



107262019004632



# SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

## Barcode Page

The following document has been received:

**Receiving Officer/Encoder** : Ramon L. Legaspi  
**Receiving Branch** : SEC Head Office  
**Receipt Date and Time** : July 26, 2019 11:52:03 AM  
**Received From** : Head Office

Company Representative

---

Doc Source

Company Information

---

**SEC Registration No.** CS201120475  
**Company Name** BETHEL GENERAL INSURANCE AND SURETY CORPORATION  
**Industry Classification** Non-Life Insurance  
**Company Type** Stock Corporation

## Document Information

---

**Document ID** 107262019004632  
**Document Type** FINANCIAL STATEMENT-ANNUAL  
**Document Code** FS  
**Period Covered** December 31, 2018  
**No. of Days Late** 0  
**Department** CED/CRMD  
**Remarks**

# COVER SHEET

## for

### AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	1	1	2	0	4	7	5
---	---	---	---	---	---	---	---	---	---	---

Company Name

B	E	T	H	E	L	G	E	N	E	R	A	L	I	N	S	U	R	A	N	C	E	A	N	D	
S	U	R	E	T	Y	C	O	R	P	O	R	A	T	I	O	N									

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

U	N	I	T	2	0	0	V	A	L	E	R	O	P	L	A	Z	A							
C	O	N	D	O	M	I	N	I	U	M	#	1	2	4	V	A	L	E	R	O	S	T		
S	A	L	C	E	D	O	V	I	L	L	A	G	E											
M	A	K	A	T	I	C	I	T	Y															

Form Type

A	F	S
---	---	---

Department requiring the report

C	F	R	D
---	---	---	---

Secondary License Type, If Applicable

--	--	--

#### COMPANY INFORMATION

Company's Email Address

<a href="mailto:info@bethelgen.com">info@bethelgen.com</a>
------------------------------------------------------------

Company's Telephone Number/s

817-2003
----------

Mobile Number

0929-3130246
--------------

No. of Stockholders

11
----

Annual Meeting  
Month/Day

Last Monday of April
----------------------

Fiscal Year  
Month/Day

Dec-31
--------

#### CONTACT PERSON INFORMATION

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

Name of Contact Person

DOMINGA G. GARCIA
-------------------

Email Address

<a href="mailto:info@bethelgen.com">info@bethelgen.com</a>
------------------------------------------------------------

Telephone Number/s

817-2003
----------

Mobile Number

0929-3130246
--------------

Contact Person's Address

#311 Royce St., Camella Homes, Parafiaque City
------------------------------------------------

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

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

**BETHEL GENERAL INSURANCE AND SURETY CORPORATION**  
2<sup>nd</sup> Floor, Valero Plaza, 124 Valero St. Salcedo Village, Makati City

---

**FINANCIAL STATEMENTS**

**December 31, 2018**  
\*\*\*\*\*

**PHILIPPINE CURRENCY**  
\*\*\*\*\*

**I.T. SABADO & ASSOCIATES**  
*Certified Public Accountants*

**STATEMENT OF MANAGEMENT RESPONSIBILITY FOR  
ANNUAL INCOME TAX RETURN**

The Management of **BETHEL GENERAL INSURANCE AND SURETY CORPORATION** is responsible for all information and representations contained in the Annual Income Tax for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of **BETHEL GENERAL INSURANCE AND SURETY CORPORATION** complete and correct in all material respects. Management likewise affirms that:

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

Signature : \_\_\_\_\_  
CHAIRMAN: **SIEGERED B. MISON**



# **I.T. SABADO & ASSOCIATES**

## **Certified Public Accountants**

L1 B1 QC Ville Townhomes, Central Avenue  
Brgy. Culiati, Quezon City  
Tel: (632) 290 8192

---

### **INDEPENDENT AUDITORS' REPORT TO ACCOMPANY INCOME TAX RETURN**

The Board of Directors and Shareholders  
**BETHEL GENERAL INSURANCE AND SURETY CORPORATION**  
2<sup>ND</sup> Floor, Valero Plaza, 124 Valero St.  
Salcedo Village Makati City, 1227

We have audited the accompanying financial statements **BETHEL GENERAL INSURANCE AND SURETY CORPORATION** as of and for the year ended December 31, 2018 and 2017, on which we have rendered the attached report dated July 9, 2019.

In compliance with Revenue Regulations V-20, we are stating the following:

1. The taxes paid or accrued by the above Company for the year ended December 31, 2018 are shown in the Schedule of Taxes and Licenses attached to the Annual Income Tax Return.
2. No partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

**I.T. SABADO & ASSOCIATES, CPAs**  
PRC/BOA Registration No. 1324  
Until September 10, 2021  
BIR Accreditation No. 07-001182-002-2017  
Until February 13, 2020  
IC Accreditation No. F-2018-011-R  
Until November 21, 2021

By:

  
**ISAGANI T. SABADO**  
Managing Partner  
CPA Reg. No. 078824  
Until July 10, 2019  
IC Accreditation No. SP-2018-020-R  
Until November 21, 2021  
TIN 145-707-022  
PTR No. 7450575  
January 12, 2019  
Quezon City

July 9, 2019

# I.T. SABADO & ASSOCIATES

## Certified Public Accountants

L1 B1 QC Ville Townhomes, Central Avenue  
Brgy. Culiati, Quezon City  
Tel: (632) 832 4367

---

### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
**BETHEL GENERAL INSURANCE AND SURETY CORPORATION**  
2<sup>ND</sup> Floor, Valero Plaza, 124 Valero St.  
Salcedo Village Makati City, 1227

#### Report on the Audit of the Financial Statements

##### *Opinion*

We have audited the financial statements of **BETHEL GENERAL INSURANCE AND SURETY CORPORATION**, which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, and statements of cash flows for the years then ended, and notes to the financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

##### *Basis for Opinion*

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

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

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

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 operation, or has no realistic alternative but to do so.



