Prudential Guarantee and Assurance Inc.

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Prudential Guarantee and Assurance, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Prudential Guarantee and Assurance, Inc. (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015, 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 to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

The supplementary information required under Revenue Regulations No. 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of Prudential Guarantee and Assurance, Inc. in a separate schedule. Revenue Regulations No. 15-2010 requires the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

Djole S. Garcia

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Partner
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May 12, 2016, valid until May 12, 2019
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November 25, 2015, valid until November 24, 2018
PTR No. 5908702, January 3, 2017, Makati City

April 25, 2017

PRUDENTIAL GUARANTEE AND ASSURANCE INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Cash and Cash Equivalents (Note 4)	**₱3,668,514,788**	₱3,230,176,038
Insurance Receivables - net (Notes 5 and 19)	**1,219,804,538**	1,594,800,441
Financial Assets (Notes 6 and 19)		
Financial assets at fair value through profit or loss	**376,588,504**	94,148,872
Available-for-sale financial assets	**289,814,645**	244,663,769
Loans and receivables - net	**496,572,019**	97,076,327
Deferred Acquisition Costs (Note 7a)	**696,355,678**	659,562,197
Reinsurance Assets (Notes 8 and 12)	**2,244,576,989**	2,043,484,047
Investment Property (Note 9)	**20,994,381**	20,994,381
Property and Equipment - net (Note 10)	**621,531,711**	582,081,748
Other Assets (Note 11)	**713,303,858**	587,675,380
	₱10,348,057,111	₱9,154,663,200

LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 12, 20 and 23)	**₱4,021,574,405**	₱3,651,867,554
Insurance payables (Notes 13, 19 and 20)	**1,453,522,676**	1,517,565,568
Accounts payable and accrued expenses (Note 14)	**1,362,061,147**	1,274,779,921
Loans payable (Note 15)	**10,000,000**	60,047,027
Deferred reinsurance commissions (Note 7b)	**73,548,257**	49,526,821
Net pension obligation (Note 16)	**142,133,266**	158,346,741
Deferred income tax liabilities - net (Note 25)	**394,463,820**	279,065,534
Other liabilities (Note 17)	**402,250,975**	329,197,868
	7,859,554,546	7,320,397,034
Equity (Note 18)		
Capital stock - ₱100 par value		
Authorized - 3,000,000 shares		
Issued and outstanding - 2,500,000 shares	**250,000,000**	250,000,000
Contributed surplus	**23,691,470**	23,691,470
Deposits for future stock subscription	**350,000,000**	–
Contingency surplus	**139,066,267**	169,066,267
Revaluation reserve on available-for-sale financial assets (Note 6)	**70,331,371**	21,159,102
Remeasurement loss on defined benefit plan (Note 16)	**(83,365,551)**	(80,927,714)
Retained earnings	**1,738,779,008**	1,451,277,041
	2,488,502,565	1,834,266,166
	₱10,348,057,111	₱9,154,663,200

See accompanying Notes to Financial Statements.

PRUDENTIAL GUARANTEE AND ASSURANCE INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2016	2015
Gross premiums earned	**₱7,677,168,475**	₱7,693,218,507
Reinsurers' share of gross premiums earned	**(3,689,277,540)**	(3,967,585,648)
Net premiums earned (Notes 12, 19 and 20)	**3,987,890,935**	3,725,632,859
Commission income (Note 7b)	**131,669,535**	113,977,358
Foreign currency exchange gains - net	**65,804,717**	68,309,578
Investment and other income (Note 21)	**49,006,969**	34,790,564
Gain on sale of available-for-sale financial assets (Note 6)	**10,808,034**	39,094,691
Other income (Note 22)	**123,094,598**	78,315,978
Other income	**380,383,853**	334,488,169
Total income	**4,368,274,788**	4,060,121,028
Gross insurance contract benefits and claims paid	**1,742,659,753**	4,084,533,517
Reinsurers' share of insurance contract benefits and claims paid	**(556,917,032)**	(3,034,499,977)
Gross change in insurance contract benefits and claims liabilities	**165,116,082**	(877,048,019)
Reinsurers' share of change in insurance contract benefits and claims liabilities	**(1,631,504)**	975,906,349
Net insurance contract benefits and claims (Notes 12 and 23)	**1,349,227,299**	1,148,891,870
Commission expense (Note 7a)	**1,512,739,983**	1,326,997,833
Other underwriting expense	**155,179,559**	178,281,740
General expenses (Note 24)	**887,238,424**	866,740,347
Impairment losses on AFS financial assets (Note 6)	**29,521,672**	4,332,133
Interest expense (Note 15)	**16,110,104**	68,254,846
Loss on write-off of AFS financial assets (Note 6)	**5,450,959**	–
Fair value losses on financial assets at fair value through profit or loss (Note 6)	**1,825,630**	335,466
Other expenses	**2,608,066,331**	2,444,942,365
Total insurance contract benefits, claims and other expenses	**3,957,293,630**	3,593,834,235
INCOME BEFORE INCOME TAX	**410,981,158**	466,286,793
PROVISION FOR INCOME TAX (Note 25)	**(123,479,191)**	(131,719,580)
NET INCOME	**₱287,501,967**	₱334,567,213

See accompanying Notes to Financial Statements.

PRUDENTIAL GUARANTEE AND ASSURANCE INC.

