Corporate Guarantee and Insurance Company
Five Year Business Projection
Actuarial Certification

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Five-Year Business Projection

PURPOSE & SCOPE	AMI Actuarial Consultants Philippines, Inc. ("AMI") has been engaged by Corporate Guarantee and Insurance Company (the "Company") to attest and certify its Five-Year Business Projection (Net Income and Financial Position) as directed by the Insurance Commission. Our report covers the data sources, various exhibits, assumptions and actuarial methods used in our review of the projections. We relied without audit or verification on the information furnished by the Company. We also did not consider the impact of the implementation of IFRS17 in our projections.
ACKNOWLEDGMENT OF QUALIFICATIONS	Aguedo M. (Bob) Ingco is a consulting actuary and President of AMI Actuarial Consultants Philippines, Inc. He is a Fellow of the Actuarial Society of the Philippines (FASP), a Fellow of the Casualty Actuarial Society (FCAS), a Fellow of the Actuarial Society of Hong Kong (FASHK) and a Member of the American Academy of Actuaries (MAAA).
DISTRIBUTION AND USE	We prepared this report for the management of the Company and the Insurance Commission, in compliance with the IC Circular 2018-62. We suggest that the user of this report review a complete copy as parts considered out of context might be misleading. Please request our written consent prior to distributing this report to other third parties.

CONCLUSIONS The projected income statement of the Company for the next five years is estimated to be:

Projected Income Statement
(amounts in thousands Pesos)

	2019	2020	2021	2022	2023
Gross Written Premiums	650,907	687,435	723,663	759,891	796,419
Net Written Premiums	625,707	659,835	695,523	731,091	766,419
Net Earned Premiums	**571,279**	**645,765**	**679,475**	**713,906**	**738,575**
Commission Income	5,460	6,000	6,123	6,282	6,540
Incurred Claims	(257,075)	(290,594)	(305,764)	(321,258)	(332,359)
Commission Cost	(51,737)	(54,611)	(57,485)	(60,359)	(63,234)
General and Administrative Expenses	(120,000)	(126,000)	(132,000)	(138,000)	(144,000)
Investment and Other Income	25,693	38,571	38,528	38,486	38,440
Income Tax	(44,886)	(54,676)	(57,613)	(60,679)	(62,165)
Net Profit/ (Loss)	**128,734**	**164,455**	**171,264**	**178,377**	**181,799**

CONCLUSIONS (continued)

The projected financial position of the Company for the next five years is estimated to be:

Projected Financial Position
(amounts in thousands Pesos)

	2019	2020	2021	2022	2023
Assets	1,814,538	2,065,621	2,288,922	2,522,417	2,767,576
Liabilities	699,132	776,714	818,925	863,369	915,136
Sub Total of Net Worth	**1,115,406**	**1,288,907**	**1,469,998**	**1,659,048**	**1,852,440**
Non Admitted Assets	(194,851)	(232,601)	(247,201)	(261,903)	(276,711)
Net Worth Available	**920,555**	**1,056,306**	**1,222,797**	**1,397,145**	**1,575,729**
Surplus Requirement	900,000	900,000	900,000	1,300,000	1,300,000
Surplus/ (Deficiency)	**20,555**	**156,306**	**322,797**	**97,145**	**275,729**

Although we have identified some minor recommendation, in our opinion, overall, the methods and assumptions used by the Company are comprehensive and reasonable, and the above resulting projections, are reasonable.

Furthermore, the response to the queries of AMI are acceptable and reasonable.

RELIANCE AND LIMITATIONS

In performing the study, we relied without our audit or verification on the following information furnished by the Company:

- Audited financial statements from 2014 to 2018
- Actuarial Valuation Report as of December 31, 2018
- Annual Statement Synopsis from 2015 to 2017.

The financial statements and IC synopsis were prepared and submitted to us by Ms. Myla F. Garcia. She is the Regulatory Compliance Officer of Finance of the Company.