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

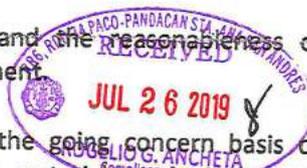
### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedure responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Notes to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of BETHEL GENERAL INSURANCE AND SURETY CORPORATION. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**I.T. SABADO & ASSOCIATES, CPAs**  
PRC/BOA Registration No. 1324  
Until September 10, 2021  
BIR Accreditation No. 07-001182-002-2017  
Until February 13, 2020  
IC Accreditation No. F-2018-011-R  
Until November 21, 2021

By:

  
**ISAGANI T. SABADO**  
Managing Partner  
CPA Reg. No. 078824  
Until July 10, 2019  
IC Accreditation No. SP-2018-020-R  
Until November 21, 2021  
TIN 145-707-022  
PTR No. 7450575  
January 12, 2019  
Quezon City

July 9, 2019



# I.T. SABADO & ASSOCIATES

## Certified Public Accountants

11 B1 QC Ville Townhomes, Central Avenue  
Brgy. Culiat, Quezon City  
Tel: (632) 832 4367

---

### SUPPLEMENTAL WRITTEN STATEMENT

The Board of Directors and Shareholders  
**BETHEL GENERAL INSURANCE AND SURETY CORPORATION**  
2<sup>ND</sup> Floor, Valero Plaza, 124 Valero St.  
Salcedo Village Makati City, 1227

We have examined the Financial Statements of **BETHEL GENERAL INSURANCE AND SURETY CORPORATION** for the year ended December 31, 2018, on which we have rendered the attached report dated July 9, 2019.

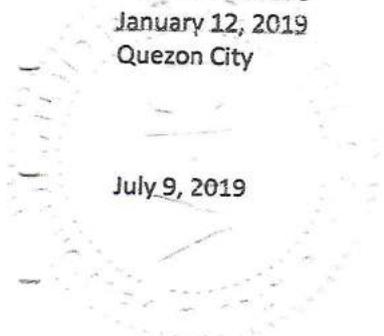
In compliance with SRC Rule 68, we are stating that the said company has a total number of **eleven (11)** shareholders owning one hundred (100) or more shares each.

**I.T. SABADO & ASSOCIATES, CPAs**  
PRC/BOA Registration No. 1324  
Until September 10, 2021  
BIR Accreditation No. 07-001182-002-2017  
Until February 13, 2020  
IC Accreditation No. F-2018-011-R  
Until November 21, 2021

By:

  
**ISAGANI T. SABADO**  
Managing Partner  
CPA Reg. No. 078824  
Until July 10, 2019  
IC Accreditation No. SP-2018-020-R  
Until November 21, 2021  
TIN 145-707-022  
PTR No. 7450575  
January 12, 2019  
Quezon City

July 9, 2019



**STATEMENT OF MANAGEMENT RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of **BETHEL GENERAL INSURANCE AND SURETY CORPORATION** is responsible for the preparation and fair presentation of the financial statements for the year(s) ended December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors or Trustees reviews and approves the financial statements and submit the same to the shareholders or members.

**I.T. Sabado & Associates, CPA's**, the independent auditors, appointed by the shareholders has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature :   
CHAIRMAN : **SIEGFRED B. MISON**

Signature :   
PRESIDENT & CEO : **DOMINGA G. GARCIA**



Signature :   
Chief Financial Officer (Treasurer) : **LANIE D. SANTOS**

Signed this \_\_\_\_\_ day of July 2019.

**BETHEL GENERAL INSURANCE AND SURETY CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2018**  
(With comparative figures for 2017)

<b>ASSETS</b>					
	Notes		2018		2017
Cash and cash equivalents	4	P	78,931,454	P	20,777,840
Insurance balances receivable	5		99,296,678		43,323,911
Financial assets at fair value through other comprehensive income	6		1,575,329		2,859,664
Financial assets at amortized costs	7		141,522,596		140,039,649
Loans and receivables	8		232,362,130		318,255,982
Investment properties	9		105,112,050		105,112,050
Property and equipment - net	10		126,952,043		86,458,345
Deferred acquisition cost	11		32,992,142		11,477,555
Non-current assets held for sale	12		170,410,832		158,894,928
Other assets	13		11,445,178		16,940,430
<b>TOTAL ASSETS</b>		<b>P</b>	<b>1,000,600,433</b>	<b>P</b>	<b>904,140,353</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>LIABILITIES</b>					
Insurance contract liabilities	14	P	86,819,838	P	44,098,775
Reinsurance payable	15		8,118,301		8,999,067
Accounts and other payables	16		27,527,060		26,468,112
<b>Total Liabilities</b>			<b>122,465,199</b>		<b>79,565,954</b>

<b>SHAREHOLDERS' EQUITY</b>					
Issued share capital			291,600,000		250,000,000
Subscribed share capital			8,400,000		50,000,000
Contributed surplus	17		520,840,776		520,840,776
Revaluation surplus	18		36,728,780		-
Fluctuation reserve on stocks	19		17,645,878		18,930,213
Accumulated profits (losses)			2,919,800		(15,196,589)
<b>Total Shareholders' Equity</b>			<b>878,135,233</b>		<b>824,574,399</b>

<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>P</b>	<b>1,000,600,433</b>	<b>P</b>	<b>904,140,353</b>
---------------------------------------------------	--	----------	----------------------	----------	--------------------

See accompanying Notes to Financial Statements.



**BETHEL GENERAL INSURANCE AND SURETY CORPORATION**  
**INCOME STATEMENT**

For the year ended December 31, 2018  
 (With comparative figures for 2017)

	Notes	2018	2017
<b>REVENUE</b>			
Gross earned premiums on insurance contracts	20	P 147,006,245	P 77,297,794
Reinsurers' share on gross earned premiums	21	5,004,007	4,392,148
<b>Net Earned Premiums</b>		<b>142,002,237</b>	72,905,646
Commission income	22	25,640	650,518
<b>TOTAL REVENUE</b>		<b>142,027,878</b>	73,556,164
<b>DIRECT COSTS</b>			
Net insurance benefits & claims	23	16,823,662	6,521,984
Commission expense	24	43,515,603	22,944,676
<b>Total Direct Costs</b>		<b>60,339,265</b>	29,466,660
<b>GROSS INCOME</b>		<b>81,688,613</b>	44,089,504
<b>OTHER INCOME</b>			
Investment and other income	25	11,359,355	9,295,518
<b>TOTAL INCOME</b>		<b>93,047,969</b>	53,385,022
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
	26	<b>67,857,644</b>	42,841,921
<b>INCOME BEFORE INCOME TAX</b>		<b>25,190,325</b>	10,543,102
<b>INCOME TAX EXPENSE (BENEFIT)</b>	27	<b>7,073,936</b>	2,138,511
<b>NET INCOME</b>		<b>P 18,116,389</b>	P 8,404,591

See accompanying Notes to Financial Statements.



