
Disposals/retirement	-	(10,008,870)	(4,805,820)	(3,766,932)	(9,590,875)	(28,172,497)
Balance at end of year	101,310,361	25,154,222	10,940,150	9,515,641	11,729,551	158,649,925
Accumulated Depreciation						
Balance at beginning of year	57,972,040	5,161,641	8,540,690	2,761,543	32,055,590	106,491,504
Depreciation	3,377,012	972,723	363,070	2,001,587	2,686,783	9,401,175
Reclassification	-	-	-	-	(16,035,349)	(16,035,349)
Disposals/retirement	-	(5,907,605)	(4,777,289)	(943,630)	(9,589,874)	(21,218,398)
Balance at end of year	61,349,052	226,759	4,126,471	3,819,500	9,117,150	78,638,932
Net Book Value	**₱39,961,309**	**₱24,927,463**	**₱6,813,679**	**₱5,696,141**	**₱2,612,401**	**₱80,010,993**

	2016					
	Condominium Unit	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	Total
Cost						
Balance at beginning of year	₱101,310,361	₱10,826,265	₱10,256,148	₱11,158,214	₱40,408,715	₱173,959,703
Additions	-	222,821	82,030	4,108,209	2,670,764	7,083,824
Disposals/retirement	-	(1,021,857)	(1,299,437)	(4,793,820)	(1,458,784)	(8,573,898)
Balance at end of year	101,310,361	10,027,229	9,038,741	10,472,603	41,620,695	172,469,629
Accumulated Depreciation						
Balance at beginning of year	54,595,028	4,602,368	9,360,558	4,406,924	29,127,490	102,092,368
Depreciation	3,377,012	1,089,234	479,568	1,994,803	4,060,399	11,001,016
Disposals/retirement	-	(529,961)	(1,299,436)	(3,640,184)	(1,132,299)	(6,601,880)
Balance at end of year	57,972,040	5,161,641	8,540,690	2,761,543	32,055,590	106,491,504
Net Book Value	₱43,338,321	₱4,865,588	₱498,051	₱7,711,060	₱9,565,105	₱65,978,125

In 2017, the Company reclassified certain software application from EDP equipment under Property and equipment account to Intangible assets (see Note 14).

The Company sold and retired certain assets with book value of ₱6.95 million, ₱1.97 million and ₱0.76 million in 2017, 2016 and 2015, respectively, and recognized loss amounting to ₱3.92 million in 2017 and gains of ₱0.05 million and ₱0.17 million in 2016 and 2015, respectively, and is presented as part of Gain on sale of non-financial assets and Loss on asset retirement under Investment and Other income and expenses account in the statements of income (see Note 20).

The original cost of fully depreciated property and equipment that are still in use amounted to ₱23.03 million and ₱28.84 million as at December 31, 2017 and 2016, respectively.

11. REINSURANCE RECOVERABLE ON UNPAID LOSSES

The details of this account are as follows:

	2017	2016
Reinsurance recoverable on outstanding loss reserves	**₱2,833,592,882**	₱3,682,008,078
Retrocessionaire's share on IBNR losses	**527,030,637**	518,396,499
	₱3,360,623,519	₱4,200,404,577

The movements in reinsurance recoverable on unpaid losses are as follows:

	Reinsurance recoverable on outstanding loss reserves	**Retrocessionaire's share on IBNR losses**	**Total**
December 31, 2017			
Balance at beginning of year	**₱3,682,008,078**	**₱518,396,499**	**₱4,200,404,577**
Claims reported and loss adjustments – net	**(587,403,975)**	**-**	**(587,403,975)**
Transferred to paid losses	**(211,492,400)**	**-**	**(211,492,400)**
Claims incurred but not reported, net of adjustments	**-**	**8,634,138**	**8,634,138**
Revaluation adjustment	**(49,518,821)**	**-**	**(49,518,821)**
Balance at end of year	**₱2,833,592,882**	**₱527,030,637**	**₱3,360,623,519**
December 31, 2016			
Balance at beginning of year	₱3,597,573,220	₱399,092,704	₱3,996,665,924
Claims reported and loss adjustments, net	532,751,465	-	532,751,465
Transferred to paid losses	(481,922,480)	-	(481,922,480)
Claims incurred but not reported – net of adjustments	-	119,303,795	119,303,795
Revaluation adjustment	33,605,873	-	33,605,873
Balance at end of year	₱3,682,008,078	₱518,396,499	₱4,200,404,577

12. DEFERRED ACQUISITION COSTS

The movements in this account is as follows:

	2017	2016
Balance at beginning of year	**₱258,617,319**	₱147,743,688
Cost deferred	**674,044,408**	604,099,693
Cost recognized	**(651,715,445)**	(493,226,062)
Balance at end of year	**₱280,946,282**	₱258,617,319

The increase or decrease of deferred acquisition costs for the year is presented as part of Commissions – net under Underwriting deductions in the statements of income (see Note 21.2).

13. DEFERRED REINSURANCE PREMIUMS

The movements in this account are as follows:

	2017	2016
Balance at beginning of year	**₱394,816,767**	₱386,743,932
Premiums retroceded during the year	**841,428,489**	1,690,722,077
Premiums amortized during the year	**(1,033,309,986)**	(1,682,649,242)
Balance at end of year	**₱202,935,270**	₱394,816,767

The increase or decrease in deferred reinsurance premiums for the year is presented as part of Increase in premium reserves – net account in the statements of income.

14. OTHER ASSETS

This account is composed of the following:

	Note	2017	2016
Input VAT		**₱215,233,061**	₱142,366,220
Funds at Lloyd's		**186,114,728**	149,439,000
Creditable withholding tax		**102,771,246**	147,723,611
Intangible assets – net		**9,881,816**	6,228,834
Defined benefit asset	*22.2*	**9,239,837**	14,068,874
Deferred withholding VAT		**9,202,886**	9,202,886
Prepayments		**9,107,318**	7,762,079
Deferred creditable tax		**7,666,232**	8,085,990
Investment properties - net		**2,824,909**	2,824,909
Deposit		**842,861**	824,403
Security fund		**643,925**	643,925
Deferred input VAT		**446,607**	77,933,665
Others		**138,013**	-
		554,113,439	567,104,396
Allowance for impairment		**(215,233,061)**	-
		₱338,880,378	₱567,104,396

Input VAT

In 2017, the Company provided allowance for impairment on its input VAT as management assessed that the amount may not be realizable. The reconciliation of the allowance for impairment of input VAT is as follows:

Balance at beginning of year	**₱ -**
Impairment loss during the year	**146,152,686**
Reclassification	**69,080,375**
Balance at end of year	**₱215,233,061**

Impairment loss recognized in 2017 is presented as part of Impairment losses – net under General and administrative expenses account in the statements of income (see Note 22).

Funds at Lloyd's

In December 2016, the Company entered into a quota share reinsurance treaty contract with a member of the Lloyd's effective January 1, 2017, whereby the Company was required to establish its share of the Funds at Lloyd's amounting to U.S. $3.00 million.

In 2017, the Company invested additional funds amounting to £0.56 million. As at December 31, 2017, Funds at Lloyd's amounted to ₱186.11 million.

Intangible Assets

Intangible assets pertain to acquired computer software licenses used in operation and administration. The gross carrying amount and accumulated amortization of intangible assets as at December 31, 2017 and 2016 are as follows:

	2017	2016
Cost	**₱138,655,695**	₱116,422,745
Accumulated amortization	**(128,773,879)**	(110,193,911)
Balance at end of year	**₱9,881,816**	₱6,228,834

A reconciliation of the carrying amount at the beginning and end of 2017 and 2016, of intangible assets is shown below.

	2017	2016
Balance at beginning of year, net of accumulated amortization	**₱6,228,834**	₱12,229,660
Additions	**5,785,626**	1,598,014
Reclassification	**4,658,379**	-
Retirement	**(4,053,546)**	-
Amortization	**(2,737,477)**	(7,598,840)
Balance at end of year, net of accumulated amortization	**₱9,881,816**	₱6,228,834

In 2017, the Company retired part of intangible assets with a carrying amount of ₱4.05 million and is presented as part of Loss on asset retirement under Investment and Other income and expenses account in the statements of income (see Note 20).

Prepayments

Prepayments are mostly software licenses and support maintenance costs and prepaid health and group life insurance premiums of the Company.

Investment Properties

Investment properties consist mainly of land, with improvements, which are owned for capital appreciation. The reconciliation of the carrying amount of the investment properties at the beginning and end of 2017 and 2016 is shown below:

	2017	2016
Balance at beginning of year	**₱2,824,909**	₱2,829,909
Depreciation	**-**	(5,000)
Balance at end of year	**₱2,824,909**	₱2,824,909

These properties are classified as Level 3 in the fair value hierarchy. The total estimated fair value based on the latest available selling price of the properties obtained by the Company amounted to ₱7.20 million and ₱5.88 million as at December 31, 2017 and 2016, respectively (see Note 30.4).

In 2016, the Company sold certain fully depreciated investment properties and recognized gain amounting to ₱0.75 million, which is presented as part of Gain on sale of non-financial assets under Investment and Other income and expenses account in the statements of income (see Note 20).

Security Fund

Security fund represents amount deposited with the IC, as required by the IC, and in instances of the Company becoming insolvent, can be used as payment for valid claims against the Company. The balance of the fund earns interest at rates determined by the IC annually.

15. REINSURANCE BALANCES PAYABLE

The details of this account are as follows:

	2017	2016
Due to retrocessionaires	**₱1,235,347,278**	₱1,029,493,913
Funds held for retrocessionaires	**34,290,840**	57,437,019
	₱1,269,638,118	₱1,086,930,932

Due to retrocessionaires are unpaid retroceded premiums of retrocessionaires. Funds held for retrocessionaires represent portion of the reinsurance premium ceded to retrocessionaires, which were withheld by the Company in accordance with reinsurance agreements. The Company's payments of these reinsurance liabilities are netted by the retrocessionaires' share in underwriting costs and losses paid.

The movements in these accounts are shown below.

December 31, 2017	Due to retrocessionaires	Funds held for retrocessionaires	Total
Balance at beginning of year	**₱1,029,493,913**	**₱57,437,019**	**₱1,086,930,932**
Retroceded premiums net of funds held during the year	**828,267,777**	**-**	**828,267,777**
Funds held during the year	**-**	**13,160,712**	**13,160,712**
Funds released during the year	**36,306,891**	**(36,306,891)**	**-**
Payments made during the year	**(655,318,199)**	**-**	**(655,318,199)**
Revaluation adjustment	**(3,403,104)**	**-**	**(3,403,104)**
Balance at end of year	**₱1,235,347,278**	**₱34,290,840**	**₱1,269,638,118**
December 31, 2016			
Balance at beginning of year	₱970,742,419	₱89,524,120	₱1,060,266,539
Retroceded premiums net of funds held during the year	1,613,204,524	-	1,613,204,524
Funds held during the year	-	77,517,553	77,517,553
Funds released during the year	109,604,654	(109,604,654)	-
Payments made during the year	(1,668,853,702)	-	(1,668,853,702)
Revaluation adjustment	4,796,018	-	4,796,018
Balance at end of year	₱1,029,493,913	₱57,437,019	₱1,086,930,932

16. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	Note	**2017**	2016
Deferred output VAT		**₱30,723,427**	₱38,842,259
Accrued expenses		**17,711,075**	73,080,832
Accounts payable		**15,287,274**	10,088,519
Withholding taxes payable		**6,751,480**	4,245,424
Dividends payable	*24.3*	**2,542,535**	2,535,246
Deferred tax liability	*23*	**2,275,821**	-
		₱75,291,612	₱128,792,280

Deferred output VAT pertains to VAT from the sale of goods and services that are still outstanding as at balance sheet date. These amounts are not due for remittance to the BIR until the receivables are collected.

Accrued expenses include amounts pertaining to accruals of outside services, utilities, uniforms, membership dues and meeting expenses.

Accounts payable includes non-interest bearing amounts that are already due to suppliers and advances received for services to be rendered in the future.

Management considers the carrying amount of accounts payable and accrued expenses recognized in the statements of financial position to be a reasonable approximation of their fair value due to their short duration.

17. LOSSES AND CLAIMS PAYABLE

The details of this account are as follows:

	2017	2016
Outstanding loss reserves	**₱4,964,958,362**	₱5,685,539,491
Reserves for IBNR losses	**1,378,611,270**	1,043,265,750
	₱6,343,569,632	₱6,728,805,241

Losses and claims payable are losses due to ceding companies under reinsurance agreements inclusive of reserves for IBNR losses, loss adjustment expenses payable and MfAD as shown below.

December 31, 2017	Outstanding loss reserves	Reserves for IBNR losses	Total
Balance at beginning of year	₱5,685,539,491	₱1,043,265,750	₱6,728,805,241
Claims incurred during the year – net	468,098,875	-	468,098,875
BNR losses during the year – net	-	335,345,520	335,345,520
Claims paid during the year	(1,159,241,566)	-	(1,159,241,566)
Revaluation adjustment	(29,438,438)	-	(29,438,438)
Balance at end of year	**₱4,964,958,362**	**₱1,378,611,270**	**₱6,343,569,632**
December 31, 2016			
Balance at beginning of year	₱5,703,387,502	₱674,431,025	₱6,377,818,527
Claims incurred during the year - net	1,037,648,995	-	1,037,648,995
IBNR losses during the year - net	-	368,834,725	368,834,725
Claims paid during the year	(1,113,003,952)	-	(1,113,003,952)
Revaluation adjustment	57,506,946	-	57,506,946
Balance at end of year	₱5,685,539,491	₱1,043,265,750	₱6,728,805,241

18. PREMIUM RESERVES

The movements in Premium reserves are as follows:

	2017	2016
Balance at beginning of year	**₱1,337,254,844**	₱924,871,533
Premium written	**3,205,113,517**	3,383,940,377
Premiums earned	**(3,202,531,144)**	(2,971,557,066)
Balance at end of year	**₱1,339,837,217**	₱1,337,254,844

The increase or decrease in Premiums reserves for the year is presented as part of Increase in premium reserves account in the statements of income.