Projection of the financial statement figures are subject to potential errors of estimation because these are subject to the outcome of events yet to occur. In reviewing the business plan, we assumed that historical patterns are predictive of future patterns for the Company. We have not anticipated any extraordinary changes in the legal, social, technological, medical, consumerism, and economic environment that might affect the future profitability of the Company. We cannot reasonably estimate the uncertainties that projected financial statement figures are subject to. Therefore, while we believe the assumptions and methods used by the Company are reasonable, we cannot guarantee that actual results will not differ, perhaps substantially, from the estimates.

METHODOLOGIES AND ASSUMPTIONS

1. Income Statement

Written Premiums

The Company targets PhP 900 million of written direct premium (gross of cancellations and taxes) for 2019, increasing by PhP 50 million each year until 2023. This is around 5% increase each year which is comparable to the average historical premium growth rate.

To achieve their target, the Sales Group of the Company has the following action plans:

1. The Company will establish the Corporate Sales Department which will be responsible for the remaining PhP 72 million of the sales target for 2019. This PhP 72 million is composed of PhP 60 million from Fire, PA, Marine and CAR lines, and PhP 12 million among the retail accounts assigned to the department.
2. The Sales Group will also focus on the 100% renewal of around PhP 600 million premium production last 2018.
3. The Laus AutoGroup will also continue their usual share of around PhP 25 million new accounts every month.
4. The Sales Group will also focus on their Extended Warranty Program that will generate PhP 2 million monthly.
5. The Company will also generate around PhP 40 million annualy from their Recovery, Outside Insurance and New Business Program from their Retail Sales Department. They will reach out to those accounts that transferred to other insurance companies.

Majority of the business of the Company is Motor Car, which accounts for more than 90% of their gross written premiums. The Company assumes to retain around 96% of their written premiums. This ratio is slightly higher than the historical average ratio of 93%.

METHODOLOGIES AND ASSUMPTIONS (continued)

Commission Income

The Company assumes ratios to ceded written premium of 25% and 20% for treaty and facultative reinsurance contracts respectively.

Incurred Claims, Commission and Other Expenses

In projecting the incurred claims, the Company is targeting to improve their average incurred claims to net earned premiums ratio or loss ratio to 45%. To achieve this, the Claims Department has the following action plans:

1. The Company will realign lower Body Works Rate to their 56 Service Centers affiliates which can reduce the impact of the peso value on the cost of repair in various motor car claims.
2. The Company has recently tied up with the technology driven facility Laus AutoGroup Services Center where they can restore majorly damaged insured vehicles. This will somehow reduce the cost of repair while ensuring higher quality of repair and services.
3. The Company also has recently created a Subrogation Department last 2018. This will further reduce the losses by around PhP 2 million monthly.
4. The Department has started on the efforts on cleaning their database on old claims that have not yet materialized and could be subject for cancellations.
5. The Company will continue their scrap parts and total loss management which will contribute up to PhP 18 million annually.

In projecting the commission expenses, the Company is targeting an average commission expense to written premiums ratio of 8%. This projected commission expenses to gross written premiums is within the range of the historical ratios.

For the operating expenses, the Company will budget PhP 10 million of monthly expenses for 2019, increasing by PhP 500 thousand in the succeeding years.

METHODOLOGIES AND ASSUMPTIONS (continued)

Investment and Other Income

In projecting the investment and other income, the Company used 3% return on the invested assets. The projected ratio of investment income to invested assets is comparable with the historical ratios.

The Company also projects additional PhP 13 million in their rental income upon the completion of the CGIC Building 2 in 2020.

Provision for Income Tax

The income tax assumption is based on the 30% ratio of provision for income tax to the profit before income tax provision.

Net Profit/(Loss)

The Company's net operating income in the last two years were PhP 73 million and PhP 104 million. As the Company is now more optimistic about writing good risks and more profitable accounts, together with the action plans above and the support of the CGIC management and the whole Laus Group of Companies, they are targeting an average annual profit of PhP 164 million over the next five years.

2. Balance Sheet

Assets

Cash and Cash Equivalents

The Company will maintain an average of 30% ratio of cash and cash equivalents to asset per year during the projection period. These include cash on hand, cash in banks and time deposits. Some of the excess funds will be placed into time deposits with interest rates ranging from 4% to 6%.