**BETHEL GENERAL INSURANCE AND SURETY CORPORATION**  
**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended December 31, 2018

(With comparative figures for 2017)

	Note	2018		2017
<b>Net Income</b>		<b>18,116,389</b>	<b>P</b>	<b>8,404,591</b>
<b>Other Comprehensive Income:</b>				
Unrealized gain (loss) on AFS	6	(1,284,335)		647,515
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>16,832,054</b>	<b>P</b>	<b>9,052,105</b>

See accompanying Notes to Financial Statements.

**BETHEL GENERAL INSURANCE AND SURETY CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended December 31, 2018  
(With comparative figures for 2017)

	Notes	2018	2017
<b>SHARE CAPITAL</b>			
Authorized - 30,000,000 shares at 10 par value per share			
<b>Issued share capital</b>			
<b>Balance at beginning of year</b>	P	250,000,000	P 250,000,000
Issued during the year		41,600,000	-
<b>Balance at end of year</b>		<b>291,600,000</b>	250,000,000
<b>Subscribed share capital</b>			
<b>Balance at beginning of year</b>		50,000,000	50,000,000
Subscribed(issued) during the year		(41,600,000)	-
<b>Balance at end of year</b>		<b>8,400,000</b>	50,000,000
<b>CONTRIBUTED SURPLUS</b>			
	17		
<b>Balance at beginning of year</b>		520,840,776	404,780,776
Increase during the year		-	116,060,000
<b>Balance at end of year</b>		<b>520,840,776</b>	520,840,776
<b>REVALUATION SURPLUS</b>			
	18		
<b>Balance at beginning of year</b>		-	88,660,148
Additions(disposals) during the year		36,728,780	(88,660,148)
<b>Balance at end of year</b>		<b>36,728,780</b>	-
<b>FLUCTUATION RESERVE</b>			
	19		
<b>Balance at beginning of year</b>		18,930,213	18,282,698
Increase (decrease) in fair value		(1,284,335)	647,515
<b>Balance at end of year</b>		<b>17,645,878</b>	18,930,213
<b>ACCUMULATED PROFITS</b>			
<b>Balance at beginning of year</b>		(15,196,589)	(23,601,180)
Net income(loss) for the year		18,116,389	8,404,591
<b>Balance at end of year</b>		<b>2,919,800</b>	(15,196,589)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	P	<b>878,135,234</b>	P 824,574,399

See accompanying Notes to Financial Statements.

# BETHEL GENERAL INSURANCE AND SURETY CORPORATION

## STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

(With comparative figures for 2017)

	Notes	2018		2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES :</b>				
Net income	P	18,116,389	P	8,404,591
Adjustment for :				
Depreciation				424,663
Adjustment on investment property		-		441,316,010
Revaluation increment attributable to sale of investment property		36,728,780		(88,660,148)
Unrealized gain (loss) on sale of real state		-		-
Unrealized gain (loss) on afs securities		(1,284,335)		647,516
<b>OPERATING INCOME (LOSS) BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		<b>53,560,834</b>		<b>362,132,632</b>
Changes in Operating Assets and Liabilities				
Decrease (Increase) in:				
Insurance balances receivable		(55,972,767)		(21,032,463)
Financial assets at fair value through other comprehensive income		1,284,335		(647,514)
Loans and other receivables		85,893,852		(258,518,374)
Deferred acquisition cost		(21,514,587)		(11,004,978)
Other assets		5,495,252		2,678,605
Increase (Decrease) in:				
Insurance balances payable		42,721,064		34,529,336
Reinsurance payables		(880,766)		1,210,912
Account and other payables		1,058,947		(67,252,062)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>111,646,164</b>		<b>42,096,093</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES :</b>				
Net Acquisition of property & equipment		(40,493,698)		(86,810,838)
Acquisition of held to maturity investment		(1,482,948)		(111,637,649)
Collection from purchase money mortgage		-		(9,628,571)
Sale of non-current asset held for sale		(11,515,905)		10,704,072
Sale of property and equipment and investment property		-		-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(53,492,551)</b>		<b>(197,372,985)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES :</b>				
Increase in contributed surplus		-		116,060,000
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>-</b>		<b>116,060,000</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>58,153,613</b>		<b>(39,216,892)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>20,777,841</b>		<b>59,994,733</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>P</b>	<b>78,931,454</b>	<b>P</b>	<b>20,777,841</b>

See accompanying Notes to Financial Statements.

---

**BETHEL GENERAL INSURANCE AND SURETY CORPORATION****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018**

(With comparative figures as at and for the year ended December 31, 2017)

(All amounts are shown in Philippine Peso unless otherwise stated)

**Note 1 - Organization and operation**

Bethel General Insurance and Surety Corporation was incorporated in the Philippines on March 28, 1961. It was organized primarily to engage in the business of insurance and guaranty in any line, except in life insurance, for a consideration, to indemnify any person, firm or corporation against loss, damage or liability arising from an unknown or contingent event and to guarantee liabilities and obligation of any person, firm or corporation.

The 50-year term of existence of the Company had already lapsed on April 3, 2011, however, the Company re-incorporated on November 22, 2011 under SEC Registration No. CS201120475.

The company amended its registered name to Bethel General Insurance and Surety Corporation which was approved by Securities and Exchange Commission on February 19, 2018.

Its registered office which is also its principal place of business is located at Unit 200, 2<sup>nd</sup> floor, Valero Plaza, 124 Valero St., Salcedo Village Makati City 1227.

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

**Note 2 -Significant accounting policies**

The principal accounting policies applied in the preparation of the financial statements are set on the foregoing pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of Preparation**

The financial statements have been prepared using the historical cost basis, except for financial assets at fair value through other comprehensive income, financial assets at amortized costs and investment properties which have been measured at fair value.

The financial statements are presented in Philippine Peso which is the Company's functional and presentation currency.

**2.2 Statement of Compliance**

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

**2.3 Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except as discussed below.

The Company reassessed its accounting for investment property with respect to measurement after initial recognition. The Company had previously measured all investment property using the cost model whereby, after initial recognition of the asset classified as investment property, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

In 2017, the Company voluntarily changed its accounting policy on the subsequent measurement of its investment properties from cost model to fair value model where the fair values are determined by an independent firm of appraisers. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss for the period in which they arise, including the corresponding tax effect. The Company believes that the change will result in providing reliable and more relevant information about the effects of transactions, other events or conditions on the Company's financial position, financial performance and cash flows.