On March 9, 2018, IC issued Circular Letter (CL) No. 2018-18 amending the valuation standards for non-life insurance policy reserves. Under the said circular letter, premium liability is equal to UPR plus the excess of URR over UPR net of deferred acquisition cost. Management is currently assessing the impact of this new CL to the Company's financial statements.

19. DEFERRED REINSURANCE COMMISSIONS

The movements in Deferred reinsurance commissions are as follows:

	2017	2016
Balance at beginning of year	**₱41,201,206**	₱44,225,101
Income deferred	**32,621,731**	125,862,190
Income recognized	**(68,387,719)**	(128,886,085)
Balance at end of year	**₱5,435,218**	₱41,201,206

The increase or decrease in Deferred reinsurance commissions for the year is presented as part of Commissions – net under Underwriting deductions in the statements of income (see Note 21.2).

20. INVESTMENT AND OTHER INCOME AND EXPENSES

The details of this account follows:

	Notes	**2017**	2016	2015
Interest income	*5,7,8,9 22.2,25.2*	**₱192,510,482**	₱196,697,334	₱231,297,911
Gain on sale of AFS	*7*	**120,782,788**	25,561,793	215,133,833
Impairment loss on AFS financial assets	*7*	**(64,873,264)**	(3,303,884)	-
Dividend income		**55,885,496**	47,894,868	47,659,949
Foreign currency gains (losses)		**(30,698,337)**	21,270,123	19,503,398
Loss on asset retirement	*10,14*	**(8,178,708)**	(226,934)	-
Gain on sale of non-financial assets	*10,14*	**201,738**	750,199	171,782
Other charges	*25.2*	**(10,823,763)**	(7,072,842)	(6,499,728)
		₱254,806,432	₱281,570,657	₱507,267,145

21. UNDERWRITING DEDUCTIONS

21.1 Share in Claims and Losses – Net

This account represents the aggregate amount of the Company's share in net losses and claims relative to its acceptances under reinsurance agreements.

	2017	2016	2015
Gross claims paid	**₱1,159,241,566**	₱1,113,003,952	₱1,402,490,532
Retrocessionaires' share in losses paid	**(211,492,400)**	(481,922,480)	(680,451,914)
Gross change in provision for claims reported	**(691,142,691)**	(75,354,957)	(494,846,083)
Retrocessionaires' share in change in provision for claims reported	**798,896,376**	(50,828,985)	248,523,202
Gross change in provision for IBNR	**335,345,520**	368,834,725	(115,860,342)
Retrocessionaires' share in change in provision for IBNR	**(8,634,138)**	(119,303,795)	55,897,892
Balance at end of the year	**₱1,382,214,233**	₱754,428,460	₱415,753,287

21.2 Commissions – Net

This account consists of the following:

	2017	2016	2015
Commission expense	**₱651,715,445**	₱493,226,062	₱379,201,871
Commission income	**(68,387,719)**	(128,886,085)	(123,483,327)
	₱583,327,726	₱364,339,977	₱255,718,544

Commission expense refers to fees deducted by ceding companies from reinsurance premiums assumed under reinsurance agreements, while commission income pertains to fees charged by the Company related to reinsurance premiums retroceded under retrocession agreements.

22. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account are as follows:

	Notes	**2017**	2016	2015
Salaries and employee benefits	*22.1*	**₱125,601,273**	₱128,965,787	₱116,388,163
Impairment losses - net	*6,14*	**82,517,392**	74,127,890	220,391,105
Professional fees		**29,835,162**	24,420,882	29,740,339
Outsourced functions		**13,547,363**	17,941,846	16,716,957
Depreciation and amortization	*10,14*	**12,138,652**	18,604,856	24,073,131
Data, licenses and subscriptions		**9,177,035**	6,641,596	-
Communication and postages		**7,221,201**	6,052,565	2,165,667
Taxes, licenses and fees		**6,962,296**	6,486,196	54,529,667
Repairs and maintenance		**5,532,715**	7,220,021	7,314,682
Meetings, conferences and conventions		**3,274,009**	3,476,059	4,080,623
Dues and fees		**2,895,648**	3,446,253	3,389,238
Light and water		**2,095,097**	2,256,276	2,442,868
Advertising and publicity		**1,953,699**	2,158,435	2,235,966
Insurance		**1,528,772**	1,014,459	895,433
Rental	*28.1*	**1,308,696**	3,082,152	3,626,686
Representation and entertainment		**849,920**	581,405	2,207,276
Printing and office supplies		**572,479**	1,379,493	877,995
Finance costs	*22.2*	**-**	-	319,266
Miscellaneous		**10,331,727**	15,073,479	11,895,484
		₱317,343,136	₱322,929,650	₱503,290,546

22.1 Salaries and Employee Benefit Expense

The details of salaries and employee benefits are presented below.

	2017	2016	2015
Short-term employee benefits	**₱111,104,286**	₱115,237,519	₱102,718,063
Post-employment defined benefit	**9,049,759**	8,078,402	2,048,213
Compensated absences	**5,447,228**	5,649,866	3,696,500
Separation benefits	**-**	-	7,925,387
	₱125,601,273	₱128,965,787	₱116,388,163

22.1 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Company maintains a wholly-funded, tax-qualified, non-contributory post-employment defined benefit plan retirement plan that is being administered by a trustee covering all regular full-time employees.

The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 10 years of credited service. Normal retirement benefit is an amount equivalent to 175% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from an independent actuary in 2017 and 2016. The amount of defined benefit asset presented as part of Other assets - net (see Note 14) and recognized in the statements of financial position are determined as follows:

	2017	2016
Fair value of the plan assets	**₱60,164,870**	₱67,520,551
Present value of the obligation	**(50,925,033)**	(53,451,677)
	₱9,239,837	₱14,068,874

The movements in the fair value of plan assets is presented below.

	2017	2016
Balance at beginning of year	**₱67,520,551**	₱82,931,493
Interest income	**2,916,888**	3,856,314
Return on plan assets	**(1,373,338)**	1,861,198
Benefits paid by the plan	**(8,899,231)**	(21,128,454)
Balance at end of year	**₱60,164,870**	₱67,520,551

The movements in the present value of the retirement benefit obligation are as follows:

	2017	2016
Balance at beginning of year	**₱53,451,677**	₱50,512,429
Current service cost	**9,049,759**	8,078,402
Interest expense	**2,309,112**	2,348,828
Remeasurements – actuarial losses (gains) arising from:		
Experience adjustments	**(2,630,152)**	12,378,509
Changes in financial assumptions	**(2,356,132)**	1,261,963
Benefits paid by the plan	**(8,899,231)**	(21,128,454)
Balance at end of year	**₱50,925,033**	₱53,451,677

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below:

	2017	2016
Cash and cash equivalents	**₱3,425,121**	₱6,497,090
Philippine government securities	**28,443,915**	23,632,359
Corporate notes	**36,269,121**	17,039,108
Equity securities	**7,977,654**	15,018,921
Loans and receivables	**1,333,400**	494,985
Mutual fund	**-**	4,838,088
Accounts payable	**(17,284,341)**	-
	₱60,164,870	₱67,520,551

The fair value of the equity and government bonds are determined based on quoted market prices in active markets.

The plan assets earned a return of ₱1.54 million, ₱5.72 million, and ₱0.79 million in 2017, 2016 and 2015, respectively.

Plan assets do not comprise any of the Company's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in the statements of income and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2017	2016	2015
Reported in statements of income:			
Current service cost	**₱9,049,759**	₱8,078,402	₱5,443,665
Net interest expense (income)	**(607,776)**	(1,507,486)	319,266
Settlement gain	**-**	-	(3,395,452)
	₱8,441,983	₱6,570,916	₱2,367,479

	2017	2016	2015
Reported in other comprehensive loss (income):			
Actuarial losses (gains) arising from:			
Experience adjustments	**(₱2,630,152)**	₱12,378,509	(₱10,891,376)
Changes in financial assumptions	**(2,356,132)**	1,261,963	(2,121,467)
Return on plan assets (excluding amounts included in net interest)	**1,373,338**	(1,861,198)	2,580,622
	(₱3,612,946)	₱11,779,274	(₱10,432,221)

Current service cost and settlement gain are presented as part of Salaries and employee benefits; while net interest expense and income are presented as part of Finance costs and Interest income, respectively.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2017	2016	2015
Discount rate	**4.9%**	4.3%	4.7%
Expected rate of salary increase	**5.0%**	5.0%	5.0%
Employee turn-over rate	**10.0%**	10.0%	10.0%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 27. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

Risks Associated with the Retirement Plan

The plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk, salary risk and inflation risk.

(i) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in equity securities, debt securities, cash and cash equivalents, and loans and receivables. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) *Inflation Risk*

A significant proportion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Company's liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

(c) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Company's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit asset:

December 31, 2017	**Impact on Defined Benefit Asset**		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
Discount rate	**+/- 1.0%**	**₱3,643,916**	**(₱4,114,302)**
Salary growth	**+/- 1.0%**	**(4,048,984)**	**3,690,765**
Turn-over rate	**+/- 10.0%**	**394,596**	**(394,596)**

December 31, 2016	Impact on Defined Benefit Asset		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	₱3,672,887	(₱4,222,609)
Salary growth	+/- 1.0%	(4,090,065)	3,694,696
Turn-over rate	+/- 10.0%	505,374	(505,374)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit asset recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

The Company applies asset-liability matching techniques to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement fund. Retirement funds are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations, and maximize opportunities for higher potential returns at the least risk.

The Company is guided by a formal Asset-Liability Management Study conducted by an independent actuary. In the study, expected benefit payments are projected and classified into short-term, medium-term or long-term liabilities. Investment instruments that would match the liabilities are identified. Finally, the investment mixes that would yield the maximum returns at certain risk levels are identified.

The study is conducted annually to capture changes in the demographic profile of the employees and changes in the economic environment affecting the amounts of maturing obligations and rates of return of available investment instruments.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as at December 31, 2017 and 2016 consists of debt and equity securities, although the Company also invests in cash equivalents, mutual fund and loans and receivables. The Company believes that debt securities offer the most secure returns over the long term as they have the least acceptable level of risk which is in line with their asset-liability matching techniques.

There has been no change in the Company's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan is currently overfunded by ₱9.24 million based on the latest actuarial valuation. Therefore, the Company is not expected to make any contribution to the plan during the next reporting period, unless the plan becomes unfunded.

As at December 31, 2017 and 2016, the maturity profile of undiscounted expected benefit payments from the plan for the next 20 years follows.

	2017	2016
Within one year	**₱2,687,231**	₱11,320,867
More than one year to five years	**31,935,408**	15,485,188
More than five years to 10 years	**80,212,692**	58,664,737
More than 10 years to 15 years	**19,888,808**	60,017,298
More than 15 years to 20 years	**97,738,497**	28,386,614
	₱232,462,636	₱173,874,704

The weighted average duration of the defined benefit obligation at the end of the reporting period is 12 years.

23. CURRENT AND DEFERRED TAXES

The components of tax expense as reported in statements of income.

	2017	2016	2015
Current tax expense:			
Regular corporate income tax (RCIT)	**₱74,580,763**	₱10,099,405	₱ -
Final tax at 20% and 7.5%	**36,602,391**	35,152,163	43,794,061
Excess of minimum corporate income tax (MCIT) over RCIT	**-**	5,474,869	9,988,928
Application of MCIT	**(20,139,673)**	-	-
	₱91,043,481	₱50,726,437	₱53,782,989

The reconciliation of the tax on pretax profit computed at the applicable statutory rates to tax expense in the statements of income is as follows:

	2017	2016	2015
Tax on pretax profit at 30%	**₱42,342,749**	₱38,634,118	₱69,874,929
Non-deductible expenses	**63,458,021**	83,945,587	130,916,211
Non-taxable income	**(52,506,467)**	(13,761,891)	(62,180,264)
Adjustment for income subjected to lower tax rates	**(19,954,459)**	(27,597,830)	(37,910,977)
Tax effects of:			
Movements in unrecognized deferred tax assets:			
Claims payable (IBNR losses – net)	**99,030,588**	69,115,392	(32,348,241)
Application of MCIT	**(20,139,673)**	-	-
Reversal of allowance for impairment	**(19,090,588)**	10,238,367	66,117,332
Accrued expense	**14,402,465**	(158,029)	(10,749,968)
Write-off of receivables	**(12,033,455)**	-	-
Amortized past service cost	**(4,465,700)**	(4,465,701)	3,543,589
Excess of MCIT over RCIT	**-**	5,474,869	9,988,928
Utilization of deferred tax asset on net operating loss carry-over (NOLCO)	**-**	(110,698,445)	(83,468,550)
Tax expense reported in statements of income	**₱91,043,481**	₱50,726,437	₱53,782,989

Below is the movement of the deferred tax asset and deferred tax liabilities recognized as at December 31, 2017 and 2016.