Premiums Receivables

Premiums in course of collections is estimated at 50% of the business written over the five-year period.

METHODOLOGIES AND ASSUMPTIONS (continued)

Reinsurance Assets

For the reinsurance recoverables, the Company expects that 80% of the total outstanding claims liabilities will be recoverable from its reinsurers.

The deferred reinsurance premiums is approximately 2.25% of the ceded premiums.

Deferred Acquisition Costs

The Company projected a DAC to commission expense ratio of 50%.

HTM Investments

The Company assumes HTM investments of PhP 300 million in 2019, increasing by PhP 100 million in the succeeding years. This is also on the assumption that some of the excess funds will be placed in more secured government securities but with the approval of the Insurance Commission.

AFS Financial Assets

The Company assumes 3% yearly increase on the AFS Assets which is based on the 2017 to 2018 movement.

Property and Equipment

The Company assumes increase of PhP 9.5 to 11 million in the appraised value of their properties over the next five years.

Investment Property

The Company assumes an increase of PhP 80 million in investment property in 2019 as the new CGIC Building 2 is nearing completion. Additionally, an annual increase of PhP 4.7 million is expected over the next five years.

Other Assets

The Company projected the value of these assets to PhP 20 million in 2019 and increasing by 5% every year.

METHODOLOGIES AND ASSUMPTIONS (continued)

Liabilities

Premium Liabilities

The Company estimated the unearned premium liabilities (UPR) based on the 24th method of the gross written premiums. The projected UPR to GWP ratio is around 47.5% which is consistent with the average of the historical ratio.

To compute the premium liabilities based on the Insurance Commission CL 2018-18, the UPR net of deferred acquisition costs (DAC) is compared with the total unexpired risk reserves (URR). The total URR is composed of the best estimate of future losses adjusted for policy and maintenance expenses plus MfAD. If the total URR is greater, then the difference (premium deficiency) is taken as an additional liability on top of UPR. The Company do not have any premium deficiencies based on the 2018 actuarial valuations.

Claims Liabilities

Claims liabilities include outstanding loss and loss adjustment expense reserves, incurred but not reported (IBNR) reserves, and MfAD.

The Company assumed that 15% of the gross premium earned will be for loss reserves (claims liabilities). Since the Company also assumed increasing written premiums, the claims liabilities is expected to increase with premiums.

Premiums Due to Reinsurers

The Company assumes that the premiums due to reinsurers is 10% of the reinsurance premiums ceded.

Commission Expense

The Company projects a 20% provision for the unpaid commission.

Deferred Reinsurance Commission

The Company assumes an average commission rate of 25% and 20% for Treaty and Facultative reinsurance contracts respectively.

METHODOLOGIES AND ASSUMPTIONS (continued)

Taxes and Other Liabilities

The Company assumed minimal movement in taxes and other liabilities.

IC Financial Reporting

The projections in Exhibit I are based on the actual amounts reflected in the Company's historical financial statement. These amounts will vary from the figures the Insurance Commission will consider in its net worth calculation due to the exclusion of the non-admitted assets and the addition of the non-ledger liabilities.

To reflect these differences in the projection, the Company made some adjustments in its balance sheet. We reviewed the historical synopsis of the annual statements prepared by IC and deemed the adjustments to be reasonable.

Funding and Investment

To help the Company comply with the increase in surplus requirement, the Company will be retaining all its earnings for the succeeding years.

CERTIFICATION BY THE ACTUARY	I hereby certify and attest that the financial projections and the key assumptions used are reasonable to the best of my knowledge, and are based on the perspective of the Company's management.

Aguedo M. Ingco, FASP, FCAS, FASHK, MAAA
Date: August 9, 2019
IC Accreditation No.: AC-5-2015-O
PTR No.: N/A

APPROVAL BY THE BOARD OF DIRECTORS	As required, the Company has represented that the Capital Build up Plan as presented has been duly approved by the Board of Directors.

Carmelo B. Alabado
Chief Operating Officer

Date: Aug. 9, 2019