#### Circular Letter (CL) 2016-67, Valuation Standards for Non-life Insurance Policy Reserves

The circular prescribes the new valuation methodology for the non-life insurance companies. As required by circular, provision for IBNR claims shall be valued based from actuarial projection techniques and calculate its unearned premium reserves for marine cargo using 24th method. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The incurred but not reported (IBNR) reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method.

A margin for adverse deviation is estimated based on standard projection techniques or combination of such techniques, such as but not limited to the Mack Method, Bootstrapping Method, Stochastic Chain

Ladder Method to bring the actuarial estimate of the Policy Liabilities at the 75th percentile level of sufficiency. Discount rates to be used shall be current risk-free rates. The rates shall exactly match the duration of the policy and the currency of the cash flows and shall be prescribed by the Insurance Commission.

The changes in accounting policies have been applied retrospectively.

In addition, the Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendment to PFRS 12, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments did not have any impact on the Company's financial position and results of operation.

- Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

The amendments did not have any impact since the Company does not have non-cash financing activities.

- **Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity.

Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

The amendments did not have any impact on the Company's financial position and results of operation.

#### **2.4 Future Changes in Accounting Policies**

The Company will adopt the following amended standards and Philippine Interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the financial statements.

##### **Insurance contracts**

- PFRS 17, 'Insurance Contracts' (effective January 1, 2021). PFRS 17, 'Insurance contracts'. PFRS 17 was issued in May 2017 as replacement of PFRS 4, 'Insurance Contracts'. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfillment value and provides a more uniform measurements and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features

The Group's management is currently reviewing the impact of PFRS 17 across its entire business and has established a project team to manage the implementation approach.

#### **2.5 Use of Estimates, Assumptions and Judgments**

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments.

These estimates and assumptions affect the reported amounts of assets and liabilities at the end of the reporting period as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the end of the reporting period, the actual outcome may differ from these estimates, possibly significantly. For further information on critical estimates and judgments, refer to Note 3.

#### **2.6 Product Classification**

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policy holders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is significant if an insured event could cause an insurer to pay significant benefits.

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

#### **2.7 Cash and Cash Equivalents**

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

#### **2.8 Insurance Receivables**

Insurance receivables are recognized when due and measured at the original invoice amount less allowance for any uncollectible amounts. Subsequent to initial recognition, insurance receivables are measured at amortized cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Insurance receivables are derecognized following the derecognition criteria of financial assets.

#### **2.9 Financial Instruments – Initial Recognition and Subsequent Measurement**

##### **Date of Recognition**

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

##### **Initial Recognition**

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of liability). Except for financial instruments at FVPL, the initial measurement of financial assets includes transactions costs. The Company classifies its financial assets in the following categories: financial assets at amortized costs, financial assets at fair value through other comprehensive income, financial assets at FVPL, and loans and receivables. Financial liabilities are classified either as financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

### Determination of Fair Value

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

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same or discounted cash flow analysis. For discounted cash flow analysis, estimated future cash flows are based on management's best estimated and the discount rate used is a market related rate for a similar instrument. The use of assumptions could produce materially different estimates of fair values.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

### Day 1 Profit

Where the transaction price in a non-active market is different from the fair value based on observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where an unobservable data is used is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the Day 1 profit amount.

### Financial Assets or Financial Liabilities at FVPL

Financial assets or liabilities at FVPL include financial assets or liabilities held for trading and financial assets or liabilities designated upon initial recognition as at FVPL.

Financial assets or liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets or liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or (b) the assets or liabilities are part of a group of financial assets or liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset or liability contains an embedded derivative that would need to be separately recorded.

### Financial assets at amortized costs

Financial assets at amortized costs are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention on and ability to hold to maturity. Where the Company sells other than an insignificant amount of financial assets at amortized costs, the entire category would be tainted and reclassified as financial assets at fair value through other comprehensive income.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

The amortization is included in investment income in the statement of income. Gains and losses are recognized in income when the financial assets at amortized costs are derecognized and impaired, as well as through the amortization process. The effects of restatement on foreign currency-denominated financial assets at amortized costs are recognized in the statement of income.

#### Loans and Receivables

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

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The losses arising from impairment of such loans and receivables are recognized in Provision for doubtful accounts in the statement of income.

#### Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those which are designated as such or are not classified as financial assets at FVPL, financial assets at amortized cost or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, financial assets at fair value through other comprehensive income are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of financial assets at fair value through other comprehensive income are reported as Reserve for fluctuation on available-for-sale investments in the equity section of the balance sheet. The losses arising from impairment of such investments are recognized as provisions for impairment losses in the statement of income. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized as realized gains or losses in the statement of income.

When the fair value of financial assets at fair value through other comprehensive income cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

#### Other Financial Liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to exchange financial assets or liabilities with the holder under conditions that are potentially unfavorable to the Company.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

## **2.10 Impairment of Financial Assets**

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial asset is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event), and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

### **Financial Assets Carried At Amortized Cost**

For financial assets carried at amortized cost (e.g., loans and receivables, HTM investments), the Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

### **Financial assets at fair value through other comprehensive income**

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

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

#### Investment in stocks

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

#### **2.11 Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### **2.12 Derecognition of Financial Assets and Liabilities**

##### Financial Assets

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

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

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

##### Financial Liabilities

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

#### **2.13 Reinsurance**

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies.

Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date 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 reinsurer can be measured reliably. The impairment loss is charged against profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. The Company also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized in profit or loss 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 reinsurance companies. 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.

#### **2.14 Deferred Acquisition Costs (DAC)**

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

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

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

#### **2.15 Reinsurance Commissions**

Reinsurance commissions are deferred and are subject to the same amortization method as the related acquisition costs. Unamortized reinsurance commissions are shown in the balance sheets as Deferred commission income.

#### **2.16 Property and Equipment**

Property and equipment are stated at cost, net of accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent cost are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged against the statement of income during the period in which they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment as follows:

	Number of Years
Building and Improvement	20-50
Electronic and data processing (EDP) equipment	2-5
Office equipment	5
Transportation equipment	5
Furniture, fixtures and equipment	5

Office improvements are depreciated over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.