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
NET INCOME	**₱287,501,967**	₱334,567,213
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) that will be reclassified to profit or loss in subsequent periods:		
Net changes in the revaluation reserve on available-for-sale financial assets (Note 6)	**49,172,269**	(72,152,444)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement loss on defined benefit plan, net of tax effect (Note 16)	**(2,437,837)**	(4,111,443)
	46,734,432	(76,263,887)
TOTAL COMPREHENSIVE INCOME	**₱334,236,399**	₱258,303,326

See accompanying Notes to Financial Statements.

PRUDENTIAL GUARANTEE AND ASSURANCE INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Capital Stock (Note 18)	Contributed Surplus (Note 18)	Deposits for future stock subscription (Note 18)	Contingency Surplus (Note 18)	Revaluation Reserve on Available-for-sale Financial Assets (Note 6)	Remeasurement loss on Defined Benefit Plan (Note 16)	Retained Earnings	Total
As of January 1, 2016	**₱250,000,000**	**₱23,691,470**	**₱–**	**₱169,066,267**	**₱21,159,102**	**(₱80,927,714)**	**₱1,451,277,041**	**₱1,834,266,166**
Net income for the year	–	–	–	–	–	–	287,501,967	287,501,967
Other comprehensive income (loss) for the year	–	–	–	–	49,172,269	(2,437,837)	–	46,734,432
Total comprehensive income (loss) for the year	–	–	–	–	49,172,269	(2,437,837)	287,501,967	334,236,399
Additional capital infusion during the year	–	–	350,000,000	(30,000,000)	–	–	–	320,000,000
As of December 31, 2016	**₱250,000,000**	**₱23,691,470**	**₱350,000,000**	**₱139,066,267**	**₱70,331,371**	**(₱83,365,551)**	**₱1,738,779,008**	**₱2,488,502,565**
As of January 1, 2015	₱250,000,000	₱23,691,470	₱–	₱169,066,267	₱93,311,546	(₱76,816,271)	₱1,116,709,828	₱1,575,962,840
Net income for the year	–	–	–	–	–	–	334,567,213	334,567,213
Other comprehensive loss for the year	–	–	–	–	(72,152,444)	(4,111,443)	–	(76,263,887)
Total comprehensive income (loss) for the year	–	–	–	–	(72,152,444)	(4,111,443)	334,567,213	258,303,326
As of December 31, 2015	₱250,000,000	₱23,691,470	₱–	₱169,066,267	₱21,159,102	(₱80,927,714)	₱1,451,277,041	₱1,834,266,166

See accompanying Notes to Financial Statements.

PRUDENTIAL GUARANTEE AND ASSURANCE INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱410,981,158**	₱466,286,793
Adjustments for:		
Interest income (Note 21)	**(43,138,831)**	(31,111,150)
Depreciation and amortization (Notes 10, 11 and 24)	**41,918,421**	50,482,564
Impairment losses on AFS financial assets (Note 6)	**29,521,672**	4,332,133
Pension benefit expense (Note 16)	**27,303,901**	26,082,831
Interest expense	**16,110,104**	68,254,846
Gain on sale of AFS financial assets (Note 6)	**(10,808,034)**	(39,094,691)
Loss on write-off of AFS financial assets (Note 6)	**5,450,959**	–
Dividend income (Note 21)	**(3,281,141)**	(3,535,327)
Gain on redemption of financial assets at FVPL (Notes 6 and 21)	**(2,586,997)**	(144,087)
Fair value loss on financial assets at fair value through profit or loss (Note 6)	**1,825,630**	335,466
Gain on sale of property and equipment (Notes 10 and 22)	**(27,467)**	(6,887)
Operating income before working capital changes	**473,269,375**	541,882,491
Decrease (increase) in:		
Insurance receivables	**374,995,903**	(477,449,882)
Loans and receivables	**(381,618,253)**	446,721,399
Deferred acquisition costs	**(36,793,481)**	(51,308,641)
Reinsurance assets	**(201,092,942)**	1,192,745,473
Other assets	**(39,074,732)**	(130,440,033)
Increase (decrease) in:		
Insurance contract liabilities	**369,706,851**	(1,356,708,256)
Insurance payables	**(64,042,892)**	305,690,050
Accounts payable and accrued expenses	**87,281,226**	535,680,657
Deferred reinsurance commissions	**24,021,436**	27,550,120
Other liabilities	**73,053,107**	(10,075,191)
Net cash generated from operations	**679,705,598**	1,024,288,187
Income taxes paid	**(101,386,992)**	(14,938,856)
Contribution to pension plan (Note 16)	**(47,000,000)**	(50,850,190)
Net cash from operating activities	**531,318,606**	958,499,141
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received (Notes 6 and 21)	**32,104,685**	29,666,338
Dividends received (Notes 6 and 21)	**3,473,966**	3,006,760
Acquisitions of:		
Financial assets at fair value through profit or loss (Note 6)	**(548,735,265)**	(35,843,791)
Available-for-sale financial assets (Note 6)	**(80,630,842)**	(56,876,053)
Property and equipment (Note 10)	**(80,613,707)**	(97,795,616)
Proceeds from disposals and maturities of:		
Financial assets at fair value through profit or loss (Note 6)	**267,057,000**	31,000,000
Available-for-sale financial assets (Note 6)	**60,487,638**	102,532,972
Property and equipment (Note 10)	**33,800**	16,782
Net cash used in investing activities	**(346,822,725)**	(24,292,608)

(Forward)

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from additional capital infusion (Note 18)	**₱320,000,000**	₱–
Payments of loans payable (Note 15)	**(50,047,027)**	(89,500,000)
Interest paid	**(16,110,104)**	(68,254,846)
Net cash from (used in) financing activities	**253,842,869**	(157,754,846)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**438,338,750**	776,451,687
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,230,176,038**	2,453,724,351
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,668,514,788**	₱3,230,176,038

See accompanying Notes to Financial Statements.

