

COVER SHEET

for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

P	E	T	R	O	G	E	N	I	N	S	U	R	A	N	C	E	C	O	R	P	O	R	A	T	I	O	N	
(A	W	H	O	L	L	Y	-	O	W	N	E	D	S	U	B	S	I	D	I	A	R	Y	O	F			
P	E	T	R	O	N	C	O	R	P	O	R	A	T	I	O	N)											

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

S	M	C	H	E	A	D	O	F	F	I	C	E	C	O	M	P	L	E	X									
4	0	S	A	N	M	I	G	U	E	L	A	V	E	N	U	E												
M	A	N	D	A	L	U	Y	O	N	G	C	I	T	Y														

Form Type

A	A	F	S
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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's email Address

NA

Company's Telephone Number/s

886-3888

Mobile Number

NA

No. of Stockholders

6

Annual Meeting (Month / Day)

March 8

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Dennis S. Janson

Email Address

dsjanson@petron.com

Telephone Number/s

886 - 3888

Mobile Number

NA

CONTACT PERSON'S ADDRESS

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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.

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)

FINANCIAL STATEMENTS
December 31, 2017 and 2016



R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
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Internet www.kpmg.com.ph
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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Petrogen Insurance Corporation
SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Petrogen Insurance Corporation (a wholly-owned subsidiary of Petron Corporation) (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for 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 *Auditors Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





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

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

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

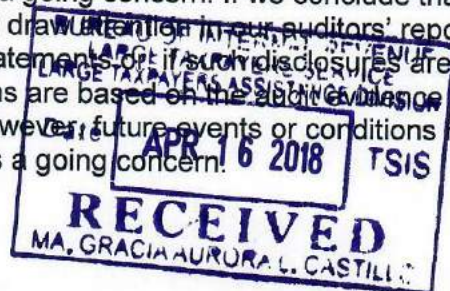
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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





- 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 audits.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 25 to the financial statements presented for purposes of filing with the Bureau of Internal Revenue is presented by the management of Petrogen Insurance Corporation in a separate schedule. Such supplementary information is not a required part of the basic financial statements. Our opinion on the basic financial statements is not affected by the presentation of the supplementary information on a separate schedule.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS

Partner

CPA License No. 0102309

IC Accreditation No. F-2017-017-O, valid until November 26, 2020

SEC Accreditation No. 1619-A, Group A, valid until March 15, 2020

Tax Identification No. 920-961-311

BIR Accreditation No. 08-001987-38-2016

Issued December 16, 2016; valid until December 15, 2019

PTR No. 6615139MD

Issued January 3, 2018 at Makati City

March 12, 2018

Makati City, Metro Manila





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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE
SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders
Petrogen Insurance Corporation
SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City

We have audited the accompanying financial statements of Petrogen Insurance Corporation (a wholly-owned subsidiary of Petron Corporation) (the Company) as at and for the year ended December 31, 2017, on which we have rendered our report dated March 12, 2018.

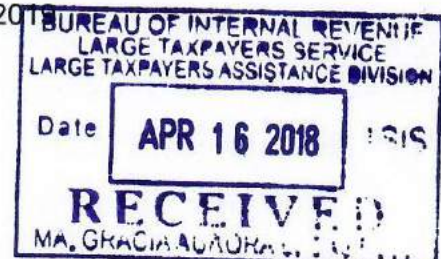
In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
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Makati City, Metro Manila





Petrogen Insurance Corporation

SMC Head Office Complex, # 40 San Miguel Avenue,
Mandaluyong City 1550
Tel. Nos. (632) 886-3888 / 884-9200
Fax Nos. (632) 884-9163 / 884-0959
VAT Reg. TIN No.: 005-034-674-000

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

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

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.




LUBIN B. NEPOMUCENO
Chairman



EMMANUEL E. ERAÑA
President / CEO



ALBERTITO S. SARTE
Treasurer



DENNIS S. JANSON
Controller

Signed this 12th day of March 2018.

PETROGEN INSURANCE CORPORATION
 (A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF FINANCIAL POSITION



 ROBINSONS GLOBAL MANAGEMENT DIVISION
 APR 18 2018
 SECURITIES AND EXCHANGE COMMISSION
 REVIEW OF FORWARD EARNINGS
 DECEMBER 31

	Note	2017	2016
ASSETS			
Cash and cash equivalents	6	P288,361,479	P254,504,075
Insurance receivables	7	177,935,983	128,715,809
Available-for-sale (AFS) financial assets	8	361,949,591	304,026,467
Deferred reinsurance premiums	9	44,734,544	39,635,217
Property and equipment - net	10	76,928	39,788
Other assets	11	17,598,120	19,137,979
Deferred tax assets - net	20	2,353,523	-
		P893,010,168	P746,059,335
LIABILITIES AND EQUITY			
Liabilities			
Insurance liabilities	12	P179,076,470	P108,505,404
Due to reinsurers - net	13	29,946,300	20,983,664
Accrued expenses and other liabilities	14	17,321,125	14,937,720
Deferred reinsurance commission	15	2,101,652	1,266,913
Deferred tax liabilities - net	20	-	12,737
		228,445,547	145,706,438
Equity			
Capital stock	16	335,000,000	270,000,000
Contributed surplus		25,000,000	25,000,000
Revaluation reserve on AFS financial assets - net of deferred tax	8	(804,315)	659,358
Retained earnings		305,368,936	304,693,539
		664,564,621	600,352,897
		P893,010,168	P746,059,335

See Notes to the Financial Statements.



 BUREAU OF INTERNAL REVENUE
 LARGE TAXPAYERS SERVICE
 LARGE TAXPAYERS ASSISTANCE DIVISION
 Date APR 16 2018
 RECEIVED

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF INCOME

		Years Ended December 31	
	Note	2017	2016
UNDERWRITING INCOME			
Gross premiums written	12, 17	P591,776,619	P607,778,706
Premiums ceded	9, 17	(557,980,036)	(577,163,438)
Net premiums retained		33,796,583	30,615,268
Decrease (increase) in reserve for unearned premiums - net of change in deferred reinsurance premiums	17	(686,279)	1,120,905
Net premiums earned	17	33,110,304	31,736,173
Reinsurance commission	15, 24	12,506,602	12,791,753
Other underwriting income		-	289,218
GROSS UNDERWRITING INCOME		45,616,906	44,817,144
UNDERWRITING EXPENSES - NET	12	16,776,393	10,031,722
NET UNDERWRITING INCOME		28,840,513	34,785,422
INVESTMENT AND OTHER INCOME - NET	18, 24	67,780,816	57,472,525
INCOME AFTER INVESTMENT AND OTHER INCOME		96,621,329	92,257,947
GENERAL AND ADMINISTRATIVE EXPENSES	19	14,109,314	19,079,430
INCOME BEFORE INCOME TAX		82,512,015	73,178,517
INCOME TAX EXPENSE	20	16,511,618	14,546,309
NET INCOME		P66,000,397	P58,632,208

See Notes to the Financial Statements.



PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	2017	2016
NET INCOME		P66,000,397	P58,632,208
OTHER COMPREHENSIVE LOSS - Net of tax			
Item that may be reclassified to profit or loss			
Net change in fair value of AFS financial assets	8	(1,731,863)	(3,630,086)
Net change in fair value of AFS financial assets transferred to profit or loss	8	268,190	1,224,788
		(1,463,673)	(2,405,298)
TOTAL COMPREHENSIVE INCOME		P64,536,724	P56,226,910

See Notes to the Financial Statements.



PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Capital Stock (Note 16)	Contributed Surplus	Revaluation Reserve on AFS Financial Assets - net (Note 8)	Retained Earnings	Total Equity
Balance at January 1, 2017	P270,000,000	P25,000,000	P659,358	P304,693,539	P600,352,897
Net income	-	-	-	66,000,397	66,000,397
Other comprehensive loss	-	-	(1,463,673)	-	(1,463,673)
Total comprehensive income (loss)	-	-	(1,463,673)	66,000,397	64,536,724
Stock dividend	65,000,000	-	-	(65,000,000)	-
Documentary stamp tax (DST) on issuance of capital stock	-	-	-	(325,000)	(325,000)
Balance at December 31, 2017	P335,000,000	P25,000,000	(P804,315)	P305,368,936	P664,564,621
Balance at January 1, 2016	P250,000,000	P25,000,000	P3,064,656	P246,161,331	P524,225,987
Net income	-	-	-	58,632,208	58,632,208
Other comprehensive loss	-	-	(2,405,298)	-	(2,405,298)
Total comprehensive income (loss)	-	-	(2,405,298)	58,632,208	56,226,910
Issuance of capital stock	20,000,000	-	-	-	20,000,000
DST on issuance of capital stock	-	-	-	(100,000)	(100,000)
Balance at December 31, 2016	P270,000,000	P25,000,000	P659,358	P304,693,539	P600,352,897

See notes to the Financial Statements.



PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P82,512,015	P73,178,517
Adjustments for:			
Interest income	18	(17,909,082)	(15,769,989)
Unrealized foreign exchange loss (gain) - net	18	1,587,652	(1,868,496)
Decrease in deferred reinsurance commission	15	834,739	(1,498,875)
Increase (decrease) in reserve for unearned premiums - net of change in deferred reinsurance premiums	17	686,279	(1,120,905)
Depreciation	10, 19	35,472	63,405
Operating income before working capital changes		67,747,075	52,983,657
Changes in operating assets and liabilities			
Decrease (increase) in:			
Insurance receivables	7	(49,220,174)	(36,704,430)
Other assets	11	1,539,859	(2,274,013)
Increase (decrease) in:			
Claims and losses payable and IBNR	12	64,785,460	30,355,345
Due to reinsurers - net	13	8,962,636	(4,616,144)
Accrued expenses and other liabilities	14	2,383,405	1,300,234
Cash generated from operations		96,198,261	41,044,649
Income taxes paid		(18,250,589)	(13,953,858)
Net cash provided by operating activities		77,947,672	27,090,791
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of AFS financial assets	8	(131,150,229)	(90,582,172)
Proceeds from maturity of AFS financial assets	8	70,000,000	70,000,000
Interest received		19,045,225	17,984,487
Acquisitions of property and equipment	10	(72,612)	-
Net cash used in investing activities		(42,177,616)	(2,597,685)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of capital stock	16	-	20,000,000
Payment of DST on issuance of capital stock		(325,000)	(100,000)
Net cash provided by (used in) financing activities		(325,000)	19,900,000
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	18	(1,587,652)	1,868,496
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		33,857,404	46,261,602
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		254,504,075	208,242,473
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	6	P288,361,479	P254,504,075

See Notes to the Financial Statements.



PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Petrogen Insurance Corporation (the Company) was incorporated in the Philippines on August 23, 1996. The Company is presently engaged in the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company is a wholly-owned subsidiary of Petron Corporation (Petron), a company incorporated and domiciled in the Philippines and whose shares are listed in the Philippine Stock Exchange.

The Company's ultimate parent is Top Frontier Investments Holdings, Inc.

On January 1, 2016, the Insurance Commission (IC) granted the Company a Certificate of Authority, effective January 1, 2016 until December 31, 2018.

The Company's principal and registered office address is at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

2. Basis of Preparation

Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. PFRS consists of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The accompanying financial statements of the Company as at and for the year ended December 31, 2017 were authorized for issue by the Board of Directors (BOD) on March 12, 2018.

Basis of Measurement

The financial statements of the Company have been prepared on a historical cost basis, except for financial assets classified as available-for-sale (AFS) financial assets, which is stated at fair value.

Functional and Presentation Currency

The financial statements are presented in Philippine peso, which is the Company's functional currency. All financial information is rounded off to the nearest peso, except when otherwise indicated.



3. Summary of Significant Accounting Policies

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

Certain comparative amounts in the statements of comprehensive income have been reclassified or re-represented as a result of a change in the classification of certain accounts during the current year (see Note 24).

Adoption of Amendments to Standards

The Company has adopted the following amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Company's financial statements.

- *Disclosure Initiative (Amendments to PAS 7, Statement of Cash Flows).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities 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 - e.g., by providing a reconciliation between the opening and closing balances in the statements of financial position for liabilities arising from financing activities.
- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes).* The amendments clarify that:
 - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
 - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
 - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
 - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

Standards Issued but Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing these financial statements. Unless otherwise indicated, none of these are expected to have a significant effect on the Company's financial statements.

Effective January 1, 2018

- *PFRS 9, Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Company will adopt the new standard on the effective date and will not restate comparative information. The Company has performed an assessment which is based on currently available information and may be subject to changes arising from further reasonable and supported information being made available to the Company in 2018. The Company believes that the new classification requirements will have no significant impact on its financial statements.

- *PFRS 15, Revenue from Contracts with Customer*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standards Interpretations Committee 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRSs takes precedence.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company does not expect significant impact on its financial statements.

- *Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration.* The amendments clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 22.

Effective January 1, 2019

- *PFRS 16, Leases supersedes PAS 17, Leases, and the related Philippine Interpretations.* The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

The Company is currently assessing the potential impact of PFRS 16 on its financial statements.

- *Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

Financial Assets and Financial Liabilities

Date of Recognition

Financial instruments are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of non-derivative financial assets that will be delivered within the timeframe generally established by regulation or convention in the market concerned are recognized on the date on which the Company commits to the transaction (the trade date).

Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

Classification of Financial Instruments

The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables and AFS financial assets. The Company classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate re-evaluates such designation at the end of each reporting period.

As at December 31, 2017 and 2016, the Company has no HTM investments and financial assets and financial liabilities at FVPL.

Reclassification of Financial Instruments

Financial instruments are reclassified at its fair value on the date of reclassification. For financial assets at FVPL, any gain or loss already recognized in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

For debt instruments reclassified out of the AFS financial assets category, the gain or loss shall be amortized to profit or loss over the remaining life of instruments using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount.

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories.

Subsequent to initial recognition, AFS financial assets are measured at fair value. Fair value changes are recognized in OCI. Interest income is recognized under the effective interest method, with the effective interest rate (EIR) being calculated based on the instrument's initial recognition. The EIR is the rate that exactly discounts the estimated stream of future cash payments or receipts, without consideration of future credit losses, over the expected life of the financial instrument or through to the next market-based repricing date, to the net carrying amount of the financial asset or financial liability on initial recognition. Impairment losses and foreign exchange gains and losses on AFS financial assets are recognized in profit or loss as they arise.

Where the Company holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. When the relevant asset is derecognized, on sale or other disposal, or is impaired, the cumulative fair value changes recognized in OCI are reclassified from equity to profit or loss. For a partial disposal, a proportionate share of the fair value gains and losses previously recognized in OCI is reclassified from equity to profit or loss. Such gains and losses include all fair value changes until the date of disposal.

The Company's investments which consist of government securities and other debt securities included under "AFS financial assets" account are classified under this category (Note 8).

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and 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 designated as financial assets at FVPL, AFS financial assets or HTM investments.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees that are integral part of the EIR of the asset. Any interest earned on loans and receivables is recognized in profit or loss on an accrual basis. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

Included in this category are: (a) cash and cash equivalents; (b) insurance receivables, which arise primarily from premiums due from policyholders and recoverable from reinsurers; (c) interest receivables and security deposit under "Other assets" account; and (d) due from reinsurers, net of allowance for impairment losses, under "Due to reinsurers - net" account (Notes 6, 7, 11 and 13).