The assets' residual values, estimated useful lives and depreciation method are reviewed periodically to ensure that the residual value, period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected 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 in the statement of income in the year the item is derecognized.

#### **2.17 Impairment of Non-financial Assets**

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

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

#### **2.18 Insurance Contract Liabilities**

##### **Insurance Contract Liabilities**

Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

#### Provision for Unearned Premiums

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

#### Claims Provision and Incurred But Not Reported (IBNR) Losses

Provision is made at the reporting date for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported ("IBNR") to the Company. Although the company takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures, given the uncertainty in establishing claims provisions, it is likely that the final outcome will be different from the original liability established. To ensure local regulatory compliance, the Company engaged an external actuary to review the analysis and certify the reasonableness of the reserves.

The Company does not discount liabilities for unpaid claims.

The IBNR reserve is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. It includes an allowance for any consistent under or over-estimation in the case reserves. The IBNR review is conducted on a class of business basis. The in-house actuarial team conducts the assessment which is subject to an internal peer review process. Standard actuarial methodologies are used to evaluate and determine the IBNR reserves for all areas of the business including loss development methods and the analysis of individual cases in more volatile lines as appropriate. The Company's actuaries determine and select the most appropriate actuarial method to adopt for each business class. They also determine the appropriate segmentation of data from which the adequacy of the reserve can be established. A point estimate is determined from these detailed reviews and the sum of these point estimates for each class of business provides the overall actuarial point estimate for the IBNR reserve for the Company.

The ultimate process by which the actual carried reserves are determined takes into account both the actuarial point estimate and numerous other internal and external factors such as claims initiatives and economic conditions in the Philippines.

The general insurance loss reserves can generally be categorized into two distinct groups. One group is short-tail classes of business consisting mainly of property, consumer lines, marine and energy. The other group is long-tail commercial lines of business which includes excess and primary liability, Directors and officers (D&O), professional liability, employer's liability, general liability and related classes.

Short-tail classes do not have a significant delay from the date of accident to the date of report to the Company and then settled by the Company. The estimates for these classes are more reliant on the case estimate on individual claims and utilize loss development methodologies on the projection of the future development of these case estimates.

Long-tail classes generally relate to claims where liability has to be established or where there is an element of bodily injury. For these classes it may take some time from the date of accident for the claim to emerge and for claims to be settled from notification date due to the time taken to establish liability. Estimation of ultimate net indemnity losses and loss expenses for long-tail lines of business is a complex process and depends on a number of factors, including the class and volume of business involved as well as premium rate changes, changes in exposure and claim inflation. The actuarial methods used by the Company for most long-tail commercial lines include loss development methods and expected loss ratio methods, including the Bornhuetter-Ferguson (BF) method. Exceptional large claims or events, to the extent that these distort the historical development, are removed from the analysis and considered separately.

#### Liability Adequacy Test

At each end of the reporting period, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related DAC assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of comprehensive income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

#### **2.19 Pension Liability**

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, the effect of any past service cost and curtailment or settlement.

The pension liability recognized by the Company is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past services costs that shall be recognized in later periods. The defined benefit obligation is calculated 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 risk-free interest rate of government bonds that have terms to maturity approximating to the terms of the related pension liability. Past-service costs, if any, are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

#### Present Value of Defined Benefit Obligation

The present value of the retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

## **2.20 Equity**

Share capital represents the value of shares that have been issued at par.

Accumulated profits include all the accumulated earnings (losses) of the Company less dividends declared.

## **2.21 Revenue Recognition**

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

### **Premiums Revenue**

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

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums as part of Insurance contract liabilities and presented in the liabilities section of the balance sheet.

The related reinsurance premiums ceded that pertains to the unexpired periods at end of the reporting period are accounted for as Deferred reinsurance premiums and shown as part of reinsurance assets in the balance sheets. The net changes in these accounts between each end of reporting periods are recognized in profit or loss.

### **Reinsurance Commissions**

Commissions earned from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24<sup>th</sup>. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as deferred reinsurance commissions and presented in the liabilities section of the balance sheets.

### **Interest Income**

Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

### **Dividend Income**

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

## **2.22 Benefits and Claims**

Benefits and claims consists of benefits and claims paid to policyholders, which includes changes in the valuation of Insurance contract liabilities, except for changes in the provision for unearned premiums which are recorded in insurance revenue. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims.

Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

### **2.23 Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the 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. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

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

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

### **2.24 Foreign Currency Transaction and Translations**

Translations denominated in foreign currencies are recorded at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at the balance sheet date. Differences from monetary assets and liabilities are taken to the statement of income.

### **2.25 Income Taxes**

#### **Current Tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and the tax laws used to compute the amounts are those that are enacted or substantially enacted at the balance sheet date.

#### **Deferred Tax**

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

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

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

Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date. Movements in the deferred tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of income.

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

#### **2.26 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

#### **2.27 Contingencies**

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

#### **2.28 Events after the Balance Sheet Date**

Any post year-end event that provides additional information about the Company's position at the balance sheet date (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the financial statements when material.

#### **2.29 Reclassification of Accounts**

Reclassification of accounts of the previous year are made in order to present comparative figures with the current year.

### **Note 3 - Significant accounting estimates and judgments**

The preparation of the financial statements in accordance with PFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments 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.

## **Judgments**

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates and assumptions, which have the most significant effect on the amounts recognized in the financial statements.

### **(a) Operating Leases**

The company entered into commercial property leases with various lessors. The Company determined that the lessors retain all the significant risks and rewards of ownership of the leased properties thus accounts for them as operating leases.

### **(b) Financial assets at amortized costs**

The Company classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as financial assets at amortized costs. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than in certain specific circumstances— for example, sales that are so close to maturity – it will be required to reclassify the entire portfolio as financial assets at fair value through other comprehensive income. The investment would therefore be measured at fair value and not at amortized cost.

### **(c) Financial assets not quoted in an active market**

The Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis.

## **Estimates**

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

### **(a) Claims Liability Arising from Insurance Contracts**

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the end of the reporting period. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Nonlife insurance claims provisions are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

(b) Impairment of financial assets at fair value through other comprehensive income

The Company considers financial assets at fair value through other comprehensive income as impaired when there has been a significant or prolonged decline in the fair value below its cost of where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

(c) Impairment of Loans and Receivables

The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumption about a number of factors and actual result may differ, resulting in future changes to the allowance.