	2017		2016	
	Tax Base	**Tax Amount**	Tax Base	Tax Amount
Profit or loss:				
Accrued commission expense, net of deferred acquisition costs	**₱24,345,561**	**₱7,303,669**	₱59,521,490	₱17,856,446
Defined benefit asset	**(9,239,837)**	**(2,771,951)**	(14,068,874)	(4,220,662)
Prepaid expenses	**(9,107,319)**	**(2,732,196)**	(7,762,075)	(2,328,622)
Unrealized foreign currency gains	**(5,998,405)**	**(1,799,522)**	(37,690,541)	(11,307,162)
	-	**-**	-	-
Other comprehensive income:				
Revaluation reserves on AFS financial assets	**(7,586,069)**	**(2,275,821)**	-	-
Net deferred tax asset (liabilities)	**(₱7,586,069)**	**(₱2,275,821)**	₱ -	₱ -

In accordance with the applicable accounting standards, the Company has taken a conservative position of not recognizing the deferred tax assets on the following temporary differences as at December 31, 2017 and 2016:

	2017		2016	
	Tax Base	**Tax Amount**	Tax Base	Tax Amount
Deferred tax assets:				
Claims payable (IBNR losses – net)	**₱1,067,399,835**	**₱320,219,951**	₱737,297,878	₱221,189,363
Allowance for impairment	**623,264,029**	**186,979,209**	729,153,843	218,746,153
Unamortized past service cost	**75,793,369**	**22,738,011**	90,679,038	27,203,711
Accrued commission expense, net of deferred acquisition costs	**50,766,830**	**15,230,049**	6,156,705	1,847,012
Accrued expense	**2,440,265**	**732,080**	2,655,117	796,535
MCIT	**-**	**-**	20,139,673	20,139,673
Unrecognized deferred tax assets	**₱1,819,664,328**	**₱545,899,300**	₱1,586,082,254	₱489,922,447

In 2016, the Company fully utilized its NOLCO amounting to ₱368.99 million.

The Company is subject to MCIT which is computed at 2% of gross income, or RCIT, whichever is higher. MCIT incurred in 2016, 2015 and 2014 were all applied against RCIT due in 2017 as follows:

Year Incurred	Amount	Applied	Expiry
2016	₱5,474,869	₱5,474,869	2019
2015	9,988,928	9,988,928	2018
2014	4,675,876	4,675,876	2017
	₱20,139,673	₱20,139,673	

In 2017, 2016 and 2015, the Company opted to claim itemized deductions in determining its tax expense.

24. EQUITY

24.1 Capital Stock

As at December 31, 2017, 2016 and 2015, the Company has authorized shares of 3,000,000,000 and has issued and outstanding shares amounting to ₱2.12 billion net of treasury shares, which is divided into 2,123,605,600 shares with a par value of ₱1 per share.

On April 27, 2007, the Securities and Exchange Commission (SEC) approved the listing of the Company's shares totalling 741,902,600. The shares were initially issued at an offer price of ₱3.80 per share.

As at December 31, 2017 and 2016, there are 277 and 280 holders of the listed shares, respectively. Such listed shares closed at ₱0.96 and ₱0.77 per share, as at those dates, respectively.

As at December 31, 2017, 2016 and 2015, total treasury shares amounted to ₱100.53 million representing 58,349,000 shares. There were no treasury stock transactions in 2017, 2016 and 2015.

24.2 Appropriation for Special Reserve

In 1989, the BOD approved the establishment of a special reserve for extraordinarily high loss occurrences or severe catastrophic losses. As such, 10% of profit is set aside as special reserve provided there is no deficit. For the years ended December 31, 2017, 2016 and 2015, the Company appropriated ₱5.01 million, ₱7.81 million and nil, respectively, for special reserve.

24.3 Declaration of Cash Dividends

There was no declaration of cash dividends in 2017, 2016 and 2015. The total outstanding dividends payable amounted to ₱2.54 million as at December 31, 2017 and 2016. These are presented as Dividends payable under Accounts payable and accrued expenses account in the statements of financial position (see Note 16).

25. RELATED PARTY TRANSACTIONS

The Company's related parties include its stockholders, related parties under common ownership, retirement plan and the Company's key management personnel with which the Company had transactions as described below and in the succeeding pages.

25.1 Reinsurance Contracts with Related Parties

The Company accepts and cedes insurance business under various reinsurance contracts with related parties. The details of which are presented as follows:

	2017		2016	
	Stockholders	**Related Parties Under Common Ownership**	Stockholders	Related Parties Under Common Ownership
Premiums	**₱257,157,249**	**₱71,058,724**	₱541,212,857	₱55,111,831
Retrocessions	**1,097,434**	**1,921,578**	50,315,806	12,081,620
Commission income	**15,262**	**-**	13,727,735	-
Commission expense	**64,271,880**	**-**	141,579,744	-
Losses incurred	**121,171,531**	**-**	316,020,826	18,281,675
Loss recoveries	**12,213,514**	**-**	159,573,975	2,907,184

Reinsurance balances receivable from and payable to related parties arising from above transactions are presented as follows:

	2017		2016	
	Stockholders	**Related Parties Under Common Ownership**	Stockholders	Related Parties Under Common Ownership
Due from (to) ceding companies	**₱173,309,900**	**₱61,798,900**	₱169,028,728	(₱4,153,044)
Reinsurance recoverable on losses	**54,851,174**	**980,970**	645,878,289	-
Funds held by ceding companies	**25,105,468**	**-**	65,893,989	-
Outstanding loss reserves	**1,138,127,115**	**99,184**	1,393,416,253	99,184
Due to retrocessionaires	**7,529,067**	**3,242,372**	29,440,991	9,579,163
Funds held for retrocessionaires	**1,059,176**	**-**	895,144	-

The balance of Reinsurance balances receivable which is expected to be settled in cash, is presented net of ₱145.61 million and ₱144.88 million allowance for impairment as at December 31, 2017 and 2016, respectively.

25.2 Other Transactions

The Company's other transactions with related parties are presented as follows:

		2017		2016	
		Amount of Transactions	**Outstanding Balance**	Amount of Transactions	Outstanding Balance
Stockholder:					
Cash and cash equivalents	(a)	**(₱112,162,911)**	**₱60,182,371**	₱6,460,064	₱172,345,282
AFS financial assets	(b)	**76,754,339**	**122,851,218**	(20,976,329)	46,096,879
Loans and receivables	(c)	**44,981**	**138,921**	6,098	93,940
Interest income - bank accounts	(a)	**1,533,091**	**12,146**	3,130,023	-
Dividend income - AFS financial assets	(b)	**1,131,605**	**1,082,807**	1,715,388	-
Gain on sale of AFS financial assets	(b)	**1,529,391**	**-**	3,026,384	-
Service fees	(d)	**4,376,891**	**926,140**	(4,234,475)	-
Related Party Under Common Ownership:					
Cash and cash equivalent	(a)	**(273,752,009)**	**767,035,305**	477,966,851	1,040,787,314
AFS financial assets	(b)	**(9,848,586)**	**25,203,876**	(1,474,219)	35,052,462
Loans and receivables	(c)	**(65,608,597)**	**50,039,909**	(452,306)	115,648,506
Interest income - bank accounts	(a)	**14,373,868**	**1,232,860**	8,939,885	-
Interest income - loans and receivables	(c)	**4,584,723**	**23,889**	5,923,188	130,056
Interest income - AFS financial assets	(b)	**919,318**	**141,136**	7,261,722	-
Loss on sale of AFS financial assets	(b)	**-**	**-**	(2,336,466)	-
Service fees	(d)	**1,388,179**	**266,060**	(1,206,349)	-

(a) Cash and Cash Equivalents

The Company maintains several savings and current accounts with a stockholder and related party under common ownership. Interest income recognized is presented as part of Interest income under Investment and Other income and expenses account in the statements of income (see Note 20).

(b) AFS Financial Assets

The Company has investment in shares of stock of a stockholder and fixed income securities of a related party under common ownership classified as AFS financial assets. Relative to these transactions, the Company recognized dividend income, interest income and trading gains which are presented as part of Investment and Other income and expenses account in the statements of income (see Note 20).

(c) Loans and Receivables

The Company has long-term negotiable certificate of deposit (LTNCD) and note receivables with certain related parties under common ownership. Relative to this, the Company recognized interest income which is presented as part of Interest income under Investment and Other income and expenses account in the statements of income (see Note 20). The LTNCD and notes receivable are unsecured and earn interest of 5.00% in 2017, 5.00% to 5.375% in 2016 and 4.80% to 5.86% in 2015. As at December 31, 2017 and 2016, management assessed that these receivables are not impaired.

(d) Investment Management and Custodianship

The Company has entered into "Investment Management Agreement" and "Custodianship Agreement" with a stockholder and an entity under common ownership for the management and custodianship of certain investible funds of the Company subject to terms and conditions in the said agreements. In consideration for the services rendered, the Company pays the stockholder and the affiliate bank service fees equivalent to a certain percentage of the market value of the investments.

Total service fees paid is charged against Other charges under Investment and Other income and expenses account (see Note 20) in the statements of income. As at December 31, 2017, outstanding liabilities from these transactions amounted to ₱1.19 million. No outstanding liability as at December 31, 2016.

25.3 Investment Management of Retirement Fund

In 2007, the Company entered into a "Retirement Fund Investment Management Agreement" with a certain stockholder for the management of the investments of the Company's retirement funds subject to the terms and conditions in the said agreement.

25.4 Transactions with Retirement Fund

As discussed in Note 22.2, the Company maintains a wholly-funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. The Company has no transactions with its retirement fund in 2017 and 2016. The retirement fund does not hold any shares of stock of the Company as at December 31, 2017 and 2016.

25.5 Key Management Personnel Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including director, whether executive or otherwise, of the Company.

The compensation of key management personnel is presented as follows:

	2017	2016	2015
Short-term benefits	**₱44,729,048**	₱52,081,965	₱41,549,381
Post-employment defined benefit	**12,414,655**	4,130,257	1,568,764
	₱57,143,703	₱56,212,222	₱43,118,145

26. SOLVENCY

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

Whenever the aforementioned requirement is found to be less than the required to be maintained, the Commissioner shall direct the Company to make good any such deficiency by cash, to be contributed by all stockholders of record in proportion with their respective interests, and paid to the treasurer of the Company, within 15 days from receipt of the order. Provided, that the Company in the interim shall not be permitted to take any new risk of any kind or character unless and until it makes good any such deficiency.

In case that a stockholder pays the contribution due from another stockholder by reason of failure or refusal of the latter to do so, shall have a lien on the certificates of stock of the Company appearing in its books in the name of the defaulting stockholder on the date of default, as well as on any interests or dividends that have accrued or will accrue to the said certificates of stocks, until the corresponding payment or reimbursement is made by the defaulting stockholder.

27. EARNINGS PER SHARE

The earnings per share are presented as follows:

	2017	2016	2015
Net profit available to common shareholders	**₱50,099,014**	₱78,053,957	₱179,133,440
Divided by the average number of outstanding common shares	**2,123,605,600**	2,123,605,600	2,123,605,600
	₱0.024	₱0.037	₱0.084

Diluted earnings per share is not determined since the Company does not have dilutive shares as at December 31, 2017, 2016 and 2015.

28. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Company:

28.1 Operating Lease Commitments – Company as Lessee

The Company is a lessee under various operating leases covering warehouse and parking lots having a term of one year with renewal options. The future minimum rentals payable under this non-cancellable operating lease as at December 31, 2017 and 2016 is ₱1.17 million and ₱1.35 million, respectively.

Rental expense recognized amounted to ₱1.31 million, ₱3.08 million, and ₱3.63 million in 2017, 2016 and 2015, respectively, and is presented in the statements of income as Rental under General and administrative expenses (see Note 22).

28.2 Legal Claims

The Company is currently involved in various legal proceedings. In consultation with the legal counsel, the related risk has been analyzed as to likelihood of occurrence and amount of future obligation. The Company believes that the outcome of these proceedings as at December 31, 2017 will not have a material adverse effect on the Company's financial position.

28.3 Deficiency Tax Assessments

The Company is in receipt of certain final deficiency tax assessment covering taxable period July 1, 2012 to December 31, 2012, pursuant to which the BIR has sought to investigate a certain tax period against the Company and consequently examine certain books, records and accounts that relate to transactions in the ordinary course of business. Pursuant to the Company's policy of addressing such actions and in line with prudent business practice, the Company has engaged tax counsel in relation to this matter.

As at December 31, 2017, the final deficiency tax assessment is still under protest. Management believes that the Company has enough basis in law and evidence to support their claim that the Company is not liable for any tax deficiency; hence, no provisions were recognized in the financial statements.