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

Other Financial Liabilities

This category pertains to financial liabilities that are not designated or classified at FVPL.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered integral part of the EIR of the liability.

Included in this category are: (1) claims and losses payable presented as part of "Insurance liabilities" account; (2) due to reinsurers (gross of due from reinsurers); and (3) accrued expenses and other liabilities (excluding payable to regulatory agencies and deferred credits) (Notes 12, 13 and 14).

Fair Value Measurements

Determination of Fair Values

The fair values of financial instruments traded in active markets at reporting date are based on their quoted market prices 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 all other financial instruments not listed in an active market, the fair values are determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flows method, price comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

'Day 1' Profit

Where the transaction price in a non-active market is different from the fair value of the other 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 profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss 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.

Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

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

Offsetting Financial Instruments

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

Impairment of Financial Assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

Assets Carried at Amortized Cost

For financial assets carried at amortized cost such as loans and receivables, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Company includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that not have been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, 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 amount of the asset does not exceed its amortized cost at the reversal date.

Where loans and receivables have been ascertained to be worthless, the related amount is written-off against the corresponding allowance for impairment.

AFS Financial Assets

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

Derecognition of Financial Assets and Financial 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 primarily derecognized when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset but transferred control of the asset, the Company continues to recognize the asset to the extent of the Company's continuing involvement. 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 acquired to pay.

Financial Liabilities

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

Classification of Financial Instruments between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Property and Equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the cost of day-to-day servicing.

The initial cost of property and equipment comprises of its construction cost or purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period these costs are incurred. Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the items can be measured reliably.

Depreciation, which commences when the assets are available for their intended use, is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Office equipment	10
Electronic data processing (EDP) equipment	3

The remaining useful lives, residual values and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

The carrying amounts of the property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Impairment of Non-financial Assets

The carrying amounts of non-financial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs to sell. Value in use is the present value of future cash flows expected to be derived from an asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment loss is recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

As at December 31, 2017 and 2016, no impairment loss has been recognized on the Company's property and equipment (Note 10).

Insurance Contracts

Insurance contract is an agreement whereby one party called the insurer undertakes, for a consideration paid by the other party called the insured, promises to pay money, or its equivalent or to do some act valuable to the latter, upon happening of a loss, liability or disability arising from an unknown or contingent event.

Classification of Insurance and Investment Contracts

The Company issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes the possibility of having to pay benefits on the occurrence of an insured event. The Company may also transfer insurance risk in insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10.00% more than the benefits payable if the insured event did not occur. Insurance contracts can also expose the insurer to financial risks. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

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 the period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

In 2017 and 2016, the Company has no outstanding investment contracts.

Insurance Contract Receivables and Payables

Insurance contract receivables and payables are recognized when contracts are entered into and premiums are charged. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes that impairment loss in profit or loss.

Claims and Losses Payable

Liabilities for unpaid claims and losses and claim adjustment expenses relating to insurance contracts are accrued when insured events occur. The liability is derecognized when the contract is discharged or cancelled.

The liabilities for claims are based on the estimated ultimate cost of settling the claims. The method of determining the expected ultimate cost of claims reported at reporting date are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and difference between estimates and payments for claims are recognized as income or expense in the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in profit or loss in the period the recoveries are determined. Recoverable amounts from reinsurers are presented as part of "Insurance receivables" account in the statements of financial position.

Incurred but Not Yet Reported (IBNR) Claims

IBNR is based on the estimated ultimate cost of all claims incurred but not reported at the end of the reporting period. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. This liability is not discounted for the time value of money. The liability is derecognized when the contract is discharged, cancelled or has expired.

Liability Adequacy Test

At each reporting date, liability adequacy test is performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of future cash flows, claims handling cost and policy administrative expenses. 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 arising from the test is immediately charged to profit or loss by establishing an unexpired risk provision for losses.

Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets primarily include balances due from reinsurance companies. Amounts due from reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amount due to it 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 to profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligation to the policyholders.

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

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

Equity

Capital Stock

Capital stock is composed of common shares, determined using the nominal value of shares that have been issued.

Contributed Surplus

Contributed surplus represents contributions of the stockholders to the Company in compliance with the requirements of the Insurance Code.

Revaluation Reserve on AFS Financial Asset

Revaluation reserve comprise cumulative gains and losses due to the revaluation of AFS financial assets.

Retained Earnings

Retained earnings include all current and prior period results as disclosed in the statements of income. Retained earnings may also include effect of changes in accounting policy as may be required by the transitional provision of the standards. Any transaction costs associated with the issuance of shares are deducted from retained earnings.

Dividend distribution to the Company's shareholders is recognized in the year in which the dividends are approved by the BOD. The Company intends to declare dividends subject to availability of retained earnings and operational and regulatory requirements.

Revenue Recognition

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

Premium Income

Gross premiums written comprise the total premiums 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 insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired periods of the policies at the reporting date is accounted for as "Reserve for unearned premiums" account and presented under "Insurance liabilities" in the statements of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at each reporting date is accounted for as "Deferred reinsurance premiums" and shown in the assets section of the statements of financial position. The net changes in these accounts between reporting dates are credited to or charged against income as "Increase or decrease in reserve for unearned premium - net of change in deferred reinsurance premiums" account in the statements of income.

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

Reinsurance Commissions

Reinsurance commissions earned from reinsurance contracts are recognized as revenue over the period of the contracts using the 24th method. 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 commission" and presented in the liabilities section of the statements of financial position.

Interest Income

Interest income for all interest-bearing financial instruments is recognized in profit or loss using the effective interest method. Interest income is recognized at gross amount of the tax withheld.

Other Underwriting Income

Other underwriting income is recognized in the period when benefits are earned.

Other Income

Income from other sources is recognized when earned.

Cost and Expense Recognition

Cost and expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized when incurred.

Underwriting Expenses

Underwriting expenses consists of benefits and claims incurred during the year and loss adjustments. 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.

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 the 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 the 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 specific 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 gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Operating Lease

Company as Lessee

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over lease term.

Foreign Currency Transactions and Translation

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates at reporting date; income and expenses are translated using the average rate for the year. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in OCI.

Taxes

Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - excess of Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of excess of MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises 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 profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable 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 reporting 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 liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or 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 profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

In determining the amount of current, final and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

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

Final Tax

Interest income from cash on hand and in banks and financial assets, which is subject to final withholding tax, is presented at gross amounts while taxes paid or withheld are included in "Income tax expense" account in the statements of income.

Value-added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

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

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

Related Parties

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

Provisions

Provisions are recognized when: a) the Company has a present obligation (legal or constructive) as a result of past event; b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments, estimates and assumptions 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. Revisions are recognized in the period in which the judgments, estimates and assumptions are revised and in any future period affected.

Judgment

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

Determination of Fair Values of Financial Instruments

Where the fair values of financial assets and liabilities recorded in the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Company uses judgment to select from a variety of valuation models and makes assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

Estimates

Estimation of Allowance for Impairment of Insurance Receivables

Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers and counterparties, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease assets.

As at December 31, 2017 and 2016, the Company has not recognized provision for impairment loss on its insurance receivables.

As at December 31, 2017 and 2016, the carrying amount of insurance receivables amounted to P177.94 million and P128.72 million, respectively (Note 7).

Estimation of Allowance for Impairment of AFS Financial Assets

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

As at December 31, 2017 and 2016, the Company assessed that there are no impairment indicators for its AFS financial assets.

As at December 31, 2017 and 2016, the carrying amount of AFS financial assets amounted to P361.95 million and P304.03 million, respectively (Note 8).