The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis or those that are to be written off.

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

(d) Estimation of Useful Lives of Property and Equipment

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

(e) Impairment of Property and Equity

The Company assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount of its property and equipment may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

(f) Recognition of Deferred Tax Assets

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

to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

(g) Determination of Pension and other Employee Benefits

The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discounts rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the balance sheet date. In accordance with PAS 19, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension liability.

(h) Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position. It is possible, however, that the results of operations could be materially affected by changes in the estimates.

**Note 4 - Cash and cash equivalents**

This account consists of:

	<b>2018</b>	<b>2017</b>
Cash on hand	1,075,737	865,000
Cash in bank	77,855,717	19,912,840
	<b>78,931,454</b>	<b>20,777,840</b>

Cash in bank unrestricted represents non-interest and interest-bearing account balances maintained in various banks by the Company.

Cash were not restricted for use and available for the operations of the Company.

**Note 5 - Insurance balances receivable**

This account consists of:

	<b>2018</b>	<b>2017</b>
Premium receivables	70,898,535	20,902,521
Due from ceding companies	15,239,524	11,702,075
Deferred reinsurance premium	3,299,645	3,193,133
Reinsurance recoverable	1,555,213	96,456
Other receivables	8,303,762	7,429,726
	<b>99,296,678</b>	<b>43,323,911</b>

Premiums receivable are usually due within 30-90 days without interest. Management believes that the carrying amount of its Insurance Balances Receivables approximates its net realizable value.

The company's over 90 days premium receivable amounted to P38,612,941 and P 11,820,530 at December 31, 2018 and 2017, respectively.

Following the currently effective statutory solvency measurement, the over 90 days receivable are considered non-admitted and will therefore be deducted from the audited Net Worth to arrive at the statutory Net Worth following the IC procedures.

**Note 6 - Financial assets at fair value through other comprehensive income**

The carrying values of financial assets at fair value through other comprehensive income have been determined as follows:

At January 1, 2017	2,212,150
Additions	-
Disposals	647,514
Fair value adjustments	-
At December 31, 2017	2,859,664
Additions	-
Disposals	-
Fair value adjustments	(1,284,335)
At December 31, 2018	<b>1,575,329</b>

Fair value adjustment for the year is presented as unrealized gain (loss) on financial assets at fair value through other comprehensive income in the statement of comprehensive income while its accumulated balance is presented as part of equity in the statement of financial position.

**Note 7 - Financial assets at amortized costs**

The carrying values of Financial assets at amortized costs have been determined as follows:

At January 1, 2017	28,402,000
Additions	110,648,451
Disposals	-
Amortization adjustments	989,198
At December 31, 2017	140,039,649
Additions	-
Disposals	-
Amortization adjustments	1,482,947
At December 31, 2018	<b>141,522,596</b>

Financial assets at amortized costs consist of Investment in government securities which are deposited with the Insurance Commission (IC) in accordance with the provisions of the Insurance Code for the benefit and security of policy holders and creditor of the Company.

**Note 8 - Loans and other receivables**

	2018	2017
Purchase money mortgage	198,184,273	257,835,696
Subscription receivable	8,400,000	50,000,000
Motor vehicle loan	7,736,286	2,814,286
Deposit and prepayments	18,041,571	1,413,859
Miscellaneous accounts receivable	-	5,481,906
Salvage recoverable	-	935,361
Allowance for doubtful accounts	-	(225,127)
	<b>232,362,130</b>	<b>318,255,982</b>

**Note 9 - Investment Properties**

This account consists of real property held for appreciation carried at cost amounting to P105,112,050 at December 31, 2018 and 2017 respectively. During the year the Company sold its investment properties by way of purchase money mortgage.

**Note 10 - Property and equipment, net**

Details of property and equipment as at December 31, are as follows:

	Office Furniture and Equipment	Building and Improvement	Transportation & Communication Equipment	Total
<b>Cost</b>				
At January 1, 2017	7,356,002		940,500	8,296,502
Additions	3,559,250	83,087,588	164,000	86,810,838
At December 31, 2017	10,915,252	83,087,588	1,104,500	95,107,340
Additions/Revaluation	308,285	38,832,394	3,546,819	
At December 31, 2018	11,223,537	121,919,982	4,651,319	137,794,838
<b>Accumulated depreciation</b>				
At January 1, 2017	7,283,832	-	940,499	8,224,332
Charges	391,863	-	32,800	424,663
At December 31, 2017	7,675,695	-	973,299	8,648,995
Charges	464,656	1,661,572	67,569	2,193,797
At December 31, 2018	8,140,351	1,661,572	1,040,868	10,842,792
<b>Net book values</b>				
December 31, 2018	<b>3,083,186</b>	<b>120,258,410</b>	<b>3,610,451</b>	<b>126,952,043</b>

**Note 11 - Deferred acquisition cost**

Deferred acquisition cost is recognized in accordance with PFRS 4, Insurance Contracts, using the 24<sup>th</sup> method. This account had balances of P32,992,142 and P11,477,555 as of December 31, 2018 and 2017 respectively.

**Note 12 - Non-current assets held for sale**

This pertains to foreclosed land properties whose carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The land properties amounted to P170,410,832 and P158,894,928 as of December 31, 2018 and 2017, respectively.

**Note 13 - Other assets**

This account consists of:

	<b>2018</b>	<b>2017</b>
Investment in stocks	4,586,447	4,586,447
Office supplies	3,206,974	3,652,625
Input VAT	2,623,521	1,006,684
Deferred tax assets	877,468	5,888,514
Promissory notes & loans	109,038	109,038
Security fund	41,730	41,730
Rental deposit	-	1,590,568
Deferred MCIT	-	64,825
	<b>11,445,178</b>	<b>16,940,430</b>

**Note 14 - Insurance contract liabilities**

This account consists of:

	<b>2018</b>	<b>2017</b>
Reserve for unearned premium	75,482,324	34,925,704
Claims payable	11,305,919	9,141,475
Catastrophe loss reserve	31,596	31,596
	<b>86,819,838</b>	<b>44,098,775</b>

Reserve for unearned premium is recognized in accordance with PFRS 4, Insurance Contracts, using the 24<sup>th</sup> method.