28.4 Others

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements. Management believes that losses as at December 31, 2017, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

29. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

29.1 Comparison of Carrying Amounts and Fair Values

The carrying amount and fair value of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	2017		2016	
	Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	**₱1,310,540,587**	**₱1,310,540,587**	₱920,425,229	₱920,425,229
Reinsurance balances receivable	**1,949,930,671**	**1,949,930,671**	1,445,939,323	1,445,939,323
Funds at Lloyd's	**186,114,728**	**186,114,728**	149,439,000	149,439,000
Loans and receivables	**201,888,184**	**201,888,184**	464,887,025	464,887,025
	₱3,648,474,170	**₱3,648,474,170**	₱2,980,690,577	₱2,980,690,577

(Forward)

	2017		2016	
	Carrying Values	**Fair Values**	Carrying Values	Fair Values
AFS financial assets:				
Debt securities	**₱3,124,823,394**	**₱3,124,823,394**	₱3,689,501,733	₱3,689,501,733
Equity securities	**2,369,749,019**	**2,369,749,019**	2,136,666,156	2,136,666,156
Investment in ARC	**32,547,556**	**32,547,556**	31,335,823	31,335,823
Various funds	**-**	**-**	67,388	67,388
	₱5,527,119,969	**₱5,527,119,969**	₱5,857,571,100	P5,857,571,100
HTM investments	**₱1,034,687,360**	**₱1,027,030,391**	₱ -	₱ -
Financial liabilities:				
Reinsurance balances payable	**₱1,269,638,118**	**₱1,269,638,118**	₱1,086,930,932	₱1,086,930,932
Accounts payable and other accrued expenses	**35,540,889**	**35,540,889**	16,624,222	16,624,222
	₱1,305,179,007	**₱1,305,179,007**	₱1,103,555,154	₱1,103,555,154

Due to the short-term duration, management considers the carrying value of the Company's financial assets and financial liabilities approximate their fair value as at the end of the reporting periods.

See Notes 2.4 and 2.10 for a description of the accounting policies for each category of financial instrument including the determination of fair value. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 4.

29.2 Offsetting of Financial Assets and Financial Liabilities

For financial assets and financial liabilities, particularly, reinsurance balances, subject to enforceable master netting agreements or similar arrangements, each agreement between the Company and counterparties, including related parties, allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis.

Reinsurance balances as at December 31 are as follows.

	Notes	**2017**	2016
Reinsurance balances receivable	*6*	**₱1,949,930,671**	₱1,445,939,323
Reinsurance balances payable	*15*	**1,269,638,118**	1,086,930,932

30. FAIR VALUE MEASUREMENT AND DISCLOSURES

30.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial 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 disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

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

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

30.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Company's financial assets measured at fair value in the statements of financial position on a recurring basis (amounts in thousands Philippine Peso).

	Level 1	Level 2	Level 3	Total
December 31, 2017				
AFS financial assets	**₱5,476,687**	**₱17,885**	**₱32,548**	**₱5,527,120**
December 31, 2016				
AFS financial assets	5,808,385	17,850	31,336	5,857,571

The movements of the AFS financial assets classified under Level 3 in the fair value hierarchy is shown below (amounts in thousands Philippine Peso).

	2017	2016
Balance at beginning of year	**₱31,336**	₱4,445
Fair value gains	**1,157**	24,191
Foreign currency gains	**55**	2,700
Balance at end of year	**₱32,548**	₱31,336

The Company has no financial liabilities measured at fair value as at December 31, 2017 and 2016.

Described below are the information about how the fair value of the Company's classes of financial assets are determined.

a) Equity securities

As at December 31, 2017 and 2016, instruments included in Level 1 comprise equity securities classified as AFS financial assets. These securities were valued based on their market prices quoted in the PSE at the end of each reporting period.

Golf club shares classified as AFS financial assets are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period. Moreover, investment in equity securities held in a private company is included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the private company's book value using the most recent available financial data. The estimated fair value will increase (decrease) if the book value increases (decreases).

b) Debt securities

The fair value of the Company's debt securities which consist of government and corporate bonds is estimated by reference to quoted bid price in active market at the end of the reporting period and is categorized within Level 1.

c) Mutual funds

The fair value of the Company's investment in mutual funds which consist of money market placements and minimal equity securities is estimated by reference to the net asset value provided by the fund managers and is categorized within Level 2.

30.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Financial assets:				
Cash and cash equivalents	₱1,310,540,587	₱ -	₱ -	₱1,310,540,587
Reinsurance balances receivable	-	-	1,949,930,671	1,949,930,671
HTM investments	1,027,030,391	-	-	1,027,030,391
Loans and receivables	-	-	201,888,184	201,888,184
Funds at Lloyd's	-	-	186,114,728	186,114,728
	₱2,337,570,978	**₱ -**	**₱2,337,933,583**	**₱4,675,504,561**
Financial liabilities:				
Reinsurance balances payable	₱ -	₱ -	₱1,269,638,118	₱1,269,638,118
Accounts payable and other accrued expenses	-	-	35,540,889	35,540,889
	₱ -	**₱ -**	**₱1,305,179,007**	**₱1,305,179,007**

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets:				
Cash and cash equivalents	₱920,425,229	₱ -	₱ -	₱920,425,229
Reinsurance balances receivable	-	-	1,445,939,323	1,445,939,323
Loans and receivables	-	-	464,887,025	464,887,025
Funds at Lloyd's	-	-	149,439,000	149,439,000
	₱920,425,229	₱ -	P2,060,265,348	₱2,980,690,577
Financial liabilities:				
Reinsurance balances payable	₱ -	₱ -	₱1,086,930,932	₱1,086,930,932
Accounts payable and other accrued expenses	-	-	16,624,222	16,624,222
	₱ -	₱ -	P1,103,555,154	₱1,103,555,154

For financial assets, other than AFS investments, with fair value included in Level 1, management considers that the carrying amount of those short-term financial instruments approximate their fair value.

30.4 Fair Value Measurement for Non-financial Assets

The Company used market comparable approach as a valuation technique in measuring the fair value of its investment properties to arrive at fair value that is more representative of the investment properties' highest and best use. As at December 31, 2017 and 2016, the fair value of the investment properties is ₱7.20 million and ₱5.88 million, respectively, classified under Level 3 of the fair value hierarchy (see Note 14). The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are (a) to ensure the Company's ability to continue as a going concern; and, (b) to provide an adequate return to shareholders by complying with the capital requirements and limitation enforced by the IC and by aligning the Company's operational strategy to its corporate goals. The capital requirements and limitations are as follows:

31.1 Minimum Capitalization

Under Section 289 of the RA No. 10607 (The New Insurance Code), any partnership, association, or corporation authorized to transact solely reinsurance business must have a capitalization of at least ₱3,000,000,000 paid in cash of which at least 50% is paid-up capital and the remaining portion thereof is contributed surplus, which in no case shall be less than ₱400,000,000 or such capitalization as may be determined by the Secretary of Finance, upon the recommendation of the Commissioner.

The IC issued CL No. 2015-02-A dated January 13, 2015, to clarify the minimum capitalization requirements under Sections 194, 197, 200 and 289 of RA No. 10607. Under the said CL, all existing reinsurance companies authorized to transact solely reinsurance business must have a networth of at least ₱2.25 billion by December 31, 2016. The minimum networth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

Minimum Networth	Compliance Date
₱ 2,500,000,000	December 31, 2019
3,000,000,000	December 31, 2022

As at December 31, 2017 and 2016, the Company has complied with the minimum capital requirements.

31.2 Risk-Based Capital Requirements

As per IC CL No. 2016-68, Amended Risk-Based Capital (RBC2) Framework, all insurance companies must satisfy the annual minimum statutory RBC Ratio set at 100%. RBC ratio is computed by dividing the Company's Total Available Capital (TAC) by the RBC requirement. TAC is the aggregate of Tier 1 and Tier 2, minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis and is considered to be the highest quality capital available to the insurer. Tier 2 refers to capital not having the same high quality characteristics of Tier 1, but can provide additional buffer to the insurer. RBC requirement or the total required capital of an insurance company is the capital that is required to be held appropriately to the risks an insurance company is exposed to.

31.3 Limitation on Dividend Declaration

The Company's BOD is authorized to declare dividends. A cash dividend declaration does not require any further approval from the stockholders. However, a stock dividend declaration requires further approval of the stockholders holding or representing not less than two-thirds of the Company's outstanding capital stock. Dividends may be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as and at such times as the BOD may determine and in accordance with law.

Section 201 of the New Insurance Code provides that no domestic insurance company shall declare or distribute dividends on its outstanding stock unless it has met the minimum paid-up capital and net worth requirements under Section 194 and except from profits attested in a sworn statement to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the solvency requirements defined by Section 200;
- the legal reserve fund required by Section 219; and,
- a sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

The Company is required to report such dividend declaration or distribution to the IC within 30 days from the date of such declaration. Moreover, the SEC, through its Memorandum Circular 11 dated December 5, 2008 has set guidelines in determining the appropriate amount of Retained Earnings available for dividend distribution. This shall be based on the net profit for the year based on the audited financial statements, adjusted for unrealized items which are considered not available for dividend declaration. These unrealized items consist of the following:

- share/equity in net income of the associate or joint venture;
- unrealized foreign currency gains, except those attributable to cash and cash equivalents;
- unrealized actuarial gains arising from the exercise of the option of recognizing actuarial gains or losses directly to the statements of comprehensive income;
- fair value adjustment arising only from marked-to-market valuation which are not yet realized;
- the amount of deferred tax asset that reduced the amount of income tax expense;
- adjustment due to deviation from PFRS/Generally Accepted Accounting Principles which results to gain; and,
- other unrealized gains or adjustments to the retained earnings.

31.4 Non-admitted Assets

Various assets, included on the enumeration of Section 203 of RA 10607, are considered non-admitted assets for the purposes of determining the Company's financial condition.

The estimated non-admitted assets as defined in the Insurance Code are measured in accordance with PFRS and included in the statements of financial position. These assets, which are subject to final determination by the IC, are as follows:

	2017	2016
Goodwill, trade names, and other like intangible assets	**₱9,881,816**	₱6,228,834
Prepaid or deferred charges for expenses and commissions paid by such insurance company	**613,075,845**	393,074,448
Advances to officers (other than policy loans), which are not adequately secured and which are not previously authorized by the Commissioner, as well as advances to employees, agents, and other persons on mere personal security	**19,409,888**	14,283,556
Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies	**15,122,221**	8,607,550
Other non-admitted assets as determined by IC	**9,239,837**	939,667,804
Total Non-admitted Assets	**₱666,729,607**	₱1,361,862,192

32. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic ratios measure the financial performance of the Company:

	2017	2016
Current ratio*	**2.84 : 1.00**	2.54 : 1.00
Asset-to-equity	**2.72 : 1.00**	2.92 : 1.00
Liability-to-equity	**1.72 : 1.00**	1.92 : 1.00

**Excluding claims reserves.*

33. RECLASSIFICATION OF ACCOUNTS

In 2017, the Company reclassified some accounts in the statements of income to be consistent with the nature of the accounts.

Accordingly, the Company also reclassified the comparative figures in 2016.

	Before reclassification	**Reclassification**	**After reclassification**
Investment and Other income and expenses	₱284,874,541	(₱3,303,884)	₱281,570,657
General and administrative expenses	326,233,534	(3,303,884)	322,929,650

The reclassification represents impairment loss on AFS financial assets amounting to ₱3.30 million which was previously presented as impairment loss under General and administrative expenses account in the 2016 statements of income.

This reclassification has no effect on the information in the statement of financial position as of December 31, 2016 and the amount of net income presented in statement of income for the year ended December 31, 2016. Accordingly, statement of financial position at the beginning of the earliest comparative period is not presented.

34. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)

Presented in the below and in the succeeding pages are the supplementary information which is required by the BIR under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

34.1 Requirements Under RR No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are presented in the succeeding page.

(a) *Output VAT*

In 2017, the Company declared output VAT amounting to ₱15,677,481, which is set off against input VAT, based on the following gross receipts:

	Tax Base	Output VAT
Exempt receipts	₱2,727,143,103	₱ -
Commission earned on retrocession	125,286,601	15,034,392
Sale of ordinary assets	3,031,334	363,760
Interest income on loans	456,575	54,789
Other miscellaneous income	1,871,167	224,540
	₱2,857,788,780	₱15,677,481

Pursuant to RR No. 04-07 effective April 6, 2007, "Non-life insurance premiums are subject to VAT whereas non-life reinsurance premiums are not subject to VAT, the latter being already subject to VAT upon receipt of the insurance premiums."

The tax bases of commission earned on retrocession are included as net of Underwriting deductions account in the 2017 statements of income. The tax bases for commission are based on the Company's gross receipts for the year, hence, may not be the same with the amounts accrued in the 2017 statements of income.

As at December 31, 2017, the Company also has deferred output VAT amounting to ₱30,723,427 pertaining to uncollected commission income from retrocessionaires.

(b) *Input VAT*

The movements in input VAT in 2017 are summarized below.

Balance at beginning of year	₱143,140,581
Services lodged under other accounts	36,542,959
Goods other than for resale or manufacture	588,502
Capital goods subject to amortization	858,126
Applied against output VAT	(15,677,481)
Input VAT on exempt sales	(2,433,824)
Balance at end of year	₱163,018,863

The balance of input VAT as at December 31, 2017 is recorded under Other assets - net account in the statements of financial position.

As at December 31, 2017, the Company also has deferred input VAT amounting to ₱446,607 pertaining to VAT on capital assets, and deferred withholding VAT amounting to ₱9,202,886 representing VAT on unapplied input VAT on unpaid premiums on ceded out transactions to the Company from a certain government entity.

(c) Taxes on Importation

The Company does not have any customs duties or tariff fees in 2017 since it does not have any importation.

(d) Excise Tax

The Company does not have excise tax in 2017 since it does not have any transactions which are subject to excise tax.

(e) Documentary Stamp Tax (DST)

Total DST accrued and paid in 2017 amounted to ₱53,742 which pertains to car loan transactions of the Company. The Company is also liable to DST when it issues original shares of stocks or transfer certificate of stock. The Company did not issue original shares of stocks nor transfer certificate of stocks for the year ended December 31, 2017. Reinsurance contracts are not subject to DST.