Valuation of Claims and Losses Payable and IBNR

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimation of the ultimate cost of claims is a complex process and can be evaluated with the aid of the adjuster's estimates.

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

The primary technique adopted in estimating the ultimate cost of IBNR is using the Incurred Chain Ladder Method to predict the future claims settlement.

At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to claims and losses payable and IBNR claims.

As at December 31, 2017 and 2016, claims and losses payable and IBNR claims amounted to P129.69 million and P64.91 million, respectively (Note 12).

Realizability of Deferred Tax Assets

The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets is based on the projected taxable income in the following periods.

As at December 31, 2017 and 2016, deferred tax assets amounted to P2.35 million and P0.83 million, respectively (Note 20).

5. Insurance and Financial Risks Management Objectives and Policies

Objectives and Policies

The primary objective of the Company's insurance and financial risk management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of the financial performance objectives, including failing to exploit opportunities.

Governance

Key management recognizes the critical importance of having efficient and effective risk management system.

The Company's risk management involves the close cooperation of the Company's BOD in developing objectives, policies and processes on insurance, liquidity, credit and market risks and the Company's management of capital.

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close observation to ensure that the Company is satisfactorily managing its affairs for the benefit of policyholders. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency position to meet liabilities arising from claims and that the risks are at acceptable levels.

The risks and the way the Company manages insurance and financial risks are set out below:

Insurance Risk

The major classes of general insurance written by the Company include fire, marine, casualty and motor. Risks under these policies usually cover a twelve-month duration.

The risk under insurance contracts is the possibility of occurrence of an insured event and uncertainty of the amount and timing of resulting claims. The principal risk the Company faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

- *Occurrence Risk* - the possibility that the number of insured events reported in a particular period will differ from those expected.
- *Severity Risk* - the possibility that the cost of the events will differ from those expected.
- *Development Risk* - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The Company's exposure to insurance risk as at December 31, 2017 and 2016 is as follows:

	<i>Note</i>	2017	2016
Claims and losses payable and IBNR	12	P129,692,421	P64,906,961
Less reinsurance recoverable on unpaid losses	7	118,767,781	61,489,490
		P10,924,640	P3,417,471

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risk is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Company comprises short-term nonlife insurance contracts. For general insurance contracts, claims are often affected by natural disasters, calamities, etc. These risks currently do not vary significantly in relation to the location of the risk insured by the Company while undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company has an objective to control and minimize insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security; and
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented as part of "Insurance receivables" in the statements of financial position.

The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. Amounts of estimates at the accident year are based from adjusters' report. Other estimates are based on reasonable approximation after an evaluation of reported claims. Adjustment to the loss reserves is made on the year the ultimate cost of claim becomes more certain. Reserves are either decreased or increased depending on the estimates.

Key Assumptions

The principal assumptions underlying the estimates made by the Company depends on the past claims experience and industry levels. This includes assumptions in respect to average claims costs, inflation factor and handling cost. Judgment is used to assess the extent to which external factors such as judicial decision and government legislation affect the estimates.

Sensitivity Analysis

The Company's claims provision is sensitive to the previous key assumptions. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, among others is not possible to quantify.

In accordance with the claims development methodology, claims and losses over a period of time on a gross and net reinsurance basis were developed as follows:

Accident Year	2017					Total
	All Years Prior to 2014	2014	2015	2016	2017	
Incremental claims settlements:						
At the end of accident year	P301,843,807	P10,805,744	P8,729,373	P69,104,909	P61,519,744	P61,519,744
One year later	230,908,334	3,032,265	2,078,998	80,321,753	-	80,321,753
Two years later	34,237,563	4,206,647	239,728	-	-	239,728
Three years later	2,399,560	204,597	-	-	-	204,597
Four years later	71,277	-	-	-	-	71,277
Claims incurred during the year including IBNR	71,277	204,597	239,728	80,321,753	61,519,744	142,357,099
Claims and losses paid during the year	-	78,442	55,455	2,357,990	10,172,791	12,664,678
Claims and losses payable and IBNR	71,277	126,155	184,273	77,963,763	51,346,953	129,692,421
Reinsurance recoverable on unpaid losses	-	-	-	75,507,121	43,260,660	118,767,781
Net exposure	P71,277	P126,155	P184,273	P2,456,642	P8,086,293	P10,924,640

Accident Year	2016					Total
	All Years Prior to 2013	2013	2014	2015	2016	
Incremental claims settlement:						
At the end of accident year	P104,914,035	P196,929,772	P10,805,744	P8,729,373	P69,104,909	P69,104,909
One year later	8,606,280	222,302,054	4,394,577	2,078,998	-	2,078,998
Two years later	2,184,073	32,053,490	4,206,647	-	-	4,206,647
Three years later	1,308,386	1,084,088	-	-	-	1,084,088
Four years later	7,086	-	-	-	-	7,086
Claims incurred during the year including IBNR	7,086	1,084,088	4,206,647	2,078,998	69,104,909	76,481,728
Claims and losses paid during the year	2,951	11,481	4,061,042	1,843,397	5,655,896	11,574,767
Claims and losses payable and IBNR	4,135	1,072,607	145,605	235,601	63,449,013	64,906,961
Reinsurance recoverable on unpaid losses	-	857,316	-	-	60,632,174	61,489,490
Net exposure	P4,135	P215,291	P145,605	P235,601	P2,816,839	P3,417,471

Even though 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 reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations under such reinsurance agreements.

The concentration of claims and losses by type of contract is as follows:

	2017		
	Claims and Losses Payable and IBNR (Note 12)	Reinsurance Recoverable on Unpaid Losses (Note 7)	Net
Fire	P124,962,369	P118,767,781	P6,194,588
Motor	4,730,052	-	4,730,052
	P129,692,421	P118,767,781	P10,924,640

	2016		
	Claims and Losses Payable and IBNR (Note 12)	Reinsurance Recoverable on Unpaid Losses (Note 7)	Net
Fire	P62,608,607	P61,489,490	P1,119,117
Motor	2,298,354	-	2,298,354
	P64,906,961	P61,489,490	P3,417,471

Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and reinsurance 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.

Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Company regulates and extends credit only to qualified and credit-worthy related entities and other counterparties, and continuously monitors defaults of its counterparties, identified either individually or by group, and incorporate this information into its credit risk controls.

The maximum credit risk exposure of the Company's financial assets is as summarized below:

	<i>Note</i>	2017	2016
Cash and cash equivalents	6	P288,311,479	P254,454,075
Insurance receivables*	7	59,168,202	67,226,319
AFS financial assets	8	361,949,591	304,026,467
Interest receivable**	11	1,960,808	1,817,525
Security deposit**	11	180,733	180,733
Due from reinsurers***	13	22,606,943	16,675,031
		P734,177,756	P644,380,150

*excluding reinsurance recoverable on unpaid losses

**included under "Other assets" account

***included under "Due to reinsurers - net" account

The credit risk for cash and cash equivalents and AFS financial assets is considered negligible, since the counterparties are reputable entities with high quality external credit ratings. The credit quality of these financial assets is therefore considered as high grade. For the determination of credit risk, cash and cash equivalents do not include cash on hand amounting to P0.05 million as at December 31, 2017 and 2016.

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

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

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

The table below provides information regarding the credit risk exposure of the Company by classifying financial assets according to the Company's credit grading of counterparties.