**Note 15 - Reinsurance payable**

This account consists of:

	2018	2017
Due to facultative reinsurers	8,015,589	8,589,815
Due to treaty reinsurers	102,713	409,252
	<b>8,118,301</b>	<b>8,999,067</b>

**Note 16 - Accounts and other payable**

This account consists of:

	2018	2017
Accounts payable	7,861,273	2,084,037
Discount on purchase money mortgage	5,656,343	10,008,969
Taxes payables	4,758,656	2,877,975
Loans payable	2,990,541	1,844,439
Other payables	2,894,315	8,006,329
Retirement payable	1,719,570	-
Notes payable	1,646,362	1,646,363
	<b>27,527,060</b>	<b>26,468,112</b>

**Note 17 - Contributed surplus**

This account represents temporary investment of the shareholders to cover up capital and net worth impairment as determined by the Insurance Commission. This account had balances of P520,840,776 as at December 31, 2018 and 2017.

Certain prior year amounts of this account have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

**Note 18 - Revaluation surplus**

This account consists of:

	2018	2017
Balance at beginning of year	-	88,660,148
Additions during the year	36,728,780	(88,660,148)
	<b>36,728,780</b>	<b>-</b>

**Note 19 - Fluctuation reserve on stocks**

This account consists of:

	<b>2018</b>	<b>2017</b>
Fair market value at beginning of year	18,930,213	18,282,698
Increase (decrease) in fair value	(1,284,335)	647,515
	<b>17,645,878</b>	<b>18,930,213</b>

**Note 20 - Gross earned premium on insurance contracts**

This account consists of:

	<b>2018</b>	<b>2017</b>
Gross premium on insurance contract	180,043,470	102,650,378
Reinsurance premiums assumed	7,412,883	4,983,143
Gross change in unearned premium	(40,450,108)	(30,335,727)
	<b>147,006,245</b>	<b>77,297,794</b>

**Note 21 - Reinsurers' share on gross earned premiums**

This account consists of:

	<b>2018</b>	<b>2017</b>
RI premiums ceded - Treaty	5,004,007	2,795,693
RI premiums ceded - Facultative	-	1,596,455
	<b>5,004,007</b>	<b>4,392,148</b>

**Note 22 - Commission income**

This account consists of:

	<b>2018</b>	<b>2017</b>
Commission income - Treaty	25,640	-
Commission income - Facultative	-	650,518
	<b>25,640</b>	<b>650,518</b>

**Note 23 - Net Insurance Benefits and Claims**

This account consists of:

	<b>2018</b>	<b>2017</b>
Losses incurred	7,940,953	2,007,940
Other underwriting expense	8,276,463	3,475,381
Provision for losses	606,247	1,558,044
RI recoveries on losses paid	-	(523,396)
Loss adjustment - expense	-	4,015
	<b>16,823,662</b>	<b>6,521,984</b>

**Note 24 - Commission Expense**

This account consists of:

	<b>2018</b>	<b>2017</b>
Commision expense - Direct	43,515,603	22,822,274
Commision expense on RI assumed - Facultative	-	122,401
	<b>43,515,603</b>	<b>22,944,676</b>

**Note 25 - Investment and other income**

This account consists of:

	<b>2018</b>	<b>2017</b>
Investment income	-	5,554,429
Interest income	10,860,850	2,692,654
Gain (loss) on sales of investment properties	-	332,139
Miscellaneous income	-	311,866
Other Underwriting Income	498,505	404,430
	<b>11,359,355</b>	<b>9,295,518</b>

**Note 26 - General and administrative expenses**

This account consists of:

	<b>2018</b>	<b>2017</b>
Salaries, wages and bonuses	P 23,739,939	P 17,343,513
Printing and supplies	5,404,106	527,661
Office rental, electricity and water	4,769,277	5,844,796
Other operation expenses	4,013,154	671,500
Taxes and licenses	2,824,075	2,942,651
Interest and bank charges	2,738,268	157,057
Transportation and travel	2,347,594	1,294,405

Depreciation	2,193,797	424,663
Employee benefits	2,075,285	313,239
Postage, telephone and telegraph	1,810,134	1,095,065
Representation and entertainment	1,808,462	483,202
Retirement expense	1,719,570	-
Management fees	1,674,120	-
Director fees and allowances	1,444,203	-
Membership dues	1,402,554	551,890
SSS, Pag-ibig, Philhealth, and EC contributions	1,364,955	1,777,754
Professional fees	1,260,882	3,909,453
Repairs and maintenance	223,211	156,002
Stationeries and office supplies	-	701,704
Security, janitorial and others	-	183,418
Miscellaneous expense	5,044,058	4,463,948
	<b>P 67,857,644</b>	<b>P 42,841,921</b>

**Note 27 - Income tax expense(benefit)**

The components of income tax for the years ended December 31, are as follows:

	<b>2018</b>	<b>2017</b>
Provision for current tax	5,075,871	489,095
Provision for final tax	1,998,065	1,649,417
	<b>7,073,936</b>	<b>2,138,511</b>

The reconciliation of the tax on pretax income computed at the statutory rate to tax expense is shown below:

	<b>2018</b>	<b>2017</b>
Tax on pretax income/loss (30%)	7,557,097	3,162,931
Add (deduct) tax effects of:		
Non-deductible expense	515,871	1,386
Nontaxable income	-	-
Special deductions	-	(101,455)
Income subject to lower income tax rate	(999,032)	(924,350)
	<b>7,073,936</b>	<b>2,138,512</b>

**Note 28 - Supplementary information required by the Bureau of Internal Revenue**

On October 10, 2007, Revenue Regulation (R.R) No 12 was signed, amending certain provisions of R.R No9-98 relative to the due date within which to pay MCIT imposed on Domestic Corporation and resident foreign corporations. These revenue regulations require the quarterly payment of MCIT. The quarterly MCIT payments shall be creditable against the tax that will be due at the end of the taxable year whether it be RCIT or MCIT. The regulations took effect beginning on the income tax return for fiscal quarter ending September 30, 2007.

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

Output Value Added Tax (VAT)

The company is a VAT-registered company with VAT output tax declaration of P14,475,591 for the year based on the premiums collected amounting to P120,629,927.

The company has no zero-rated/exempt sale for the year 2018.