(f) Taxes and Licenses

The details of taxes and licenses for 2017, which is presented under General and administrative expenses account in the statements of income is presented as follows:

Municipal licenses and permits	₱3,895,083
Fringe benefit tax	2,054,269
Registration	548,020
Real estate taxes	293,674
DST	53,742
Miscellaneous	117,508
	₱6,962,296

(g) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2017 are shown below.

Compensation and benefits	₱28,283,426
Expanded	12,403,010
Final	1,881,507
	₱42,567,943

(h) Deficiency Tax Assessments and Tax Cases

The Company has final deficiency tax assessment on VAT amounting to ₱32,693,611 for the taxable period July 1, 2012 to December 31, 2012.

As at December 31, 2017, the final deficiency tax assessment is still under protest. Management believes that the Company has enough basis in law and evidence to support their claim that the Company is not liable for any tax deficiency; hence, no provisions were recognized in the financial statements.

As at December 31, 2017, the Company does not have any other final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

34.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions, to be disclosed in the notes to financial statements.

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

(a) Taxable Revenues

The Company's taxable revenues from rendering of services amounted to ₱2,239,255,605 for the year ended December 31, 2017.

(b) Deductible Cost of Services

Deductible cost of services for the year ended December 31, 2017 comprises the following:

Claims and losses	₱1,052,112,276
Commission expense	642,281,248
Salaries and allowances	30,033,789
	₱1,724,427,313

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2017, which are subject to regular tax rate are shown below.

Interest income	₱4,120,936
Realized foreign currency gains	993,799
Gain on sale of assets	201,738
	₱5,316,473

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2017 are as follows:

Salaries and allowances	₱81,108,604
Bad debts	40,111,518
Professional fees	29,436,256
Amortization of past service cost	14,885,669
Other services	13,974,491
Depreciation and amortization	12,138,652
Communication, light and water	9,318,022
Other investment expenses	8,813,045
Repairs and maintenance	5,274,770
Taxes and licenses	4,776,327
Directors' fees	4,327,611
Meetings and conferences	3,262,110
Association dues	2,925,376
Trainings and seminars	2,548,597
Fringe benefits	2,054,269
Advertising and promotions	1,963,005
Insurance	1,576,020
Rental	1,278,339
Statutory contributions	1,048,031
Representation and entertainment	703,774
Office supplies	560,009
Donations	500,000
Transportation and travel	147,887
Miscellaneous	28,809,843
	₱271,542,225

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Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

The Board of Directors and the Stockholders
National Reinsurance Corporation of the Philippines
31st floor BPI-PhilAm Life Makati (formerly Ayala Life FGU Center)
6811 Ayala Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of National Reinsurance Corporation of the Philippines for the year ended December 31, 2017, on which we have rendered our report dated March 15, 2018. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) are presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, as amended, of the Philippine Securities and Exchange Commission, and are not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information are the responsibility of management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Sheryl G. Llovido
Partner

CPA Reg. No. 0108392
TIN 221-750-103
PTR No. 6616012, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1554-A (until Apr.14, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-36-2015 (until Nov. 1, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

March 15, 2017

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

Index to Supplementary Schedules

December 31, 2017

Statement of Management's Responsibility for the Financial Statements

Independent Auditor's Report on the SEC Supplementary Schedules
Filed Separately from the Basic Financial Statements

Supplementary Schedules to Financial Statements
(Form 17-A, item 7)

Schedule		No. of Pages
A	Financial Assets	3
B	Amounts Receivable from Directors, Officers, Employees, Related Parties & Principal stockholders other than related parties	2
C	Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements	N/A
D	Intangible Assets/Other Assets	1
E	Long-term Debt	N/A
F	Indebtedness to related parties (Long-term loans from related companies)	N/A
G	Guarantees of securities of other Issuers	N/A
H	Capital Stock	5

Supplementary Schedule to Financial Statements
(SEC Circular 11)

Reconciliation of Retained Earnings for Dividend Declaration	1
Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by adopted by the Security and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2017	4

NATIONAL REINSURANCE CORPORATION OF THE PHILS.

SCHEDULE A. Financial Assets

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes (ii)	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting	Income received and accrued
AVAILABLE FOR SALE SECURITIES				
STOCKS:				
Aboitiz Equity Ventures, Inc.	1,005,250	74,388,500	74,388,500	384,556
Aboitiz Power Corporation	1,139,600	47,350,380	47,350,380	204,000
Alliance Global Group, Inc.	1,955,840	31,293,440	31,293,440	-
Ayala Corp. Class "B" Series 1 Pref.	100,000	52,800,000	52,800,000	2,625,000
Ayala Corporation	100,500	102,007,500	102,007,500	736,978
Ayala Land, Inc.	4,886,104	217,920,238	217,920,238	414,312
Bank of the Philippine Islands	1,136,459	122,851,218	122,851,218	496,080
BDO Unibank, Inc.	856,663	140,492,732	140,492,732	567,406
Cebu Air, Inc.	25,420	2,542,000	2,542,000	256,630
Century Pacific Food, Inc.	523,700	8,473,466	8,473,466	-
DMCI Holdings, Inc.	832,320	11,985,408	11,985,408	999,370
DoubleDragon Properties Corp	500,000	53,350,000	53,350,000	4,048,625
D and L Industries, Inc.	501,100	5,542,166	5,542,166	-
Energy Development Corporation	264,028	1,515,521	1,515,521	28,000
First Gen Corporation	813,600	13,831,200	13,831,200	284,760
First Gen Corporation - Preferred	156,000	17,940,000	17,940,000	1,872,000
First Gen Corporation - Series G Pref.	200,000	23,400,000	23,400,000	2,334,240
Globe Telecom, Inc.	23,775	45,172,500	45,172,500	1,719,331
Globe Telecom, Inc. - Perpetual Pref.	100,000	52,300,000	52,300,000	2,600,300
GT Capital Holdings, Inc.	49,625	64,115,500	64,115,500	35,000
GT Capital Holdings, Inc. - Series A Perpetual	37,120	38,233,600	38,233,600	2,148,281
Int'l Container Terminal Services, Inc.	411,075	43,368,413	43,368,413	1,358,945
JG Summit Holdings, Inc.	1,083,780	78,140,538	78,140,538	316,680
Jollibee Foods Corporation	281,340	71,179,020	71,179,020	405,896
Lopez Holdings Corporation	194,200	1,087,520	1,087,520	20,690
LT Group, Inc.	268,500	5,031,690	5,031,690	66,276
Manila Electric Company	104,660	34,391,276	34,391,276	2,824,092
Megaworld Corporation	9,024,160	46,564,666	46,564,666	353,074
Metro Pacific Investments Corporation	10,678,700	73,149,095	73,149,095	99,025
Metropolitan Bank and Trust Company	575,553	58,361,074	58,361,074	-
Megawide Construction Corporation	304,700	5,484,600	5,484,600	15,235
Petron Corporation	2,211,160	20,276,337	20,276,337	226,780
Puregold Price Club, Inc.	723,930	36,196,500	36,196,500	288,692
Pilipinas Shell Petroleum Corporation	42,140	4,702,824	4,702,824	36,565
Phil. Long Distance Telephone Co.	49,700	73,556,000	73,556,000	680,640
Robinson Land Corporation	1,235,420	26,314,446	26,314,446	-
Robinsons Retail Holdings, Inc.	483,970	46,557,914	46,557,914	70,000
San Miguel Corporation Series 2-B Pref.	133,000	10,174,500	10,174,500	950,742
San Miguel Corporation Series 2-C Pref.	133,000	10,640,000	10,640,000	997,500
San Miguel Corporation Series 2-D Pref.	67,000	5,068,550	5,068,550	373,301
San Miguel Pure Foods Perpetual Pref. 2	50,000	50,000,000	50,000,000	1,414,225
Semirara Mining and Power Corporation	608,220	22,382,496	22,382,496	581,000
Security Bank Corporation	140,610	35,349,354	35,349,354	92,715
SM Investments Corporation	231,763	229,445,370	229,445,370	1,575,702
SM Prime Holdings, Inc.	4,456,190	167,107,125	167,107,125	1,084,793
Universal Robina Corporation	379,790	57,348,290	57,348,290	-
Cirtek Holdings Philippines Corporation - USD perpetua pref. series	250,000	12,480,750	12,480,750	-
Asian Reinsurance Corp	980	32,547,556	32,547,556	-
Makati Sports Club "A"	1	400,000	400,000	-
Benguet Consolidated	18	62	62	-

NATIONAL REINSURANCE CORPORATION OF THE PHILS.

SCHEDULE A. Financial Assets

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes (ii)	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting	Income received and accrued
Calatagan Golf Club, Inc.	1	-	-	-
Heritage Park - Garden	4	880,000	880,000	-
Orchard Golf Club - C	1	380,000	380,000	-
Phil. Hotel C (Hot)	750	96,972	96,972	-
Batangas Venture(BAC)	2,200,000	845,725	845,725	-
Phil. Nuclear (PN)	200	20,000	20,000	-
Roxas	2,628	2,628	2,628	37,285
Roxas C	110,490	4,921,612	4,921,612	1,454,878
Roxas Pref. others C (RXC-1)	189,305	8,432,329	8,432,329	-
Seneca Holdings Inc. (SHI)	-	-	-	-
Shell Co. (SHEP)	660	1,905,974	1,905,974	-
DISPOSED				18,805,897
SUB-TOTAL FOR INVESTMENTS IN STOCKS		2,402,296,575	2,402,296,575	55,885,496
BONDS				
NRCP-MANAGED				
Fixed Rate Treasury Notes				
FXTN 10-60	416,721,213	390,744,813	390,744,813	18,984,243
FXTN 7-57	40,000,000	38,940,939	38,940,939	388,134
FXTN 5-72	195,000,000	194,452,834	194,452,834	1,822,772
RTB 3-8	451,000,000	452,587,544	452,587,544	9,041,610
RTB 5-11	150,000,000	149,362,109	149,362,109	117,413
MATURED/SOLD				498,820
	1,252,721,213	1,226,088,239	1,226,088,239	30,852,992
Mandatory Reserves				
FXTN 10-60	562,500,000	527,436,450	527,436,450	25,625,373
TOTAL PESO BONDS	1,815,221,213	1,753,524,689	1,753,524,689	56,478,365
ROP Bonds				
ROP 24	3,200,000	173,441,290	173,441,290	4,976,441
Corporate Bonds				
BDO 2023	200,000	9,817,757	9,817,757	94,593
FGEN CSUFN	500,000	10,041,523	10,041,523	1,603,283
PCORPM	500,000	25,421,291	25,421,291	1,884,086
RCBC Bond - 2021	500,000	25,203,876	25,203,876	875,731
SMC US$	500,000	25,454,490	25,454,490	1,244,842
SMIC 2019	200,000	10,227,925	10,227,925	430,577
MATURED				43,586
TOTAL DOLLAR BONDS	5,600,000	279,608,152	279,608,152	11,153,139
BPI-MANAGED				
Fixed Rate Treasury Notes				
FXTN 5-72	60,000,000	59,831,641	59,831,641	1,297,223
FXTN 5-73	30,000,000	29,446,892	29,446,892	991,758
FXTN 5-74	50,000,000	49,160,221	49,160,221	1,326,350
FXTN 7-56	60,000,000	59,901,576	59,901,576	1,950,453
FXTN 7-57	60,000,000	58,411,408	58,411,408	1,842,089
FXTN 7-58	135,000,000	128,174,384	128,174,384	4,639,664
FXTN 7-59	39,290,000	38,687,567	38,687,567	438,266

NATIONAL REINSURANCE CORPORATION OF THE PHILS.

SCHEDULE A. Financial Assets

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes (ii)	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting	Income received and accrued
FXTN 10-54	15,632,706	16,387,671	16,387,671	869,331
FXTN 10-60	109,464,475	102,640,985	102,640,985	3,975,990
FXTN 10-61	10,000,000	9,768,801	9,768,801	126,108
FXTN 20-17	169,000,000	206,685,039	206,685,039	9,033,343
FXTN 25-11	67,344,100	56,160,863	56,160,863	4,028,102
RTB 5-11	50,000,000	49,787,370	49,787,370	173,438
MATURED/SOLD				604,373
TOTAL PESO BONDS	855,731,281	865,044,418	865,044,418	31,296,488
RCBC-MANAGED				
Fixed Rate Treasury Notes				
FXTN 5-72	12,000,000	11,966,328	11,966,328	163,472
FXTN 5-73	23,000,000	22,575,951	22,575,951	851,004
FXTN 7-51	18,499,000	18,673,902	18,673,902	650,002
FXTN 7-56	18,000,000	17,970,473	17,970,473	599,973
FXTN 7-57	30,000,000	29,205,704	29,205,704	977,182
FXTN 7-58	22,000,000	20,887,677	20,887,677	703,963
FXTN 10-45	4,000,000	4,006,373	4,006,373	26,430
FXTN 10-59	50,000,000	47,244,458	47,244,458	1,807,653
RTB 3-8	5,000,000	5,017,600	5,017,600	99,622
RTB 10-04	25,000,000	23,295,123	23,295,123	812,517
RTB 15-1	20,000,000	20,812,474	20,812,474	994,036
TBILL 01.31.18	5,000,000	4,990,072	4,990,072	112,774
MATURED/SOLD				149,535
TOTAL PESO BONDS	232,499,000	226,646,135	226,646,135	7,948,163
SUB-TOTAL FOR INVESTMENT IN BONDS		3,124,823,394	3,124,823,394	106,876,155
TOTAL AVAILABLE FOR SALE SECURITIES		5,527,119,969	5,527,119,969	162,761,651
HELD-TO-MATURITY INVESTMENTS				
CORPORATE BONDS				
AC Bond 2023	25,000,000	23,136,115	23,217,979	980,000
AC Bond 2025	27,500,000	25,638,765	27,205,297	1,181,904
AEV Series A 2020	50,000,000	50,361,015	49,304,151	2,236,100
AEV Series B 2022	50,000,000	49,909,304	49,807,175	2,502,800
ALI Bond 2019	50,000,000	50,076,803	50,932,227	2,812,500
EDC Bond 2020	60,000,000	59,160,012	56,382,639	2,494,980
FDC Bond 2024	20,000,000	20,529,662	21,030,494	1,229,160
FLI Bond 2019	20,000,000	20,533,976	20,488,312	1,254,620
FLI Bond 2020	50,000,000	49,941,910	50,206,154	2,428,100
FLI Bond 2022	50,000,000	50,013,582	50,731,339	2,678,350

NATIONAL REINSURANCE CORPORATION OF THE PHILS.