2017					
Neither Past-Due nor Impaired					
	Investment High Grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and/or Impaired	Total
Cash and cash equivalents	P288,311,479	P -	P288,311,479	P -	P288,311,479
Insurance receivables*	59,168,202	-	59,168,202	-	59,168,202
AFS financial assets	361,949,591	-	361,949,591	-	361,949,591
Interest receivable**	1,960,808	-	1,960,808	-	1,960,808
Security deposit**	180,733	-	180,733	-	180,733
Due from reinsurers***	22,606,943	-	22,606,943	41,566	22,648,509
	P734,177,756	P -	P734,177,756	P41,566	P734,219,322

*excluding reinsurance recoverable on unpaid losses

**included under "Other assets" account

***included under "Due to reinsurers - net" account

2016					
Neither Past-Due nor Impaired					
	Investment High Grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and/or Impaired	Total
Cash and cash equivalents	P254,454,075	P -	P254,454,075	P -	P254,454,075
Insurance receivables*	67,226,319	-	67,226,319	-	67,226,319
AFS financial assets	304,026,467	-	304,026,467	-	304,026,467
Interest receivable**	1,817,525	-	1,817,525	-	1,817,525
Security deposit**	180,733	-	180,733	-	180,733
Due from reinsurers***	16,675,031	-	16,675,031	41,566	16,716,597
	P644,380,150	P -	P644,380,150	P41,566	P644,421,716

*excluding reinsurance recoverable on unpaid losses

**included under "Other assets" account

***included under "Due to reinsurers - net" account

The aging of the insurance receivables (excluding reinsurance recoverable on unpaid losses) is as follows:

	Note	2017	2016
Premiums Receivables			
Current		P19,671,506	P17,792,994
Past due but not impaired:			
31 - 60 days		6,504,814	8,811
61 - 90 days		304,321	81,380
More than 90 days		6,117,307	102,186
	7	32,597,948	17,985,371
Reinsurance Recoverable on Paid Losses			
Current		-	3,119,328
Past due but not impaired:			
31 - 60 days		-	-
61 - 90 days		891,840	-
More than 90 days		25,678,414	46,121,620
	7	26,570,254	49,240,948
		P59,168,202	P67,226,319

The Company provides allowance for impairment on a specific and collective basis. The 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 individually significant accounts that are to be provided with allowance on a regular basis.

Liquidity Risk

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

The Company's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The Company manages its liquidity needs by carefully monitoring scheduled debt serving payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and 1-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits or short-term marketable securities.

Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2017 and 2016, the contractual maturities of the Company are all due in one year or less.

	<i>Note</i>	2017	2016
Financial Liabilities			
Claims and losses payable	12	P129,668,186	P64,906,961
Due to reinsurers*	13	52,553,243	37,658,695
Accrued expenses and other liabilities**	14	3,393,075	4,520,043
		P185,614,504	P107,085,699

*gross of due from reinsurer included under "Due to reinsurers - net" account

**excluding payable to regulatory agencies and deferred credits

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at reporting dates.

Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and 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.

Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine peso, its functional currency. Exposures to currency exchange rates arise from the Company's cessions to Overseas Ventures Insurance Corporation Ltd. (OVINCOR) and collection on fire and marine insurance premiums from Petron, which are primarily denominated in US dollar.

The Company also holds US dollar-denominated cash and cash equivalents.

To mitigate the company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency denominated financial assets and liabilities, translated into Philippine peso at the closing rate are as follows:

	2017		2016	
	US Dollar	Peso Equivalent*	US Dollar	Peso Equivalent*
Financial assets	\$2,124,425	P106,072,557	\$1,921,031	P95,513,656
Financial liabilities	(184,975)	(9,235,817)	(180,165)	(8,957,782)
Net exposure	\$1,939,450	P96,836,740	\$1,740,866	P86,555,874

*difference may arise due to rounding off differences

The Company reported net foreign exchange loss of P0.35 million and gain of P2.95 million in 2017 and 2016, respectively (Note 18), with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar. As at December 31, 2017 and 2016, the closing rate of US dollar to peso is P49.93 and P49.72, respectively.

The management of foreign currency risk is also supplemented by monitoring the sensitivity of financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity through the retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to income before tax and equity as at December 31:

	Change in US Dollar Exchange Rate	Effect on Income before Income Tax	Effect on Equity
2017	+1.02%	P987,735	P691,415
	-1.02%	(987,735)	(691,415)
2016	+1.43%	P1,237,749	P866,424
	-1.43%	(1,237,749)	(866,424)

In 2017, the peso volatility, as measured by the coefficient of variation of peso's daily closing rates, decreased to 1.02% from 1.43% in 2016. The Company determined that this will best represent the movement of foreign exchange rate until the next reporting date.

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

Interest Rate Risk

The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration on the maturity profile of the financial instruments.

The Company's exposure to such instruments is not significant as most of the investments have fixed interest rates and maturities.

Price Risk

Price risk is the risk that future cash flows will fluctuate because of changes in market prices of individual stocks and the changes in the level of Philippine Stock Exchange index (PSEi).

As at December 31, 2017 and 2016, the Company does not have an exposure to price risk as it does not have investments in equity securities.

Fair Value of Financial Instruments

The fair value of cash and cash equivalents, insurance receivables, interest receivables, due to a related party, claims and losses payable, due from/to reinsurers, and accrued expenses and other liabilities, approximate their carrying amounts due to relatively short-term nature.

The fair value of AFS financial assets is presented in the fair value hierarchy.

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities (Note 3).

As at December 31, AFS financial asset is the only financial asset measured at fair value in the statements of financial position. The fair value hierarchy of the Company's AFS financial asset is as follows:

	2017				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
AFS financial assets:					
Government securities	P200,742,331	P200,742,331	P -	P -	P200,742,331
Other debt instruments	161,207,260	-	161,207,260	-	161,207,260
	P361,949,591	P200,742,331	P161,207,260	P -	P361,949,591

	2016				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
AFS financial assets:					
Government securities	P140,629,615	P89,918,400	P50,711,215	P -	P140,629,615
Other debt instruments	163,396,852	-	163,396,852	-	163,396,852
	P304,026,467	P89,918,400	P214,108,067	P -	P304,026,467

Fair value of other debt instruments is estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. The market price reference in determining the market values is derived from Philippine Dealings and Exchange Corporation as at December 29, 2017 and December 29, 2016.

As at December 31, 2017 and 2016, the Company has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

6. Cash and Cash Equivalents

Cash and cash equivalents consists of:

	2017	2016
Cash on hand and in banks	P29,714,290	P16,519,708
Short-term placements	258,647,189	237,984,367
	P288,361,479	P254,504,075

Cash in banks generally earns interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company, and earn annual interest ranging from 0.50% to 3.25% in 2017 and 0.50% to 2.25% in 2016. Interest earned on cash in banks and short-term placements amounted to P5.68 million and P3.93 million in 2017 and 2016, respectively (Note 18). Accrued interest on cash and cash equivalents amounted to P0.31 million and P0.23 million in 2017 and 2016, respectively (see Note 11).

7. Insurance Receivables

Insurance receivables consists of:

	Note	2017	2016
Premium receivables			
Related parties	21	P32,565,004	P8,446,425
Third parties		32,944	9,538,946
		32,597,948	17,985,371
Reinsurance recoverable on paid losses			
Third parties		26,570,254	49,240,948
Reinsurance recoverable on unpaid losses			
Related parties	21	17,239,768	8,524,325
Third parties		101,528,013	52,965,165
		118,767,781	61,489,490
		145,338,035	110,730,438
		P177,935,983	P128,715,809

All of the Company's insurance receivables have been reviewed for indicators of impairment. No receivables were found to be impaired.

8. AFS Financial Assets

AFS financial assets consists of:

	2017	2016
Government securities	P200,742,331	P140,629,615
Other debt securities	161,207,260	163,396,852
	P361,949,591	P304,026,467

This account is comprised of investments in government and private securities. Government securities consists of bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of Government-owned and controlled corporations, including the Banko Sentral ng Pilipinas, which are lodged with the Bureau of Treasury, in accordance with the provisions of the Insurance Code for the benefit and security of policyholders and creditors of the Company.