PRUDENTIAL GUARANTEE AND ASSURANCE INC.
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Prudential Guarantee and Assurance, Inc. (the Company) was incorporated in the Philippines to engage in the business and operation of all kinds of insurance on sea, land and air, of properties, goods and merchandise, 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 was registered with the Philippine Securities and Exchange Commission (SEC) on February 20, 1950. On March 8, 1999, it was approved by at least a majority of the Board of Directors (BOD) and the stockholders owning and representing at least two-thirds of the outstanding capital stock, that the Articles of Incorporation will be amended to extend the existence of the Company to another fifty years from its original expiry date. The SEC approved the Amended Articles of Incorporation on September 27, 1999.

The registered office address of the Company is Coyiuto House, 119 C. Palanca, Jr. Street, Legaspi Village, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD of the Company on April 25, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value. The accompanying financial statements are presented in Philippine Peso (₱), which is also the Company’s functional currency. All amounts are rounded to the nearest peso values, unless otherwise indicated.

Statement of Compliance

The accompanying financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS, amendments to existing Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) interpretations which were adopted on January 1, 2016 and which are not relevant to the Company:

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interest in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures* - Investment Entities: Applying the Consolidation Exception
- Amendments to PFRS 11, *Joint Arrangements* - Accounting for Acquisitions of Interests in Joint Operations
- PFRS 14, *Regulatory Deferral Accounts*

- Amendments to PAS 1, *Presentation of Financial Statements* - Disclosure Initiative
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture* - Bearer Plants
- Amendments to PAS 27, *Separate Financial Statements* - Equity Method in Separate Financial Statements
- *Annual Improvements to PFRS* (2012 - 2014 cycle)
  - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* - Changes in Methods of Disposal
  - Amendment to PFRS 7, *Financial Instruments: Disclosures* - Servicing Contracts
  - Amendment to PFRS 7, *Financial Instruments: Disclosures* - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
  - Amendment to PAS 19, *Employee Benefits* - Regional Market Issue regarding Discount Rate
  - Amendment to PAS 34, *Interim Financial Reporting* - Disclosure of Information 'Elsewhere in the Interim Financial Report'

<u>Standards Issued but not yet Effective</u>
The Company will adopt, where applicable, the following standards, amendments to existing standards and interpretations when these become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Disclosure of Interest in Other Entities* - Clarification of the Scope of the Standard (Part of Annual Improvements to PFRS 2014 - 2016 cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments are not expected to have any impact on the Company's financial statements.

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

  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. These amendments are expected to have an impact on the financial statements presentation only.

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

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

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

These amendments are not expected to have any impact on the Company's financial statements.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment* - Classification and Measurement of Share-based Payment Transactions

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

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

  These amendments are not expected to have any impact on the Company's financial statements.

- Amendments to PFRS 4, *Insurance Contracts* - Applying PFRS 9, *Financial Instruments*, with PFRS 4

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The Company is currently assessing which approach it will use and the potential impact of the chosen approach in its financial statements.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

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

  The Company is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting and on the amount of its credit losses.

  The Company is currently assessing the impact of PFRS 9 and plans to adopt the new standard on the required effective date.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRS 2014 - 2016 cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at FVPL. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted. These amendments are not expected to have any impact on the Company's financial statements.

- Amendments to PAS 40, *Investment Property* - Transfers of Investment Property

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. These amendments are not expected to have any impact on the Company's financial statements.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. These amendments are not expected to have any impact on the Company's financial statements.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their statement of income. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Company is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. Adoption of the interpretation when it becomes effective will not have any impact on the Company's financial statements.

The Company continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to December 31, 2016 on the Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

<u>Use of Judgments and Estimates</u>
The preparation of the financial statements necessitates the use of judgments and estimates. These judgments and estimates affect the reported amounts of assets and liabilities and contingent liabilities at the end of the reporting period as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the end of the reporting period, the actual outcome may differ from these estimates, possibly significantly. For further information on significant accounting judgments and estimates, refer to Note 3.

<u>Product Classification</u>
Insurance contracts
Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts
Investment Contracts mainly transfer financial risk but can also transfer insignificant 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 this period, unless all rights and obligations are extinguished or has expired. Investment contracts can however be reclassified as insurance contracts after inceptions if the insurance risk becomes significant.

Foreign Currency Transactions and Translations
Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are recognized in the statement of income, except where it relates to equity securities where gains or losses are recognized in other comprehensive income.

Fair Value Measurement
The Company measures financial instruments, such as financial assets at FVPL and AFS financial assets, at fair value at each reporting date.

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

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

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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 of input that is significant to the fair value measurement as a whole:

- *Level 1* - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- *Level 2* - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable
- *Level 3* - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statement on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level of input that is significant to the fair value measurement as a whole) and at the end of each reporting date.

For the purpose of fair value disclosures, 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.

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

Short-term Investments
Short term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

Insurance Receivables
Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

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

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

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, loans and receivables and held to maturity (HTM) investments. The Company classifies its financial liabilities into financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2016 and 2015, the Company's financial instruments are in the nature of financial assets at FVPL, AFS financial assets, loans and receivables and other financial liabilities.