SCHEDULE A. Financial Assets

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes (ii)	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting	Income received and accrued
JGS Bond 2019	50,000,000	50,852,365	50,731,501	2,615,850
PCOR 21 R19	75,000,000	73,960,733	72,664,461	3,002,400
Rockwell 2021	65,000,000	65,086,077	65,219,274	2,654,817
SM 23 R21	72,000,000	74,062,195	72,670,127	3,714,480
SMB Bond 202	70,000,000	73,201,804	72,203,469	4,620,000
SMC Series B 2024	67,000,000	66,999,382	63,544,741	2,950,233
SMC Global Power Holdings Corporation 2021	45,000,000	43,771,682	43,487,365	1,955,610
SMIC Bond 2019	50,000,000	50,948,048	51,286,906	3,000,000
SMIC Bond 2022	80,000,000	86,888,889	86,085,674	4,592,847
SMPH Bond 2021	50,000,000	49,615,041	49,831,106	2,254,750
MATURED				3,981,882
TOTAL HELD-TO-MATURITY INVESTMENTS	1,026,500,000	1,034,687,360	1,027,030,391	55,141,383
LOANS AND RECEIVABLE				
LONG TERM TIME DEPOSIT & INVESTMENT				
EWBC	50,000,000	50,000,000	50,000,000	4,404,167
Matured				2,201,599
BANK NOTE				
EWBC	50,000,000	50,000,000	50,000,000	2,687,500
ACCRUED INTEREST RECEIVABLE		39,998,404	39,998,404	
DIVIDENDS RECEIVABLE		5,008,500	5,008,500	
OTHER ACCOUNTS RECEIVABLE		56,881,280	56,881,280	
TOTAL LOANS AND RECEIVABLE		201,888,184	201,888,184	9,293,266
OTHER ASSET				
FUNDS AT LLOYDS		186,114,728	149,439,000	
TOTAL OTHER ASSET		186,114,728	149,439,000	-
GRAND TOTAL FINANCIAL ASSETS		6,949,810,241	6,905,477,544	227,196,300

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders' (Other than Related Parties)

December 31, 2017

						Deductions		Ending Balance		
	Name of employee	Designation	Date of Availment	Bal. at beg. of period	Additions	Amounts collected	Amounts Written off	Current	Non-Current	Balance at end of period
A. Emergency Loans										
1	Avila, Lylibeth	Rank & File	5/23/2018	7,842	20,000	20,060	-	7,782	-	7,782
2	Castillo, Jocelyn	Rank & File	2/2/2017	4,366	20,000	21,825	-	2,542	-	2,542
3	Cruz, Bethzayda	Rank & File	5/23/2018	-	20,000	6,403	-	13,598	-	13,598
4	Fidelino, Claudia Karen S	Senior Asst. Vice President	10/16/2017	-	80,000	15,886	-	64,114	-	64,114
5	Lacson, Jeffrey	Vice President	2/23/2016	14,007	-	14,007	-	-	-	-
6	Magalona, Natalie	Manager	4/18/2017	-	50,000	32,664	-	17,336	-	17,336
7	Magtalas, Ivy I.	Senior Manager	11/7/2017	25,000	50,000	30,928	-	44,072	-	44,072
8	Malana, Jackilyn	Rank & File	11/15/2016	17,431	-	17,431	-	-	-	-
9	Relota, Eireen	Asst. Manager	4/10/2017	3,502	20,000	17,419	-	6,083	-	6,083
10	Tumangday, Raul	Senior Manager	4/18/2017	48,034	50,000	59,979	-	38,055	-	38,055
11	Velasquez, Rolly	Manager	2/2/2017	-	50,000	43,418	-	6,582	-	6,582
12	Villamer, Rubylen	Rank & File	6/16/2017	-	20,000	9,701	-	10,299	-	10,299
13	Yamat, Jennifer	Rank & File	5/20/2016	8,999	-	8,999	-	-	-	-
14	Yap, Michellle	Rank & File	5/23/2018	-	20,000	11,375	-	8,625	-	8,625
				129,182	400,000	310,094	-	219,087	-	219,087
B. Car Facility Loan										
1	Benito, Noli Mario	Vice President	2/23/2015	342,584		342,584			-	-
2	Besabe, Blesilda Santos	Senior Asst. Vice President	7/29/2015	453,562		113,810			339,752	339,752
3	Camince, Enrico	Manager	10/30/2015	339,556		77,833			261,723	261,723
4	De Leon, Dino Angeles	Asst. Vice President	6/23/2015	444,421		444,421			-	-
5	Dela Paz, M.	Manager	3/31/2015	291,642		81,817			209,825	209,825
6	Fidelino, Karen	Senior Asst. Vice President	8/29/2014	349,587		122,455			227,132	227,132
7	Gomez, Hannah Lee	Manager	8/20/2015	323,850		323,850			-	-
8	Lacson, Jeffrey	Senior Asst. Vice President	1/12/2015	255,260		255,260			-	-
9	Lorenzo, Cherry Lou R.	Asst. Vice President	8/31/2016	554,545		102,081			452,464	452,464
10	Lucos, Honarata S.	Asst. Vice President	6/21/2017	-	600,000	49,803			550,197	550,197
11	Magalona, Natalie	Manager	9/18/2017	-	420,000	17,257			402,743	402,743
12	Magtalas, Ivy I.	Senior Manager	8/17/2016	396,914		73,064			323,850	323,850
13	Marites, Balajadia	Senior Manager	11/28/2017	-	480,000	6,530			473,470	473,470
14	Merida, Anelisa Trinidad M.	Asst. Vice President	10/24/2016	583,619		102,997			480,623	480,623
15	Papa, Regina	Senior Asst. Vice President	9/28/2016	575,347		103,685			471,662	471,662
16	Ramos, Regina S.	Vice President	1/31/2017	-	440,000	68,091			371,909	371,909
17	Salonga, Daisy Cua	Vice President	2/20/2017	-	600,000	255,847			344,153	344,153
18	Suyo, Edilita	Manager	10/13/2017	-	420,000	14,357			405,643	405,643
19	Tanjuakio, Viktor	Vice President	9/12/2014	259,952		89,502			170,450	170,450
20	Tumangday, Raul	Senior Manager	6/29/2016	431,327		82,923			348,404	348,404
21	Velasquez, Rolly	Manager	11/7/2017	-	420,000	8,585			411,415	411,415
				5,602,167	3,380,000	2,736,752	-	-	6,245,415	6,245,415

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders' (Other than Related Parties)

December 31, 2017

						Deductions		Ending Balance		
	Name of employee	Designation	Date of Availment	Bal. at beg. of period	Additions	Amounts collected	Amounts Written off	Current	Non-Current	Balance at end of period
C. Receivables from Employee (HMO & Car Insurance)										
1	Besabe, Blesilda Santos	Senior Asst. Vice President		9,162	47,603	35,661		21,105		21,105
2	Balajadia, Marites B	Senior Manager		-	50,861	27,451		23,410		23,410
3	Camince, Enrico	Manager		10,190		10,190		-		-
4	De Guzman, Darius M	Rank & File		-	49,247	11,971		37,275		37,275
5	De Leon, Dino Angeles	Asst. Vice President		5,420		5,420		-		-
6	Dela Paz, M.	Manager		3,772	10,543	11,679		2,636		2,636
7	Fidelino, Karen	Senior Asst. Vice President		8,213	14,651	8,213		14,651		14,651
8	Gomez, Hannah Lee	Manager		5,658		5,658		-		-
9	Ignes, Nikkos Josef L	Asst. Vice President		-	61,560	25,650		35,910		35,910
10	Lacson, Jeffrey	Vice President		305		305		-		-
11	Lorenzo, Cherry Lou R.	Asst. Vice President		7,860	76,266	55,476		28,649		28,649
12	Lucos, Honorata S	Asst. Vice President		-	22,129	11,064		11,064		11,064
13	Magalona, Nathalie S	Manager			69,844	39,324		30,519		30,519
14	Magtalas, Ivy I.	Senior Manager		8,998	9,858	16,130		2,726		2,726
15	Melendez, Jackilyn M	Rank & File			20,520	10,260		10,260		10,260
16	Mendoza, Rojane C	Rank & File			41,040	30,126		10,914		10,914
17	Merida, Anelisa Trinidad M.	Asst. Vice President		12,829	79,754	47,805		44,777		44,777
18	Ramos, Regina S	Vice President		-	128,107	104,760		23,347		23,347
19	Reyes, Alexander Dominador L	Senior Vice President			14,561	1,028		13,534		13,534
20	Salonga, Daisy C	Vice President		-	12,704	10,608		2,096		2,096
21	Tanjuakio, Viktor	Vice President		7,931		7,464		467		467
22	Tumangday, Raul	Senior Manager		8,308	9,530	13,073		4,765		4,765
23	Velasquez, Rolly M	Manager		-	13,165	1,646		11,519		11,519
24	Villamer, Rubylen T	Rank & File		-	20,520	10,260		10,260		10,260
				88,645	752,461	501,223	-	339,884	-	339,884
	GRAND TOTAL			5,819,993	4,532,461	3,548,069	-	558,971	6,245,415	6,804,386

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

Schedule C - Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

December 31, 2017

				Deductions		Ending Balance		
Name of employee	Designation	Bal. at beg. of period	Additions	Amounts collected	Amounts Written off	Current	Non-Current	Balance at end of period

NA

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

Schedule D - Intangible Assets/Other Assets

December 31, 2017

	Description (i)	Beginning Balance	Additions at cost (ii)	Deduction: Charged to cost & exp.	Deduction: Charged to other accts.	Deduction: Other charges add'l.(deductions) (iii)	Ending Balance
A.	Intangible Assets						
1	SAP Materials Management Implementation	-	2,887,175				2,887,175
2	Document Management System-Archive One 8	-	6,628,564		3,977,138		2,651,426
3	Risk Explorer	-	3,509,142	643,343	390,046		2,475,753
4	Microsoft Volume License - Servers	-	988,246	82,354			905,892
5	RMS Dashboard Software	572,774		190,925			381,849
6	Proportional Reinsurance Treaty Pricing Tool	-	400,911		153,683		247,228
7	Microsoft Office 2016	-	368,028	214,844	47,493		105,691
8	Microsoft SQL Server Standard with 5 user CALS	-	132,143		65,411		66,732
9	SAP Software Licences	-	52,469	3,498			48,971
10	MS Visio Professional 2013 Single OLP	-	59,464		32,705		26,759
11	Windows 8.1 Pro SNGL OLP NL	-	97,768		74,206		23,562
12	Microsoft OS Windows 2012 R2-Standard Edition	-	42,857		21,214		21,643
13	MS Visio Pro 2013 SNGL OLP NL	-	61,339		27,327		34,013
14	Adobe PDF Converter Acrobat Professional 11	-	20,491		15,891		4,600
15	Windows 7 Professional Edition License	-	34,781		34,433		348
16	MS Office Home & Business	-	11,071		10,961		111
17	Able2Extract Professional Converter	-	6,290		6,227		63
18	RMS LIFE MODULE CUSTOMISATION	3,187,085				3,187,085	-
19	ARIMA Insurance Software	1,527,860		1,527,860			-
20	RMS GL INTERFACE	470,151				470,151	-
21	RMS TRANSACTION REPORT	255,069		74,655		180,415	-
22	RMS CAT Accumulation Report	215,895				215,895	-
		6,228,834	15,300,740	2,737,478	4,856,735	4,053,546	9,881,815
B	Other Assets						
1	Input VAT	142,366,220	90,978,149	2,433,824	15,677,481		215,233,064
2	Funds at Lloyds	149,439,000	36,675,728				186,114,728
3	Creditable Expanded withholding Tax	147,723,611	29,628,395	74,580,761			102,771,245
4	Defined benefit asset	14,068,874	3,612,946	8,441,983			9,239,837
5	Deferred Withholding VAT (GSIS)	9,202,886					9,202,886
6	Prepayments	7,762,079	9,107,318	7,762,079			9,107,318
7	Deferred expanded withholding tax	7,311,630	3,139,748		2,785,145		7,666,232
8	Investment properties	2,824,909					2,824,909
9	Deposit	824,403	528,436		509,978		842,861
10	Security Fund	643,925					643,925
11	Deferred Input Vat	77,933,665			77,487,058		446,607
12	Others		138,011				138,011
13	Creditable Withholding Vat	774,360			774,360		-
14	Allowance for Impairment		(215,233,061)				(215,233,061)
	Sub-Total	560,875,562	(41,424,330)	93,218,647	97,234,023	-	328,998,562
	GRAND TOTAL	567,104,396	(26,123,590)	95,956,125	102,090,757	4,053,546	338,880,377

NATIONAL REINSURANCE CORPORATION OF THE PHILS.