This account bears fixed interest rates ranging from 2.13% to 5.30% and 2.13% to 7.75% in 2017 and 2016, respectively. In 2017 and 2016, interest income on these investments amounted to P12.23 million and P11.79 million, respectively (Note 18). As at December 31, 2017 and 2016, accrued interest on these investments amounted to P1.65 million and P1.59 million, respectively (Note 11).

The maturity profile of this account is as follows:

	2017	2016
Due in one year or less	P29,878,200	P70,753,015
Due after one year through five years	332,071,391	233,273,452
	P361,949,591	P304,026,467

The reconciliation of the carrying amount of AFS financial assets - net of deferred tax is as follows:

	2017	2016
Balance at beginning of year	P304,026,468	P289,094,932
Additions	131,150,229	90,582,172
Maturity	(70,000,000)	(70,000,000)
Fair value loss	(2,090,964)	(3,436,139)
Amortization of premium	(1,136,142)	(2,214,498)
Balance at end of year	P361,949,591	P304,026,467

The reconciliation of revaluation reserve on AFS financial assets is as follows:

	2017	2016
Balance at beginning of year	P659,358	P3,064,656
Net change in fair value of AFS financial assets	(1,731,863)	(3,630,086)
Net change in fair value of AFS financial assets transferred to profit or loss	268,190	1,224,788
Balance at end of year	(P804,315)	P659,358

9. Deferred Reinsurance Premiums

Deferred reinsurance premiums pertains to the portion of insurance premiums ceded out and that relates to the unexpired period of the policies at reporting dates.

The movement of this account for the years ended December 31 is as follows:

	<i>Note</i>	2017	2016
Balance at beginning of year		P39,635,217	P41,367,680
Premiums ceded	21	557,980,036	577,163,438
Premiums ceded related to expired periods		(552,880,709)	(578,895,901)
	17	5,099,327	(1,732,463)
Balance at end of year		P44,734,544	P39,635,217

10. Property and Equipment - net

Property and equipment - net consists of:

	<i>Note</i>	2017		Total
		Office Equipment	EDP Equipment	
Cost				
January 1, 2017		P3,016,326	P1,697,506	P4,713,832
Additions		-	72,612	72,612
		3,016,326	1,770,118	4,786,444
Accumulated Depreciation				
January 1, 2017		3,016,326	1,657,718	4,674,044
Depreciation	19	-	35,472	35,472
		3,016,326	1,693,190	4,709,516
Carrying amount				
December 31, 2017		P -	P76,928	P76,928
	<i>Note</i>	2016		Total
		Office Equipment	EDP Equipment	
Cost				
January 1, 2016		P3,016,326	P2,012,866	P5,029,192
Disposals		-	(315,360)	(315,360)
		3,016,326	1,697,506	4,713,832
Accumulated Depreciation				
January 1, 2016		3,016,326	1,909,673	4,925,999
Depreciation	19	-	63,405	63,405
Disposals		-	(315,360)	(315,360)
		3,016,326	1,657,718	4,674,044
Carrying amount				
December 31, 2016		P -	P39,788	P39,788

11. Other Assets

Other assets consists of:

	Note	2017	2016
Creditable withholding tax (CWT)		P14,313,571	P16,366,273
Interest receivable	6, 8	1,960,808	1,817,525
Deferred input VAT		817,381	621,824
Security deposit		180,733	180,733
Others		325,627	151,624
		P17,598,120	P19,137,979

CWT pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases.

Security deposit was made with the IC in compliance with Section 378 of the Amended Insurance Code (R.A. No. 10607), to be used for payment of claims against insolvent insurance companies. As at December 31, 2017 and 2016, the balance of the deposit amounting to P0.18 million represents the Company's contribution to the deposit and it earns interest at rates determined by the IC annually. Interest income earned from security deposit amounted to nil and P0.05 million for the period ended December 31, 2017 and 2016 (see Note 18).

12. Insurance Liabilities

Insurance liabilities consist of:

	Note	2017	2016
Claims and losses payable			
Related party	21	P121,262,369	P62,608,607
Third parties		8,405,817	2,298,354
		129,668,186	64,906,961
IBNR claims		24,235	-
		129,692,421	64,906,961
Reserve for unearned premiums		49,384,049	43,598,443
		P179,076,470	P108,505,404

The movement in claims and losses payable and IBNR and reinsurance recoverable on unpaid losses are accounted for as follows:

	2017			2016		
	Claims and Losses Payable and IBNR	Reinsurance Recoverable on Unpaid Losses (Note 7)	Net	Claims and Losses Payable and IBNR	Reinsurance Recoverable on Unpaid Losses (Note 7)	Net
Balance at beginning of year	P64,906,961	P61,489,490	P3,417,471	P34,551,616	P26,837,468	P7,714,148
Claims and losses incurred during the year	77,425,903	60,673,745	16,752,158	41,930,112	31,898,390	10,031,722
Claims and losses paid - net of recoveries	(12,664,678)	(3,395,454)	(9,269,224)	(11,574,767)	2,753,632	(14,328,399)
Increase in IBNR	24,235	-	24,235	-	-	-
Balance at end of year	P129,692,421	P118,767,781	P10,924,640	P64,906,961	P61,489,490	P3,417,471

A reconciliation of reserve for unearned premiums is as follows:

	<i>Note</i>	2017	2016
Balance at beginning of year		P43,598,443	P46,451,811
Gross premiums written		591,776,619	607,778,706
Gross earned premiums		(585,991,013)	(610,632,074)
	17	5,785,606	(2,853,368)
Balance at end of year		P49,384,049	P43,598,443

13. Due to Reinsurers - net

Due to reinsurers - net consists of:

	<i>Note</i>	2017	2016
Due to reinsurers			
Related parties	21	P9,235,832	P9,706,609
Third parties		43,317,411	27,952,086
		52,553,243	37,658,695
Due from reinsurers			
Related parties	21	779,530	748,826
Third parties		21,868,979	15,967,771
		22,648,509	16,716,597
Less allowance for impairment loss		(41,566)	(41,566)
		22,606,943	16,675,031
		P29,946,300	P20,983,664

Due to reinsurers pertains to the premiums payable to the reinsurers while due from reinsurers pertains to the Company's reinsurance commissions receivable.

All of the Company's receivables from reinsurers have been reviewed for indicators of impairment. As at December 31, 2017 and 2016, no additional receivables were found to be impaired.

14. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of:

	<i>Note</i>	2017	2016
Payable to regulatory agencies			
National		P10,346,294	P6,739,906
Local		3,550,670	3,646,685
		13,896,964	10,386,591
Due to a related party	21	1,779,012	1,885,857
Accrued expenses		675,521	441,445
Unclaimed check		644,197	2,103,981
Accounts payable		294,345	88,760
Deferred credits		31,086	31,086
		P17,321,125	P14,937,720

15. Deferred Reinsurance Commission

A reconciliation of deferred reinsurance commission is as follows:

	2017	2016
Balance at beginning of year	P1,266,913	P2,765,788
Reinsurance commissions for the year	13,341,341	11,292,878
Reinsurance commissions earned for the year	(12,506,602)	(12,791,753)
	834,739	(1,498,875)
Balance at end of year	P2,101,652	P1,266,913

16. Capital Stock

As at December 31, capital stock consists of:

	2017		2016	
	Number of Shares	Amount	Number of Shares	Amount
Authorized capital stock:				
Common shares at P1,000 par value	400,000	P400,000,000	400,000	P400,000,000
Issued and outstanding	335,000	P335,000,000	270,000	P270,000,000

On September 20, 2017, the BOD declared 65,000 stock dividend in favor of Petron with an aggregate value of P65.00 million from the Company's unissued authorized capital stock.