"Day 1" difference
Where the transaction price in a non-active market is different from the fair value from 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 or loss) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where an unobservable data is used, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Financial assets or financial liabilities at FVPL
This category consists of financial assets or financial liabilities that are held for trading or designated by management as at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

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

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in the statement of income, included under the fair value gain or loss account.

The Company's financial assets at FVPL as of December 31, 2016 and 2015 consist of treasury bills and notes denominated in Philippine Peso which were designated as financial assets at FVPL upon initial recognition. There are no financial liabilities at FVPL recorded by the Company for both years.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. For AFS debt securities, the effective yield component of it, as well as the impact of restatement on foreign currency-denominated debt securities, is reported in the statement of income. Interest earned on holding AFS financial assets are recorded as "Interest income" in the statement of income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of income when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Revaluation reserve on available-for-sale financial assets" in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized as "Impairment losses on AFS financial assets" as part of "Investment and other income - net" in the statement of income. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Where the Company holds more than one investment in the same security, the cost used is determined using the weighted average method.

When the fair value of an unquoted AFS equity securities cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value, these investments are carried at cost, less any allowance for impairment losses.

The Company's AFS financial assets as of December 31, 2016 and 2015 consist primarily of listed shares in the Philippine Stock Exchange and country and club shares which were designated as AFS financial assets upon initial recognition.

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

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is recorded as "Interest income" in the statement of income. The loss arising from impairment of such loans and receivables are recognized in the statement of income. Any effects of restatement of foreign currency-denominated assets are recognized in the statement of income.

As of December 31, 2016 and 2015, the Company's loans and receivables consist of cash and cash equivalents, insurance receivables and loans and receivables.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement these investments are subsequently measured 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 acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

In 2016 and 2015, the Company has not classified any of its financial assets as HTM investments.

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

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

As of December 31, 2016 and 2015, the Company's other financial liabilities consists of insurance payables, loans payable, accounts payable and accrued expenses and other liabilities that meet the above definition.

Impairment of Financial Assets
The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (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. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of income. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

AFS financial assets
In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the

income statement - is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

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

AFS financial assets carried at cost
If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

<u>Offsetting Financial Instruments</u>
Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Company assesses that it has a currently enforceable right to offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

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

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

Reinsurance
The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances recoverable from unpaid losses incurred by the Company with coverage from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and the deferred reinsurance premiums and are in accordance with the reinsurance contract.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract, and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income.

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

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

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

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

Deferred Acquisition Costs (DAC)
Commission and other acquisition costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged to expense in proportion to the premium revenue recognized. Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract except for marine cargo where commissions for the last two months of the year are recognized as expense the following year. Amortization is charged against the statement of income. The unamortized acquisition costs are shown in the assets section of the statement of financial position as “Deferred acquisition costs”. All other acquisition costs are recognized as incurred.

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

Investment Property
Investment property is measured initially at cost, including transaction costs. Investment property pertains to property that is held to earn rent income or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

The Company's investment property consists of parcels of land which is carried at cost less any impairment loss.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected of its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation. Transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Property and Equipment
Property and equipment, except land, is stated at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation is calculated using the straight-line method over the estimated useful life of the corresponding asset. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful life. The estimated useful lives of items of property and equipment are as follows:

	Years
Office furniture, fixtures and equipment	5-10
Transportation equipment	5-10
Leasehold improvements	10
Building and building improvements	20

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation are credited to or charged against the current operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and impairment in value are removed from the accounts and any gain or loss resulting from their disposals is credited to or charged against the current operations.

Computer Software

Cost associated with the acquisition or maintaining computer software programs are recognized as expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Company, which will generate economic benefits beyond one year, are recognized as intangible assets.

Expenditure which enhances or extends the performance of computer software programs beyond their original specifications are capitalized and added to the original cost of the software. Computer software development costs are recognized as assets are carried at cost less accumulated amortization. The costs are amortized using the straight-line method over their estimated useful lives of five years.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that property and equipment, investment property and computer software may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such 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 estimated useful life.

Creditable Withholding Taxes (CWTs)

Creditable withholding taxes pertain to the taxes paid by the Company withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost and included as part of "Other assets" in the statement of financial position.

CWTs may either be offset against income tax payable or be claimed as a refund from the taxation authorities at the option of the Company. If these CWTs are claimed as a refund, these will be recorded as a receivable under “Loans and receivables” in the statement of financial position.

At each end of the reporting period, an assessment for impairment is performed to assess the recoverability of the Company’s CWTs.

Value-added Tax (VAT)

Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of “Other assets” or “Accounts payable and accrued expenses” in the statement of financial position.

Insurance Contract Liabilities

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where premiums for the last two months are considered earned the following year. The change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and incurred but not reported (IBNR) losses

Provision for claims reported and IBNR are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The 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 tests are performed to ensure the adequacy of insurance contract liabilities, net of related DAC assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged against the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The reserve for unexpired risk is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Net Pension Benefit Obligation

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

<u>Equity</u>
Capital stock represents the value of shares that have been issued at par. Proceeds and or fair value of considerations received in excess of par value, if any, are recognized as part of “Contributed surplus”. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of the transaction and are deducted from “Contributed surplus”.

Contingency surplus pertains to capital infusions of shareholders to cover any deficiency in the solvency requirements by the Philippine Insurance Commission (IC) and can be withdrawn only upon approval of the same.