Input VAT

The amount of input taxes claimed comprise of the following:

	Amount
Balance, beginning of the year	1,006,684
Current year's domestic purchases/ payment for:	
Goods other than capital goods	16,092,428
Services	
Input VAT claimed	(14,475,591)
<b>Balance, end of year</b>	<b>2,623,521</b>

Documentary Stamp Tax (DST)

The company has paid DST amounting to P22,503,532 during 2018.

Fire Service Tax (FST)

The company has paid FST amounting to P80,332 during 2018.

Withholding Taxes

The amount of withholding taxes paid/accrued for the year amounted to:

	Amount
Expanded withholding taxes	1,820,451
Withholding taxes on compensation	882,288
	<b>2,702,739</b>

Taxes and Licenses

This account consists of:

	Amount
Business license and other fees	2,050,966
Real estate tax	445,923
Renewal of fire & other lines policy	327,186
	<b>2,824,075</b>

## Note 29 - Management of insurance and financial risks

### Governance Framework

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failure to exploit opportunities. The company recognizes the importance of having efficient and effective risk management systems in place.

### Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency positions to meet liabilities arising from claims and that the risk levels are at acceptable levels. The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise).

### Financial Risks

The company is exposed to financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

### Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company manages the level of credit risk by setting up exposure limits for each counterparty of group of counterparties, and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collaterals and guarantees; reporting of credit risk exposures; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

The Company sets the maximum amounts and limits that may be advanced to place with individual corporate counterparties which are set by reference to their long-term ratings.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are netted off against amounts receivables from them to reduce the risk of doubtful accounts.

The credit quality of the financial assets was determined as follows:

a. Cash and cash equivalent

These are classified as investment grade. These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b. Insurance and other loans and receivables

The Company uses a credit rating concept based on the borrowers overall credit worthiness. Investment grade is given to borrowers and counterparties having good standing in terms of credit and paying habits and their outstanding account balance does not exceed 30% of their total production. Below investment grade is given to borrowers and counterparties having low standing in

terms of credit and paying habits and their outstanding balance exceeds 50% of their total production.

c. Debt securities

These are classified as investment grade. The government debt securities are issued by local government authority and are considered as risk-free debt securities.

d. Equity securities

Listed equity shares are classified as investment grade. Unlisted equity shares are classified as non-investment grade.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2017 and 2016.

Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in arising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the potential daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company manages liquidity risk by specifying minimum proportion of fund to meet emergency calls; specifying the sources of funding and the events that would trigger the plan; determining concentration of funding sources; reporting of liquidity risk exposure; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

It is unusual for a company primarily transacting insurance business to predict the requirement of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provisions and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and the market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company structure levels of market risk it accepts through a market risk policy that determines what constitutes market risk for the Company; basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument; sets out the net exposure limits by each counterparty or group of counterparties, reporting of market risk exposure and breaches; and monitoring compliances with market risk policy and review of market risk policy for pertinence and changing environment.

(a.) Currency Risk

The Company's principal transactions are carried out in Philippines Peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar, as it deals with foreign reinsurers in its settlement of its obligations and receipts of any claim reimbursement.

The Company's financial assets are denominated in the same currencies as its insurance liabilities, which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises

from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

(b) Interest Rate Risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in interest rates.

(c) Price Risk

The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally, equity securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, and limits on investment in each sector and market.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (due to changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

Insurance Risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk that the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, when actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. These risks vary significantly in relation to the location of the risk insured by the Company and types of risks insured.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts and as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategies, strict claims review policies to assess all new and outgoing claims, as well as the investigation of possible fraudulent claims. The Company also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company also limited its exposure by imposing maximum claims amounts on certain contracts as well as the use of reinsurance arrangements. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's premiums retained.

The majority of the reinsurance business ceded is placed on quota share basis with retention limits in varying by product line. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheets as reinsurance assets. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to the reinsurance ceded, to the extent that any reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of the total reinsurance assets at the balance sheet dates.

The Company's key management personnel include the President, Senior Vice-President, Department Managers, Supervisors and Officers-in-Charge.

#### **Note 30 - Related party transaction**

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 party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

The Company's related parties include its key management and shareholders.

#### **Note 31 - Capital management and regulatory requirements**

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the Risk Based Capital Model. The Company fully complied with the externally imposed capital requirements during the reported financial periods.

The IC capital requirements are the Margin of Solvency (MOS), Fixed Capitalization Requirements, Risk-Based Capital (RBC) and unimpaired capital requirement.

The operation of the Company is subject to the regulatory requirement of the IC. Such regulations not only prescribe approval and monitoring activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, fixed capitalization requirements, risk-based capital requirements).

#### **Margin of Solvency (MOS)**

The company is required to maintain, at all times an MOS equal to P500,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The MOS shall be excess of the value of its admitted assets (as defined under the Code) exclusive of its paid-up capital over the amount of its liabilities, reserve for unearned premiums and reinsurance reserves.

The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC, specifically as to admitted and non-admitted assets as defined in the Code. If an insurance company failed to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

**Fixed Capitalization Requirements**

On August 5, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the “New Insurance Code” which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

<u>Networth</u>	<u>Compliance date</u>
₱ 250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

On January 13, 2015, the IC issued the Circular Letter (CL) No. 2015-02-A which provides for the clarification and minimum capital requirement under Sections 194, 197, 200 and 289 of the New Insurance Code. The said circular supersedes the Department Order Nos. 27-06 and 15-2015 and CL Nos. 22-2008 and 26-2008.

The minimum net worth requirement must remain unimpaired for the continuance of the license.

**Risk-based Capital Requirement**

IMC No. 6-2006 provides for the RBC framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every non-life insurance company is annually required to maintain a minimum RBC ratio of 100% and not to fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention, which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the Company’s paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth not only to the extent authorized by the IC. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC hurdle rate requirement for a given year to the total number of insurers in the industry.

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

**Unimpaired Capital Requirement**

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

**Consolidated Compliance Framework**

IMC No. 10-2006 integrated the compliance standards for the fixed capitalization and RBC framework. Under this IMC, subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required industry RBC ratio compliance rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2011 which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%. For the review year 2010 which shall be based on the 2009 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC hurdle rate is 200%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

**Note 32 - Contingencies**

The Company operates in the insurance industry and has various contingent liabilities arising in the ordinary conduct of business, which are either pending decision by the courts or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have material or adverse effect on the Company's financial position and results of operations.