Schedule E - Long-term Debt

December 31, 2017

Title of Issue and type of obligation (i)	Amount Authorized by Indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)

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NATIONAL REINSURANCE CORPORATION OF THE PHILS.

Schedule F - Indebtedness To Related Parties (Long-Term Loans from Related Companies)

December 31, 2017

Name of related party (i)	Balance at beginning of period	Balance at end of period (ii)

NA

NATIONAL REINSURANCE CORPORATION OF THE PHILS.

Schedule G - Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is file	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement is file	Nature of guarantee (ii)

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NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

Schedule H - Capital Stock

	Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
					Related parties	Directors, officers and employees	Others
1	REGINA CAPITAL DEV. CORP. 018400	Common	6,000	NIL			6,000
2	REGINA CAPITAL DEV. CORP.018414	Common	3,000	NIL			3,000
3	ALEGAR CORPORATION	Common	32,600	NIL			32,600
4	ALPHA INSURANCE & SURETY CO., INC.	Common	1,578,900	NIL			1,578,900
5	ANSALDO GODINEZ & CO. INC.	Common	2,451,000	NIL			2,451,000
6	AP MADRIGAL STEAMSHIP CO. INC.	Common	3,300	NIL			3,300
7	ARAVAL, INC	Common	77,100	NIL			77,100
8	ASIA UNITED INSURANCE, INC	Common	1,252,300	NIL			1,252,300
9	B.F. GENERAL INSURANCE CO., INC.	Common	36,900	NIL			36,900
10	BANCOM DEVELOPMENT CORP.	Common	8,300	NIL			8,300
11	BANK OF THE PHILIPPINE ISLANDS	Common	290,795,500	NIL	290,795,500		-
12	BENEFICIAL LIFE INSURANCE COMPANY INC.	Common	3,193,500	NIL			3,193,500
13	BF LIFE INSURANCE CORP.	Common	397,300	NIL			397,300
14	BPI/MS INSURANCE CORP.	Common	3,347,500	NIL	3,347,500		-
15	CENTENNIAL GUARANTEE ASSURANCE CORP.	Common	265,200	NIL			265,200
16	CONSOLIDATED INSURANCE CO., INC.	Common	144,600	NIL			144,600
17	COOPERATIVE INSURANCE SYSTEM OF THE PHILS.	Common	72,900	NIL			72,900
18	COUNTRY BANKERS INS. CORP.	Common	2,220,300	NIL			2,220,300
19	COUNTRY BANKERS LIFE INSURANCE CORP.	Common	30,000	NIL			30,000
20	EASTERN ASSURANCE & SURETY CORPORATION	Common	1,872,400	NIL			1,872,400
21	EMPIRE INSURANCE COMPANY	Common	7,498,900	NIL			7,498,900
22	EMPIRE INSURANCE COMPANY	Common	500,000	NIL			500,000
23	FEDERAL PHOENIX ASSURANCE COMPANY INC.	Common	3,786,300	NIL			3,786,300
24	FGU INSURANCE CORPORATION	Common	36,126,000	NIL	36,126,000		-
25	FIDELITY INSURANCE COMPANY INC.	Common	818,800	NIL			818,800
26	FIRST INTEGRATED BONDING & INS. CO INC.	Common	275,300	NIL			275,300
27	FIRST LIFE FINANCIAL COMPANY INC.	Common	485,700	NIL			485,700
28	GENERAL INSURANCE & SURETY CORPORATION	Common	313,300	NIL			313,300
29	GREAT DOMESTIC INS. CO. OF THE PHILS.	Common	544,700	NIL			544,700
30	HYDEE MANAGEMENT & RESOURCE CORPORATION	Common	264,000	NIL			264,000
31	INSURANCE CO. OF NORTH AMERICA	Common	705,600	NIL			705,600
32	INSURANCE OF THE PHIL. ISLANDS CO., INC.	Common	59,100	NIL			59,100
33	INVESTOR'S ASSURANCE CORP.	Common	99,000	NIL			99,000
34	LUZON INSURANCE & SURETY CO., INC.	Common	32,300	NIL			32,300
35	MAA GENERAL ASSURANCE PHILS., INC.	Common	271,800	NIL			271,800
36	MABASA & COMPANY, INC.	Common	36,500	NIL			36,500
37	MALAYAN INSURANCE CO., INC.	Common	21,600	NIL	21,600		-
38	MANILA INSURANCE COMPANY INC.	Common	1,148,400	NIL			1,148,400
39	MANILA SURETY & FIDELITY CO., INC.	Common	3,168,400	NIL			3,168,400
40	MARILEX REALTY DEVELOPMENT CORPORATION	Common	1,933	NIL			1,933
41	MONARCH INSURANCE CO., INC.	Common	1,674,000	NIL			1,674,000
42	NEW INDIA ASSURANCE CO., LTD.	Common	4,168,300	NIL			4,168,300
43	ORIENTAL ASSURANCE CORPORATION	Common	3,560,800	NIL			3,560,800
44	PACIFIC UNION INSURANCE CO.	Common	1,351,600	NIL			1,351,600
45	PARAMOUNT LIFE & GENERAL INS. CORP.	Common	940,900	NIL			940,900
46	PCD NOMINEE CORP. (F)	Common	1,664,690,387	NIL	820,181,500	2,287,001	842,221,886
47	PCD NOMINEE CORP. (NF)	Common	5,028,910	NIL			5,028,910
48	PEOPLE'S TRANS-EAST ASIA INS. CORP.	Common	2,435,300	NIL			2,435,300
49	PHIL. INT'L LIFE INSURANCE CO., INC.	Common	4,450,200	NIL			4,450,200
50	PHIL. PHOENIX SURETY & INS. INC.	Common	134,900	NIL			134,900
51	PHIL. PRUDENTIAL LIFE INS. CO., INC.	Common	1,771,900	NIL			1,771,900
52	PHILIPPINE AMERICAN LIFE INSURANCE CO.	Common	8,628,600	NIL			8,628,600
53	PHILIPPINE BRITISH ASSURANCE CO., INC.	Common	590,400	NIL			590,400
54	PHILIPPINE GENERAL INSURANCE CORP.	Common	750,000	NIL			750,000
55	PHILIPPINE REMNANTS CO., INC.	Common	399,300	NIL			399,300
56	PHILIPPINES FIRST INSURANCE CO., INC.	Common	11,075,200	NIL			11,075,200
57	PLARIDEL SURETY & INSURANCE COMPANY INC.	Common	162,500	NIL			162,500
58	PNB GENERAL INSURERS CO., INC.	Common	1,000	NIL			1,000
59	REPUBLIC SURETY & INSURANCE COMPANY INC.	Common	542,300	NIL			542,300
60	RITA LEGARDA., INC.	Common	13,700	NIL			13,700

	Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
					Related parties	Directors, officers and employees	Others
61	RIVARA, INC.	Common	8,700	NIL			8,700
62	SM SAVINGS & LOAN ASSOCIATION	Common	70,000	NIL			70,000
63	SOUTH SEA SURETY & INS. CO., INC.	Common	4,152,700	NIL			4,152,700
64	STERLING INSURANCE CO., INC.	Common	2,453,900	NIL			2,453,900
65	STERLING INSURANCE COMPANY, INC.	Common	300,000	NIL			300,000
66	STRONGHOLD INSURANCE CO., INC.	Common	2,817,600	NIL			2,817,600
67	SUN LIFE ASSURANCE CO. OF CANADA	Common	305,700	NIL			305,700
68	SUSANA REALTY	Common	600	NIL			600
69	TABACALERA INSURANCE CO. INC.	Common	1,278,700	NIL			1,278,700
70	THE PREMIER INSURANCE & SURETY CORPORATION	Common	2,456,100	NIL			2,456,100
71	TIMES SURETY & INSURANCE CO., INC.	Common	7,500	NIL			7,500
72	TRAVELLER'S INSURANCE & SURETY CORP.	Common	696,100	NIL			696,100
73	UNION BANK OF THE PHILIS.	Common	5,000	NIL			5,000
74	UNION INSURANCE SOCIETY OF CANTON LTD.	Common	2,197,300	NIL			2,197,300
75	UNITED INSURANCE CO., INC	Common	2,006,600	NIL			2,006,600
76	UNITED LIFE ASSURANCE CORP.	Common	2,518,100	NIL			2,518,100
77	UTILITY ASSURANCE CORP.	Common	1,837,900	NIL			1,837,900
78	VISAYAN SURETY & INSURANCE CORP.	Common	3,545,500	NIL			3,545,500
79	VISAYAN SURETY & INSURANCE CORPORATION	Common	200,000	NIL			200,000
80	WORLDWIDE INSURANCE & SURETY COMPANY	Common	100	NIL			100
81	ZENITH INSURANCE CORPORATION	Common	805,800	NIL			805,800
82	ADELITA VERGEL DE DIOS	Common	171,500	NIL			171,500
83	ALICIA S. CRUZ	Common	6,400	NIL			6,400
84	ALMEDA, VALERIANO &/OR TITA JANE	Common	40,000	NIL			40,000
85	ALVENDIA, JOSE P.	Common	100	NIL			100
86	ANDRES E. SIOCHI	Common	11,700	NIL			11,700
87	ANGELITA U. REYES	Common	2,800	NIL			2,800
88	ANSALDO, GODINEZ &CO INC.FAO: MARK V. PANGIL	Common	254,000	NIL			254,000
89	ANTONIO P. MADRIGAL	Common	4,200	NIL			4,200
90	ANTONIO ROXAS CHUA	Common	1,089,500	NIL			1,089,500
91	ANTONIO S. ROXAS-CHUA JR.	Common	24,900	NIL			24,900
92	ARAGON, BIENVENIDO M.	Common	200	NIL			200
93	AYUSTE JR., RAFAEL G.	Common	100,000	NIL		100,000	-
94	BANZON JR., JOSE G.	Common	54,000	NIL			54,000
95	BASCO, AMERFIL V.	Common	11,800	NIL			11,800
96	BELTRAN, AURELIO M.	Common	100	NIL			100
97	BERNARDO, ROMEO L.	Common	100	NIL		100	-
98	BETTY RC YAO	Common	13,400	NIL			13,400
99	BUENO, FRANCIS EDWIN I.	Common	100	NIL			100
100	CABANGON CHUA, ANTONIO L.	Common	100	NIL			100
101	CABREZA, JOCELYN DE GUZMAN	Common	1	NIL		1	-
102	CALLAR, CYRIL C. DEL CALLAR &/OR JOSEPHINE S	Common	1,896,000	NIL			1,896,000
103	CARREDO, RAMON M.	Common	200	NIL			200
104	CASTANEDA JR., CONSTANCIO T.	Common	100	NIL			100
105	CASTRO, WILLIAM Y.	Common	15,000	NIL			15,000
106	CHAVEZ, RAMON NONATO D.	Common	5,000	NIL			5,000
107	CHENG, BERCK Y.	Common	500,000	NIL			500,000
108	CHENG, GEMA O.	Common	100	NIL			100
109	CHUA, VICKY B.	Common	1,000	NIL			1,000
110	CONCEPCION S. ARANETA	Common	700	NIL			700
111	CONRADO BENITEZ	Common	7,400	NIL			7,400
112	CONSING, CEZAR P.	Common	50	NIL		50	-
113	CONSUELO P. MADRIGAL	Common	1,200	NIL			1,200
114	CORPUS, SERGIO	Common	100	NIL			100
115	COTOCO, DOMINGO	Common	100	NIL			100
116	COTOCO, NAZARIO	Common	100	NIL			100
117	CRISOL, ROBERTO B.	Common	1,000	NIL			1,000
118	CRUZ JR., ROMAN A.	Common	100	NIL			100
119	CRUZ, MARY ANN PINEDA DELA	Common	3,000	NIL			3,000
120	CRUZ, NAPOLEON D. CRUZ SR. &/OR LUISA I.	Common	5,000	NIL			5,000
121	CUA, PAMELA S.	Common	6,000	NIL			6,000
122	CUYEGKENG, ROSARIO W.	Common	100	NIL			100
123	DANILO J. CABERO	Common	7,200	NIL			7,200
124	DAVID C. COYUKIAT	Common	200	NIL			200
125	DAVID C. MERCADO	Common	27,300	NIL			27,300

	Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
					Related parties	Directors, officers and employees	Others
126	DEE, HELEN Y.	Common	100	NIL		100	-
127	DESIDERIO JR., JOSE O.	Common	100	NIL			100
128	DESIDERIO, RODOLFO O.	Common	100	NIL			100
129	DIZON, VLADEMIR S.	Common	26,000	NIL			26,000
130	DOMINO, JUAN	Common	100	NIL			100
131	EDITHA B. GERONIMO	Common	15,000	NIL			15,000
132	EDUARDO ECHAUZ	Common	100	NIL			100
133	ENRIQUE M. REYES	Common	752,600	NIL			752,600
134	ESTATE OF VICENTE M. WARNS	Common	600	NIL			600
135	EUGENIA G. SILVA	Common	2,800	NIL			2,800
136	FERNANDEZ, JAIME C.	Common	100	NIL			100
137	FERNANDEZ, VICENTE T.	Common	100	NIL			100
138	FLORES, WALDO Q.	Common	25,000	NIL			25,000
139	FRANCISCO CORPUS	Common	100	NIL			100
140	FRANCISCO JOSE ELIZALDE YTURRALDE	Common	75,700	NIL			75,700
141	FRANCISCO M. BAYOT	Common	1,100	NIL			1,100
142	FRANCISCO, CLEOTILDE B.	Common	100	NIL			100
143	FRANCISCO, ROLANDO B.	Common	100	NIL			100
144	GALLAGA, RAFAEL C.	Common	100	NIL			100
145	GALVEZ, ANTONIO R.	Common	6,000	NIL			6,000
146	GARCIA, WINSTON F.	Common	442,300	NIL			442,300
147	GERARDO A.S. MADRIGAL	Common	1,600	NIL			1,600
148	GILI JR., GUILLERMO F.	Common	38,000	NIL			38,000
149	GO, GEORGE L.	Common	1,000	NIL			1,000
150	GO, IRENE CHAN	Common	185,000	NIL			185,000
151	GONZALEZ, GIZELA M.	Common	600	NIL			600
152	GOZO, DANILO A.	Common	1,000	NIL			1,000
153	HANS MENZI	Common	2,100	NIL			2,100
154	HARI, ABDON M.	Common	100	NIL			100
155	HIDALGO, AUGUSTO PEDROSA III	Common	1,000	NIL		1,000	-
156	HONORATA S. LUCOS	Common	15,000	NIL		15,000	-
157	INDON, REYNALDO P.	Common	100	NIL			100
158	ISABELITA M. CABANGUNAY	Common	14,500	NIL			14,500
159	JACINTO JR., FERNANDO P.	Common	100	NIL			100
160	JACQUELINE M. HALILI CO	Common	293,800	NIL			293,800
161	JAYMERLI C. BAUTISTA	Common	298,100	NIL			298,100
162	JENNIFER C. MARTIN	Common	294,000	NIL			294,000
163	JOSE R. RODAS	Common	100	NIL			100
164	JUAN, FRISCO F. SAN	Common	100	NIL			100
165	JUNTEREAL JR., FILEMON A.	Common	100	NIL			100
166	KAWSEK, PAUL L.	Common	80,000	NIL			80,000
167	KO PIO, RODERICK C.	Common	100	NIL			100
168	KO PIO, RUFFY C.	Common	100	NIL			100
169	KO PIO, RUFINO H.	Common	100	NIL			100
170	KOH, ANTONIO M.	Common	100	NIL			100
171	LAO, EDMUND Y.	Common	6,000	NIL			6,000
172	LA'O, LUIS C.	Common	100	NIL			100
173	LEE, JOSE C.	Common	100	NIL			100
174	LEE, LEA B.	Common	250,000	NIL			250,000
175	LEON, BEATRIZ P. DE	Common	1,933	NIL			1,933
176	LEON, JAIME S. DE	Common	100	NIL			100
177	LICAROS JR., GREGORIO B.	Common	100	NIL			100
178	LICAROS, ABELARDO B.	Common	100	NIL			100
179	LILY VICTORIA G. GALO	Common	2,800	NIL			2,800
180	LIM, IAN VINCENT &/OR FLORA &/OR ERNESTO	Common	86,000	NIL			86,000
181	LIM, JAMES ORTEGA	Common	100	NIL			100
182	LIM, PEDRO C.	Common	3,000	NIL			3,000
183	LIM, ROQUE A.	Common	66,000	NIL			66,000
184	LO, JOSEPHINE NG	Common	71,000	NIL			71,000
185	LOCSIN, JULIAN J.	Common	100	NIL			100
186	LOURDES S. RODAS	Common	1,100	NIL			1,100
187	LUCINA OCAMPO LEGASPI	Common	3,800	NIL			3,800
188	LUCITA R.C. LIMPE	Common	13,400	NIL			13,400
189	LUZ NER CRUZ	Common	13,400	NIL			13,400
190	MA. LUISA MADRIGAL VASQUEZ	Common	400	NIL			400

	Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
					Related parties	Directors, officers and employees	Others
191	MACARIA P. MADRIGAL	Common	2,300	NIL			2,300
192	MACROHON JR., IGNACIO	Common	100	NIL			100
193	MALLILLIN, MELECIO C.	Common	100	NIL			100
194	MALONG, ALEJANDRO V.	Common	100	NIL			100
195	MAMERTA ANDAYA	Common	2,100	NIL			2,100
196	MANANSALA, CONSUELO D.	Common	1,000	NIL			1,000
197	MANUEL A. TORRES JR.	Common	79,100	NIL			79,100
198	MANUEL B. ENRIQUEZ	Common	500	NIL			500
199	MANUEL DYTOC	Common	900	NIL			900
200	MANUEL U. CO	Common	100	NIL			100
201	MARIANO JR., JORGE T.	Common	100	NIL			100
202	MAURO PRIETO	Common	11,600	NIL			11,600
203	MENDIOLA, JORGE T.	Common	20,000	NIL			20,000
204	MERCADO JR., DANIEL M.	Common	100	NIL			100
205	MERCADO JR., DAVID P.	Common	100	NIL			100
206	MERCEDES U. GONZALES	Common	200	NIL			200
207	MORALES, RHODORA B.	Common	100	NIL			100
208	NAPA, ERMILANDO D.	Common	1,000	NIL		1,000	-
209	NATIVIDAD CANTAJAL	Common	4,800	NIL			4,800
210	NELIA M. MALUBAY	Common	54,000	NIL			54,000
211	NERA, MEDEL T.	Common	1,000	NIL		1,000	-
212	NORMANDO ANTONIO S. AGUILAR	Common	16,900	NIL			16,900
213	OLIVA, DULCE MARIA S.	Common	20,000	NIL			20,000
214	ONGKINGCO, FLORENCIO N.	Common	100	NIL			100
215	OWEN NATHANIEL S. AU ITF LI MARCUS M. AU	Common	200	NIL			200
216	PA, ANA GO &/OR GO KIM	Common	7,500,000	NIL			7,500,000
217	PACITA RODRIGUEZ	Common	13,400	NIL			13,400
218	PADIERNOS, GAY G.	Common	100	NIL			100
219	PAZ VDA. DE RODAS	Common	6,200	NIL			6,200
220	PEDRO P. BENEDICTO JR.	Common	15,800	NIL			15,800
221	PETER T. ROXAS-CHUA	Common	13,400	NIL			13,400
222	PRIETO JR., BENITO R.	Common	1,933	NIL			1,933
223	PRIETO, MARTIN L.	Common	967	NIL			967
224	PRIETO, MAURO R.	Common	1,934	NIL			1,934
225	PRIETO, MERCEDES R.	Common	1,933	NIL			1,933
226	PUYAT, ALFONSO G.	Common	100	NIL			100
227	RAFAEL C. GALLAGA	Common	13,500	NIL			13,500
228	RAMAJO, HONORIO J.	Common	100	NIL			100
229	REMO JR., JOSE H.	Common	100	NIL			100
230	REYES, CARLOS, R.	Common	12,000	NIL			12,000
231	REYES, OSCAR C.	Common	200	NIL			200
232	REYES, ROMAN FELIPE S.	Common	1,000	NIL			1,000
233	ROMAN, VICTOR B.	Common	100	NIL			100
234	ROMEO ECHAUZ	Common	400	NIL			400
235	ROMUALDEZ, FERDINAND MARTIN G.	Common	3,000,000	NIL			3,000,000
236	ROSARIO M. LLORA	Common	7,100	NIL			7,100
237	ROSARIO RODAS	Common	900	NIL			900
238	SALCEDO JR., ALFONSO L.	Common	100	NIL			100
239	SALUDARES, NORA MALUBAY	Common	1	NIL			1
240	SALVADOR, BIENVENIDO C.	Common	100	NIL			100
241	SAUCO, NORBERTO V.	Common	100	NIL			100
242	SEVERINO T. ROXAS-CHUA	Common	13,400	NIL			13,400
243	SUDHAKAR, RANIPETA RANI	Common	100	NIL			100
244	SUNGA, PETER EDWIN J. SUNGA &/OR ROSANNA MAR	Common	300,000	NIL			300,000
245	SUNGA, PROSPERO S. SUNGA &/OR CLARITA J.	Common	375,000	NIL			375,000
246	SUSANA B. ORTIGAS	Common	1,100	NIL			1,100
247	TAN KIM CHIONG DE ROXAS-CHUA	Common	92,300	NIL			92,300
248	TAN, LOZANO A.	Common	100,000	NIL			100,000
249	TANCO, EUSEBIO H.	Common	100	NIL			100
250	TEO, STEPHEN T. TEO &/OR TERESITA R.	Common	29,000	NIL			29,000
251	TEODORO, MONICA P.	Common	967	NIL			967
252	TIU, ALFONSO SY	Common	6,000	NIL			6,000

	Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
					Related parties	Directors, officers and employees	Others
253	TRINIDAD, ARMANDO C.	Common	100	NIL			100
254	TURNER, PHILIP &/OR ELNORA	Common	1,000	NIL			1,000
255	UNSON JR., ALEJANDRO F.	Common	100	NIL			100
256	UNSON JR., EDMUNDO L.	Common	100	NIL			100
257	UNSON, MA. ANICIA F.	Common	100	NIL			100
258	UY JR., CARLOS F.	Common	100	NIL			100
259	UY, ALVIN CHRIS SY	Common	6,000	NIL			6,000
260	UY, FRANCISCO A.	Common	100,000	NIL			100,000
261	VALENCIA, JESUS SAN LUIS	Common	2,100	NIL			2,100
262	VERGARA, ROBERT G.	Common	1,000	NIL			1,000
263	VICENTE A.S. MADRIGAL	Common	1,600	NIL			1,600
264	VICENTE B. VILLARAMA JR.	Common	2,800	NIL			2,800
265	VICENTE M. BAYOT	Common	1,100	NIL			1,100
266	VICTORIANO G. BELIZARIO	Common	300	NIL			300
267	VILLAMAYOR, ANTONIO S.	Common	100	NIL			100
268	WONGAIHAM, ANTHONY T.	Common	200	NIL			200
269	WU, JOLI CO	Common	344,100	NIL		344,100	-
270	YAN, LUCIO W. YAN &/OR CLARA Y.	Common	50,000	NIL			50,000
271	YAO, BONIFACIO N.	Common	100	NIL			100
272	YAO, WILSON A.	Common	30,000	NIL			30,000
273	YUCHENGCO, YVONNE S.	Common	100	NIL		100	-
274	ANTONIO M. RUBIN	Common	1,000				1,000
275	ELIAS BENIZA DULALIA	Common	1,000				1,000
276	LUGA, ALAN R.	Common	1			1	-
277	URCIA, LUIS C.	Common	50			50	-
	Total		2,123,605,600		1,150,472,100	2,749,503	970,383,997

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
31st floor BPI-Philam Life Makati, 6811 Ayala Avenue, Makati City

Reconciliation of Retained Earnings Available for Dividend Declaration

For the Year Ended December 31, 2017

Unappropriated Retained Earnings at Beginning of Year		₱ 5,846,263
Net Profit Realized during the Year		
Net profit per audited financial statements	₱ 50,099,014	
Unrealized foreign exchange loss	31,692,135	81,791,149
Other Transactions During the Year		
Appropriated for contingencies		(5,009,901)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year		₱ 82,627,511

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards **	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters **	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters **	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters **	✓		
	Amendments to PFRS 1: Government Loans **	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions **	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* (effective January 1, 2018)			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation *(effective January 1, 2019)*			✓
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts* (effective January 1, 2018)		✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
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* (effective when PFRS 9 is first applied)		✓	
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments (2014)* (effective January 1, 2018)		✓	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation *(effective January 1, 2019)*			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date deferred indefinitely)			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation (effective January 1, 2019)			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception			✓

	PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS	Adopted	Not Adopted	Not Applicable
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers (effective January 1, 2018)			✓
PFRS 16	Leases* *(effective January 1, 2019)*		✓	
PFRS 17	Insurance Contracts* (effective January 1, 2021)		✓	
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation**	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* *(effective January 1, 2019)*		✓	
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants**	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation**	✓		
PAS 23 (Revised)	Borrowing Costs			✓
	Amendment to PAS 23: Eligibility for Capitalization			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Revised)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Revised)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date deferred indefinitely)			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception			✓
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss (effective January 1, 2018)			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture *(effective January 1, 2019)*			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation**	✓		
	Amendments to PAS 32: Classification of Rights Issues**	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment 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: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

	PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS	Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities**	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions**	✓		
	Amendments to PAS 39: The Fair Value Option **	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts**	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets**	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition**	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives**	✓		
	Amendments 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: Reclassification to and from Investment Property* *(effective January 1, 2018)*		✓	
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
Philippine Interpretations - International Financial Reporting Interpretations 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 and PAS 39: Embedded Derivatives**	✓		
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	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration* (effective January 1, 2018)		✓	
IFRIC 23	Uncertainty Over Income Tax Treatments* (effective January 1, 2019)		✓	
Philippine Interpretations - Standing Interpretations 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**	✓		

* These standards will be effective for periods subsequent to 2017 and are not adopted early by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

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