Retained earnings include all the accumulated earnings of the Company less any dividends declared.

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

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

Premiums are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums of the last two months of the year. The portion of the premiums written and assumed that relate to the unexpired periods of the policies as of reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the statement of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums and presented as part of "Reinsurance assets" in the statement of financial position. The net changes in these accounts between reporting dates are charged against or credited to income or loss for the year.

Commission income
Commissions earned from short-duration insurance contracts are recognized as revenue over the period of contracts using the 24th method except for marine cargo where the deferred reinsurance commissions for the last two months of the year are considered earned the following year. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date are accounted for as part of "Deferred reinsurance commissions" and presented in the statement of financial position.

Interest income
Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest method.

Dividend income
Dividend income is recognized when the Company's right to receive the payment is established.

Contingent profit commission
The contingent profit commission represents the allowance from the reinsurers to the Company based on a predetermined percentage of the profit realized by the reinsurers on the business ceded by the Company.

Rental income
Rental income is recognized on a straight-line basis over the term of the lease agreement.

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

Benefits and claims
Gross benefits and claims consists of benefits and claims paid to policyholders, which include changes in the gross valuation of insurance contract liabilities, except for gross changes in the provision for unearned premiums which are recorded in gross premiums earned. 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 and are offset against the related claims. Insurance claims are recorded on the basis of notification received.

Other underwriting expenses
Other underwriting expense pertains to the costs incurred by the Company prior to the issuance of policies to its policyholders. These costs include expenses for technical inspections, actuarial reviews and other work that is necessary to determine whether or not to accept the risks to be written. These costs are recognized as expense as they are incurred.

General expenses
General expenses are recognized in the statement of income as they are incurred.

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

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

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

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

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. The Company has not entered into any finance lease in 2016 and 2015.

Company as a Lessee
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remains with the lessor. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Company as a Lessor
Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Income Tax
Current tax
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the end of the reporting period.

Current income tax for current and prior periods, shall, to the extent unpaid, be recognized as a liability and is presented as "Income tax payable" in the statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as prepaid income tax included as part of "Other assets" in the statement of financial position.

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefit of the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of MCIT and unused NOLCO can be utilized.

Deferred income tax that relates to items that are recognized (a) in other comprehensive income shall be recognized in other comprehensive income and (b) directly in equity shall be recognized directly in equity account.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting date and are recognized to the extent that it has become probable that future taxable income will allow all or part of deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to 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 the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are credited to or charged against income or loss for the period.

Deferred income tax assets and deferred income 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.

Provisions
Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. 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 assessments 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 an interest expense.

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the statement of income.

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

3. Significant Accounting Judgments and Estimates

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be determinable under the circumstances.

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

Classification of financial assets
The Company classifies a financial instrument depending on the purpose for which the financial instrument was acquired or originated. Management determines the classification of its financial instrument at initial recognition and, where allowed and appropriate, re-evaluates this classification at the end of each reporting date.

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

The classification of the Company's financial instruments by categories are presented under Notes 6 and 28.

Classification of leases
Company as lessor
Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are entered.

The Company has entered into commercial property leases on its building which is classified as operating leases. The Company has determined that that it retained all significant risks and rewards of ownership of its building. The total rental income amounted to ₱15,908,846 and ₱13,522,678 in 2016 and 2015, respectively (see Notes 19 and 22).

Company as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Company considers, among others, the significance of the lease term as compared to the remaining useful life of the leased assets in determining the significant risks and rewards of ownership. Operating lease payments are recognized as an expense in consolidated statements of income on a straight-line basis over the lease term.

The Company has entered into commercial property leases with various lessors which are classified as operating leases. The Company has determined that the lessors retained all significant risks and rewards of ownership of the leased properties. The rental expense amounted to ₱44,462,414 and ₱47,815,908 in 2016 and 2015, respectively (see Notes 19 and 24).

Distinction between property and equipment and investment property
The Company determines whether a property qualifies as property and equipment or investment property. In making its judgment, the Company considers whether the property is held for use in the supply of services, or is held for capital appreciation, and to earn rentals, in which case the property shall be classified as property and equipment or investment property, respectively, as the case may be. The Company considers each property separately in making its judgment.

Where a single property is partly held for use in the supply of services and partly for capital appreciation or rentals, and that the property cannot be separately sold or leased out under a finance lease, the property is considered by management as investment property only if an insignificant portion is held for use in the supply of services.

There are no reclassifications to or from property and equipment or investment properties in 2016 and 2015.

As of December 31, 2016 and 2015, the carrying values of property and equipment amounted to ₱621,531,711 and ₱582,081,748, respectively (see Note 10), while the carrying value of investment properties amounted to ₱ 20,994,381 (see Note 9).

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

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

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

The carrying values of claims reported and IBNR amounted to ₱2,011,457,054 and ₱1,846,340,972 as of December 31, 2016 and 2015, respectively (see Note 12).

Impairment of AFS equity financial assets
The Company determines that AFS equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than twelve months for equity securities. In addition, the Company evaluates among other factors, the normal volatility in share price for quoted securities, and the future cash flows and the discount factors for unquoted securities. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating and financing cash flows.

As of December 31, 2016 and 2015, the carrying values of the Company's AFS equity financial assets amounted to ₱289,814,645 and ₱244,663,769, respectively. Impairment losses recognized on AFS equity financial assets amounted to ₱29,521,672 and ₱4,332,133 in 2016 and 2015, respectively (see Note 6).