On December 22, 2016, Petron subscribed and paid for 20,000 common shares amounting to P20.00 million.

17. Net Premiums Earned

The reconciliation of movement in net premiums earned is as follows:

	Note	2017	2016
Gross Earned Premiums			
Gross premiums written	21	P591,776,619	P607,778,706
Decrease (increase) in reserve for unearned premiums	12	(5,785,606)	2,853,368
		585,991,013	610,632,074
Reinsurer's Share of Gross Earned Premiums			
Reinsurer's share of gross premiums		557,980,036	577,163,438
Decrease (increase) in deferred reinsurance premiums	9	(5,099,327)	1,732,463
		552,880,709	578,895,901
		P33,110,304	P31,736,173

18. Investment and Other Income - net

Investment and other income consists of:

	<i>Note</i>	2017	2016
Interest income on:			
Cash and cash equivalents	6	P5,680,996	P3,932,409
AFS financial assets	8	12,228,086	11,788,874
Security deposit*	11	-	48,706
		17,909,082	15,769,989
Service fees	21	33,962,474	29,080,169
No claim bonus		12,306,699	10,223,002
Profit commission		2,089,816	2,019,731
Realized foreign exchange gain - net		1,937,945	1,082,885
Unrealized foreign exchange gain (loss) - net		(1,587,652)	1,868,496
Other income (expense)		1,162,452	(2,571,747)
		P67,780,816	P57,472,525

*included under "Other assets" account

Service fees pertains to services provided by the Company to Petron other than underwriting services which are permitted as per Company's Amended Articles of Incorporation.

No claim bonus is the amount received from reinsurers in the event of no claims made throughout the year within the insurance period.

19. General and Administrative Expenses

General and administrative expenses consists of:

	<i>Note</i>	2017	2016
Outside services	21	P11,425,427	P16,185,091
Taxes and licenses		604,396	497,409
Professional fees		589,800	608,220
Rent	21, 23	428,140	415,670
Association dues		317,769	451,975
Advertising	21	152,309	186,248
Transportation and travel	21	133,288	142,660
Communication		113,497	130,332
Office supplies	21	109,338	123,131
Representation		105,196	185,629
Training		90,368	60,808
Depreciation	10	35,472	63,405
Miscellaneous		4,314	28,852
		P14,109,314	P19,079,430

20. Income Taxes

Income tax expense consists of:

	2017	2016
Current income tax	P14,649,877	P10,543,054
Deferred income tax	(1,738,971)	592,451
Final tax	3,600,712	3,410,804
	P16,511,618	P14,546,309

The reconciliation between income tax computed at statutory income tax rate of 30.00% and the Company's income tax expense is as follows:

	2017	2016
Income before income tax	P82,512,015	P73,178,517
Income tax computed at statutory income tax rate of 30%	P24,753,605	P21,953,555
Decrease in income tax resulting from tax effects of:		
Excess of OSD over itemized deductions	(6,469,974)	(6,087,053)
Interest income subjected to final tax	(1,772,013)	(1,320,193)
Income tax expense	P16,511,618	P14,546,309

Deferred tax assets (liabilities) - net arises from the following:

	<i>Note</i>	2017	2016
Amount Charged to Profit or Loss			
Provision for loss reserves		P826,485	P437,850
Deferred reinsurance commissions	15	630,496	380,074
Unrealized foreign exchange gain (loss)	18	476,295	(560,549)
Provision for loss adjustments		55,800	-
Allowance for impairment loss	13	12,470	12,470
IBNR claims	12	7,270	-
		2,008,816	269,845
Amount Charged to OCI			
Changes in fair value of AFS financial assets		344,707	(282,582)
		P2,353,523	(P12,737)

The movements of deferred tax assets - net are accounted for as follows:

	2017	2016
Amount charged to profit or loss	(P1,738,971)	P592,451
Amount charged to OCI	(627,289)	(1,030,841)
	(P2,366,260)	(P438,390)

The Company is subject to MCIT which is computed at 2.00% of gross income, as defined under tax regulations. No MCIT was reported in 2017 and 2016 as the RCIT was higher than MCIT in both years.

Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40.00% of gross income. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.

The Company opted to use OSD for its annual income tax return in 2017 and 2016.

21. Related Party Disclosures

The Company's related parties include its parent company, entities under common control and others as described below. Details of related party transactions in 2017 and 2016 are as follows:

Category/Transaction	Note	Year	Amount of the Transaction	Outstanding Balance		Terms	Conditions
				Due from Related Parties	Due to Related Parties		
Parent Company							
Premiums written	7, 21.a	2017	P526,482,872	P32,565,004	P -	On-demand;	Unsecured;
		2016	548,735,259	8,446,425	-	non-interest bearing	no impairment
Service fees	18, 21.b	2017	33,962,474	-	-	On-demand;	Unsecured
		2016	29,080,169	-	-	non-interest bearing	
Claims	12, 21.a	2017	59,662,369	-	121,262,369	On-demand;	Unsecured
		2016	61,708,000	-	62,608,607	non-interest bearing	
Management fee	14, 21.c	2017	11,375,420	-	1,779,012	On-demand;	Unsecured
		2016	16,112,970	-	1,885,857	non-interest bearing	
Entities under Common Control							
Premiums ceded	9, 13, 21.a	2017	40,648,616	-	9,235,832	On-demand;	Unsecured
		2016	34,108,851	-	9,706,609	non-interest bearing	
Commissions earned	13	2017	2,342,400	779,530	-	On-demand;	Unsecured;
		2016	2,523,802	748,826	-	non-interest bearing	no impairment
Reinsurance recoverable on unpaid losses	7	2017	9,175,108	17,239,768	-	On-demand;	Unsecured;
		2016	8,008,000	8,524,325	-	non-interest bearing	no impairment
TOTAL		2017		P50,584,302	P132,277,213		
TOTAL		2016		P17,719,576	P74,201,073		

- 21.a In the normal course of business, the Company provides insurance cover to its parent company, Petron, and obtains certain reinsurance coverage from OVINCOR, a wholly-owned subsidiary of Petron and incorporated under the laws of Bermuda.
- 21.b The Company provides services to Petron other than underwriting services which are permitted under its Amended Articles of Incorporation.
- 21.c The Company entered into a management agreement with Petron for the latter to provide necessary manpower and office space facilities to support its operations for a period of four years. This agreement is effective from January 1, 2013 until either Petron or the Company provides a written notice of termination of the management agreement.

Total expenses charged to operations from this management agreement are as follows:

	2017	2016
Outside services	P10,855,697	P15,567,926
Rent	428,140	415,670
Advertising	62,652	70,334
Transportation and travel	18,218	51,022
Office supplies	10,713	8,018
	P11,375,420	P16,112,970

Key Management Compensation

There is no compensation for key management personnel in 2017 and 2016 since the key management roles are held by employees of Petron.

22. Capital Management and Regulatory Requirements

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders by applying with the capital requirements and limitation enforced by the IC and aligning the Company's operation strategy to its corporate goals.

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 IC and the amount computed under the risk based capital (RBC) model.

The Company manages capital through a process that determines future projected capital requirements through the development of long-term financial plans and projections that consider the impact of surplus of new business, profitability of in-force business and other major corporate initiatives that will affect capitalization levels.

The IC is interested in protecting the rights of the policyholders and maintaining close vigil to ensure that the Company is satisfactorily managing the affairs for policyholders' benefits.

The Company considers capital stock, contributed surplus, revaluation reserve for AFS financial assets and retained earnings as capital it manages.