Estimation of allowance for impairment losses on receivables
The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates.

The carrying values of insurance receivables amounted to ₱1,219,804,538 and ₱1,594,800,441 as of December 31, 2016 and 2015, respectively. The allowance for impairment losses on insurance receivables amounted to ₱58,987,948 in 2016 and 2015 (see Note 5).

As of December 31, 2016 and 2015, the carrying values of loans and receivables amounted to ₱496,572,019 and ₱97,076,327, respectively. No allowance for impairment losses on loans and receivables is provided for both years (see Note 6).

Estimation of useful lives of property and equipment and computer software
The Company reviews annually the estimated useful lives of property and equipment and computer software based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

The Company's review indicated that the actual lives of building and building improvements were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. As a result, effective January 1, 2015, the Company changed its estimates of the useful lives of its building and building improvements to better reflect the estimated periods during which these assets will remain in service. The estimated useful lives of the building and building improvements that previously averaged ten years were increased to an average of 20 years. The effect of this change in estimate reduced 2015 depreciation expense by ₱20,849,384 and increased 2015 net income by ₱14,594,569.

As of December 31, 2016 and 2015, the carrying values of property and equipment amounted to ₱621,531,711 and ₱582,081,748, respectively (see Note 10), while the carrying value of computer software amounted to ₱1,966,849 and ₱1,706,876, respectively (see Note 11).

Evaluation of impairment of property and equipment, investment property and computer software
The Company assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

The factors that the Company considers important which could trigger an impairment review include the following:
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

As of December 31, 2016 and 2015, the Company did not recognize any impairment losses on its nonfinancial assets.

Recognition of deferred income tax assets
The Company reviews the carrying amounts of deferred income tax assets at each end of the reporting date and reduces it to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Company believes that it will generate sufficient taxable profit to allow all or part of the deferred income tax assets to be utilized.

As of December 31, 2016 and 2015, the Company has recognized gross deferred income tax assets amounting to ₱146,861,210 and ₱219,272,096, respectively (see Note 25).

Estimation of pension obligation
The determination of pension obligation and cost of pension is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates.

Due to the long-term nature of this plan, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately in other comprehensive income in the period in which they arise. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations. See Note 16 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand	**₱21,758,778**	₱329,800
Special fund	**2,791,099**	2,791,099
Cash in banks	**2,269,976,767**	2,112,759,212
Short-term deposits in commercial banks	**1,373,988,144**	1,114,295,927
	₱3,668,514,788	₱3,230,176,038

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing short-term deposit rates (see Note 21).

Special fund pertains to cash on hand used for payments to brokers and agents, including claims and incidental expenses.

5. Insurance Receivables - net

This account consists of:

	2016	2015
Due from agents and brokers	**₱775,589,376**	₱679,742,316
Reinsurance recoverable on paid losses	**466,621,351**	899,405,480
Due from ceding companies	**36,581,759**	74,640,593
	1,278,792,486	1,653,788,389
Less allowance for impairment losses	**58,987,948**	58,987,948
	₱1,219,804,538	₱1,594,800,441

The tables below summarize the aging analysis of insurance receivables.

As of December 31, 2016:

	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	Total
Due from brokers and agents	**₱310,665,793**	**₱69,400,404**	**₱91,451,288**	**₱147,916,383**	**₱156,155,508**	**₱–**	**₱775,589,376**
Reinsurance recoverable on paid losses	**99,665,074**	**120,421,224**	**52,671,098**	**50,802,814**	**55,819,038**	**87,242,103**	**466,621,351**
Due from ceding companies	**4,317,924**	**8,370,680**	**6,765,458**	**12,313,320**	**4,734,727**	**79,650**	**36,581,759**
	₱414,648,791	**₱198,192,308**	**₱150,887,844**	**₱211,032,517**	**₱216,709,273**	**₱87,321,753**	**₱1,278,792,486**

As of December 31, 2015:

	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	Total
Due from brokers and agents	₱202,916,777	₱204,914,297	₱133,138,239	₱126,918,495	₱11,854,508	₱–	₱679,742,316
Reinsurance recoverable on paid losses	122,825,265	55,763,944	43,678,499	142,643,425	326,868,760	207,625,587	899,405,480
Due from ceding companies	17,212,858	23,568,493	16,959,922	11,319,425	5,533,650	46,245	74,640,593
	₱342,954,900	₱284,246,734	₱193,776,660	₱280,881,345	₱344,256,918	₱207,671,832	₱1,653,788,389

Allowance for impairment losses pertains to reinsurance recoverable on paid losses with carrying values amounting to ₱58,987,948 as of December 31, 2016 and 2015, which were specifically identified to be impaired and were fully provided with allowances. Provision for bad debt expense amounted to ₱6,378,236 in 2015 (nil in 2016) [see note 24].

6. Financial Assets

The Company's financial assets are summarized by measurement categories as follows:

	2016	2015
Financial assets at FVPL	**₱376,588,504**	₱94,148,872
AFS financial assets	**289,814,645**	244,663,769
Loans and receivables - net	**496,572,019**	97,076,327
	₱1,162,975,168	₱435,888,968

a. Financial Assets at FVPL

Financial assets at FVPL consist of treasury bills and notes denominated in Philippine Peso, which were designated as at FVPL upon initial recognition.

The movements in the carrying values of financial assets at FVPL as of December 31 follow:

	2016	2015
At January	**₱94,148,872**	₱89,496,460
Acquisitions	**548,735,265**	35,843,791
Fair value losses	**(1,825,630)**	(335,466)
Gain on redemption (Note 21)	**2,586,997**	144,087
Disposals/maturities	**(267,057,000)**	(31,000,000)
At December 31	**₱376,588,504**	₱94,148,872

b. AFS Financial Assets

This account consists of:

	2016	2015
Quoted equity securities - at fair value		
Common shares	**₱187,352,675**	₱168,328,250
Preferred shares	**60,191,970**	31,109,560
Club shares	**42,270,000**	39,775,000
Unquoted equity securities - at cost		
Common shares	–	5,450,959
	₱289,814,645	₱244,663,769

Quoted equity securities represent common and preferred shares listed in the Philippine Stock Exchange.

The cost of AFS financial assets carried at fair value as of December 31 follows:

	2016	2015
Quoted equity securities - at cost		
Common shares - net of impairment loss of ₱31,808,805 in 2016 and ₱2,287,133 in 2015	**₱160,187,774**	₱187,563,208
Preferred shares	**57,862,500**	29,057,500
Club shares - net of impairment loss of ₱2,045,000 in 2016 and 2015	**1,433,000**	1,433,000
Unquoted equity securities - at cost		
Common shares	–	5,450,959
	₱219,483,274	₱223,504,667

The movements in the carrying values of AFS financial assets as of December 31 follow:

	2016	2015
At January 1	**₱244,663,769**	₱327,710,574
Acquisitions	**80,630,842**	56,876,053
Disposals	**(60,487,638)**	(102,532,972)
Write-off	**(5,450,959)**	–
Fair value gains (losses) recognized in other comprehensive income	**30,458,631**	(37,389,886)
At December 31	**₱289,814,645**	₱244,663,769

The movements in revaluation reserve on AFS financial assets as of December 31 follow:

	2016	2015
At January 1	**₱21,159,102**	₱93,311,546
Fair value gains (losses) recognized in other comprehensive income	**30,458,631**	(37,389,886)
Transferred to profit or loss	**(10,808,034)**	(39,094,691)
Impairment losses	**29,521,672**	4,332,133
At December 31	**₱70,331,371**	₱21,159,102

c. Loans and Receivables - net

This account consists of:

	2016	2015
Short-term investments	**₱478,448,252**	₱82,521,147
Employee receivables	**8,112,368**	9,296,659
Interest receivable	**7,268,120**	3,270,092
Mortgage loans receivables	**980,587**	580,569
Dividends receivable	**335,742**	528,567
Other receivables	**1,426,950**	879,293
	₱496,572,019	₱97,076,327

Short-term investments interest rate ranges from 0.82% to 2.00% and 0.50% to 1.50% in 2016 and 2015, respectively.

7. Deferred Acquisition Costs and Deferred Reinsurance Commissions

a. The movements in deferred acquisition costs as of December 31 follow:

	2016	2015
At beginning of the year	**₱659,562,197**	₱608,253,556
Cost deferred during the year	**1,549,533,464**	1,378,306,474
Amortization during the year	**(1,512,739,983)**	(1,326,997,833)
At end of the year	**₱696,355,678**	₱659,562,197

b. The movements in deferred reinsurance commissions as of December 31 follow:

	2016	2015
At beginning of the year	**₱49,526,821**	₱21,976,701
Income deferred during the year	**155,690,971**	141,527,478
Amortization during the year	**(131,669,535)**	(113,977,358)
At end of the year	**₱73,548,257**	₱49,526,821

8. Reinsurance Assets

This account consists of:

	2016	2015
Reinsurance recoverable on unpaid losses (Note 12)	**₱1,195,923,871**	₱1,194,292,367
Deferred reinsurance premiums (Note 12)	**1,048,653,118**	849,191,680
	₱2,244,576,989	₱2,043,484,047

9. Investment Property

The investment property pertains to three parcels of land acquired and foreclosed which are held for capital appreciation. The carrying value of investment property amounted to ₱20,994,381 as of December 31, 2016 and 2015.

The first parcel of land is composed of 18 residential lots with an area of 300 square meters (sqm) each. This is located in Alta Mira Subdivision, Puerto Azul, Brgy. Sapang, Ternate, Cavite. As of March 12, 2014, the fair value of the first parcel of land is ₱17,820,000 determined using the market data approach. The fair values of the properties are based on valuations performed by CAL-FIL Appraisal And Management, Inc. (CFAMI), an accredited independent appraiser. CFAMI is a specialist in valuing these types of investment properties.

Market data approach is a technique which requires the establishment of comparable property by reducing comparative sales and listings to a common denominator with the subject. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. Comparisons are premised on the factors of location, land use, physical characteristics of the land and time element. As of December 31, 2015 and 2016, the Company believes that there are no significant changes in the fair value of the properties based on the valuation performed by CFAMI in 2014.

The highest and best use of the first parcel of land is to convert the same for residential use. For strategic reasons, the property is not being used in this manner.

The second parcel of land is located in Brgy. Malabog Daraga, Albay. This is composed of five residential lots, with an area of 240 sqm each. The fair value of the land cannot be measured reliably due to its location. The land is found near the base of Mt. Mayon making it exposed to the constant threats posed by the volcano. The market for comparable properties is inactive and alternative reliable measurements of fair value are not available.

The third parcel of land is located in San Miguel, Luisita, Ungot & Bantog, Tarlac City. This residential lot has an area of 30,000 sqm which was purchased last June 29, 2014 at an acquisition cost of ₱3,052,000. Based on the Company's assessment, the acquisition cost of the said property still approximates its fair value as of December 31, 2016 and 2015.