There were no changes made to its capital base, objectives, policies and processes from previous years.

Net Worth Requirements

Under the Amended Insurance Code (Republic Act 10607) which was approved on August 15, 2013, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

Net Worth	Compliance Date
P250,000,000	On or before June 30, 2013
550,000,000	On or before December 31, 2016
900,000,000	On or before December 31, 2019
1,300,000,000	On or before December 31, 2022

As at December 31, 2017 and 2016, the Company has complied with the net worth requirements, based on internal calculations. The final amount of net worth can be determined only after the accounts of the Company have been examined by the IC, especially as to the admitted and non-admitted assets as defined under the Insurance Code.

RBC2 Requirements

IC Circular No. 2016-68, *Amended RBC2 Framework*, provides for the RBC2 framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the insurance companies in relation to the risks an insurance company is exposed to. Every non-life insurance company is annually required to maintain an RBC2 ratio of at least 100.00% and not to fail the trend test. Failure to meet the minimum RBC2 ratio shall subject the insurance company to regulatory intervention which could be at various levels depending on the degree of the violation.

The RBC2 ratio shall be calculated as total available capital (TAC) divided by the RBC2 requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits determined by IC. With Tier 1 Capital being the capital fully available to cover losses at all times on a going concern and winding up basis. And Tier 2 Capital as the capital that can also provide additional buffer to the insurance company, though it is not of the same high quality as Tier 1 Capital. RBC2 requirement shall be computed based on the formula provided in the Circular and shall include credit risk, insurance risk, market risk, operational risk, catastrophe risk, and surrender risk.

As at December 31, 2017 and 2016, the Company has complied with RBC2 requirements based on internal calculations.

The final RBC2 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.

23. Lease Commitments

The Company has determined that the significant risks and rewards for properties leased from a related party are retained by the lessor.

On April 27, 2015, the Company has renewed its noncancelable operating lease agreement for office premises with terms of five (5) years which covered the periods from June 1, 2015 to May 31, 2020. The lease agreement includes escalation clauses that allow a reasonable increase in rates. The lease is renewable under certain terms and conditions.

As at December 31, future minimum rental payments under the new lease agreement are as follows:

	2017	2016
Within one year	P440,985	P428,140
After one year but not more than five years	645,795	1,086,780
	P1,086,780	P1,514,920

Rent expense amounting to P0.43 million and P0.42 million in 2017 and 2016, respectively, is presented as "Rent" under the "General and administrative expenses" account in the statements of income (Note 19).

24. Reclassification of accounts

In 2017, the Company reclassified certain accounts in the 2016 statements of income to conform with the proper classification of the accounts.

A summary of the impact of the reclassification to the statements of income for the year ended December 31, 2016 are as follow:

	Impact of Reclassification		
	As Previously Reported	Adjustments	As Restated
Statements of Income			
Reinsurance commission	P41,871,922	(P29,080,169)	P12,791,753
Investment and other income	28,392,356	29,080,169	57,472,525

Management have reassessed mapping of accounts in the current year to properly reflect balances base on the nature of transactions. The above reclassification has no significant effect on the information in the statements of income. Accordingly, the management did not present statements of income at the beginning of the earliest comparative period.

25. Supplementary Information Required Under RR No. 15-2010 of the Bureau of Internal Revenue (BIR)

The BIR has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to the financial statements. The Company presented the required supplementary tax information as a separate schedule attached to its annual income tax return.



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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders
Petrogen Insurance Corporation
SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Petrogen Insurance Corporation (a wholly-owned subsidiary of Petron Corporation) (the Company) as at and for the year ended December 31, 2017, and have issued our report thereon dated March 12, 2018.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The supplementary information included in the Schedule of Philippine Financial Reporting Standards is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS

Partner

CPA License No. 0102309

IC Accreditation No. F-2017-017-O, valid until November 26, 2020

SEC Accreditation No. 1619-A, Group A, valid until March 15, 2020

Tax Identification No. 920-961-311

BIR Accreditation No. 08-001987-38-2016

Issued December 16, 2016; valid until December 15, 2019

PTR No. 6615139MD

Issued January 3, 2018 at Makati City

March 12, 2018
Makati City, Metro Manila

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
	PFRS 2	Share-based Payment		
Amendments to PFRS 2: Vesting Conditions and Cancellations				✓
Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions				✓
Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'				✓
Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions				✓
PFRS 3 (Revised)	Business Combinations			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements			✓

* These standards will be effective January 1, 2018 and were not adopted early by the Company.

** These standards will be effective January 1, 2019 and were not adopted early by the Company.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments			✓
PFRS 9	Financial Instruments (2014)		✓*	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓

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** These standards will be effective January 1, 2019 and were not adopted early by the Company.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard			✓
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		✓*	
PFRS 16	Leases		✓**	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓

* These standards will be effective January 1, 2018 and were not adopted early by the Company.

** These standards will be effective January 1, 2019 and were not adopted early by the Company.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits			✓
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value			✓
	Amendment to PAS 28: Long-term Interests in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions			✓
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information 'elsewhere in the interim financial report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)			✓
	Amendments to PAS 40: Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration		✓*	
IFRIC 23	Uncertainty over Income Tax Treatment		✓**	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01-Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2008-01-Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	✓		
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations			✓
PIC Q&A 2011-03	Accounting for Inter-company Loans			✓
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares			✓
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?			✓
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013			✓
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015			✓
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016			✓
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity			✓
PIC Q&A 2016-03	Accounting for Common Areas and the Related Subsequent Costs for Condominium Corporations (Subject to approval of the BOA)			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓
PIC Q&A 2017-01	Conforming Changes to PIC Q&As - Cycle 2017			✓
PIC Q&A 2017-02	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building			✓
PIC Q&A 2017-03	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/ or joint ventures			✓

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PIC Q&A 2017-04	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
PIC Q&A 2017-05	PFRS 7 - Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosure	✓		
PIC Q&A 2017-06	PAS 2, 16 and 40 - Accounting for Collector's Items			✓
PIC Q&A 2017-07	PFRS 10 - Accounting for reciprocal holdings in associates and joint ventures			✓
PIC Q&A 2017-08	PFRS 10 - Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture			✓
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	✓		
PIC Q&A 2017-10	PAS 40 - Separation of property and classification as investment property			✓
PIC Q&A 2017-11	PFRS 10 and PAS 32 - Transaction costs incurred to acquire outstanding non-controlling interests or to sell non-controlling interest without a loss of control			✓
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans			✓
PIC Q&A 2018-01	Voluntary changes in accounting policy			✓
PIC Q&A 2018-02	Non-controlling interests and goodwill impairment test			✓
PIC Q&A 2018-03	Fair value of PPE and depreciated replacement cost			✓
PIC Q&A 2018-04	Inability to measure fair value reliably for biological assets within the scope of PAS 41			✓
PIC Q&A 2018-05	Maintenance requirement of an asset held under lease			✓
PIC Q&A 2018-06	Cost of investment in subsidiaries in SFS when pooling is applied			✓
PIC Q&A 2018-07	Cost of an associate, joint venture, or subsidiary in separate financial statements			✓
PIC Q&A 2018-08	Accounting for the acquisition of non-wholly owned subsidiary that is not a business			✓
PIC Q&A 2018-09	Classification of deposits and progress payments as monetary or non-monetary items			✓
PIC Q&A 2018-10	Scope of disclosure of inventory write-down			✓

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Legend:

Adopted - means a particular standard or interpretation is relevant to the operations of the entity (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.

Not Adopted - means a particular standard or interpretation is effective but the entity did not adopt it due to either of these two reasons: 1) The entity has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the entity decided otherwise.

Not Applicable - means the standard or interpretation is not relevant at all to the operations of the entity.