The Company classifies its investment properties under Level 3 of the fair value hierarchy (see Note 28).

10. **Property and Equipment** - net

As of December 31, 2016:

	Land	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Building and Building improvements	Total
Cost						
Beginning balance	**₱243,865,415**	**₱272,850,441**	**₱27,761,071**	**₱144,490,615**	**₱270,802,264**	**₱959,769,806**
Additions	**–**	**24,182,460**	**1,007,000**	**19,170,415**	**36,253,832**	**80,613,707**
Disposals	**–**	**(147,385,571)**	**(19,404,773)**	**(70,889,950)**	**–**	**(237,680,294)**
Ending balance	**243,865,415**	**149,647,330**	**9,363,298**	**92,771,080**	**307,056,096**	**802,703,219**
Accumulated Depreciation						
Beginning balance	**–**	**196,836,507**	**25,445,620**	**90,578,136**	**64,827,795**	**377,688,058**
Depreciation (Note 24)	**–**	**26,267,485**	**618,665**	**8,276,739**	**5,994,522**	**41,157,411**
Disposal	**–**	**(147,379,238)**	**(19,404,773)**	**(70,889,950)**	**–**	**(237,673,961)**
Ending balance	**–**	**75,724,754**	**6,659,512**	**27,964,925**	**70,822,317**	**181,171,508**
Net Book Value	**₱243,865,415**	**₱73,922,576**	**₱2,703,786**	**₱64,806,155**	**₱236,233,779**	**₱621,531,711**

As of December 31, 2015:

	Land	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Building and Building improvements	Total
Cost						
Beginning balance	₱243,865,415	₱237,598,160	₱27,476,071	₱113,878,258	₱236,929,819	₱859,747,723
Reclassification (Note 11)	–	2,340,773	–	–	–	2,340,773
Additions	–	33,025,814	285,000	30,612,357	33,872,445	97,795,616
Disposals	–	(114,306)	–	–	–	(114,306)
Ending balance	243,865,415	272,850,441	27,761,071	144,490,615	270,802,264	959,769,806
Accumulated Depreciation						
Beginning balance	–	158,554,534	24,418,512	84,692,444	60,426,004	328,091,494
Reclassification (Note 11)	–	39,013	–	–	–	39,013
Depreciation (Note 24)	–	38,347,371	1,027,108	5,885,692	4,401,791	49,661,962
Disposal	–	(104,411)	–	–	–	(104,411)
Ending balance	–	196,836,507	25,445,620	90,578,136	64,827,795	377,688,058
Net Book Value	₱243,865,415	₱76,013,934	₱2,315,451	₱53,912,479	₱205,974,469	₱582,081,748

The cost of fully depreciated property and equipment still used in operations amounted to ₱13,543,859 and ₱215,765,777 as of December 31, 2016 and 2015, respectively.

11. **Other Assets**

This account consists of:

	2016	2015
Creditable withholding taxes	**₱403,940,223**	₱309,589,349
Input VAT	**278,289,380**	243,512,932
Refundable deposits	**24,561,452**	20,675,071
Prepayments	**4,441,460**	11,876,658
Computer software - net	**1,966,849**	1,706,876
Security fund	**104,494**	104,494
Others	**–**	210,000
	₱713,303,858	₱587,675,380

a. Creditable withholding taxes represent the taxes withheld at source by the counterparty which can be applied against future income tax liability.

b. Input VAT represents VAT imposed on the Company by its suppliers and contractors for the acquisition of goods and services which can be applied against output VAT liabilities.

c. Refundable deposits pertain to deposits paid by the Company in relation to its lease of office space which are refundable at the end of the contract.

d. Prepayments pertain to cash paid in advance by the Company in relation to its rental, advertising and other agreements with third parties.

e. The movements in the carrying values of computer software follow:

	2016	2015
Cost		
At January 1	**₱23,939,477**	₱25,754,866
Reclassification (Note 10)	**–**	(2,340,773)
Additions	**1,020,983**	525,384
At December 31	**24,960,460**	23,939,477
Accumulated amortization		
At January 1	**22,232,601**	21,451,012
Reclassification (Note 10)	**–**	(39,013)
Amortization during the year (Note 24)	**761,010**	820,602
At December 31	**22,993,611**	22,232,601
Net book value	**₱1,966,849**	₱1,706,876

12. Insurance Contract Liabilities and Reinsurance Assets

Short-term nonlife insurance contract liabilities net of reinsurers' share of liabilities may be analyzed as follows:

	2016			2015		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net
Provision for claims reported and loss adjustment expenses	**₱1,901,164,021**	**₱1,195,543,502**	**₱705,620,519**	₱1,829,156,965	₱1,194,291,694	₱634,865,271
Provision for claims IBNR	**110,293,033**	**380,369**	**109,912,664**	17,184,007	673	17,183,334
Total claims reported and IBNR	**2,011,457,054**	**1,195,923,871**	**815,533,183**	1,846,340,972	1,194,292,367	652,048,605
Provision for unearned premiums	**2,010,117,351**	**1,048,653,118**	**961,464,233**	1,805,526,582	849,191,680	956,334,902
	₱4,021,574,405	**₱2,244,576,989**	**₱1,776,997,416**	₱3,651,867,554	₱2,043,484,047	₱1,608,383,507

Provisions for claims reported by policyholders and claims IBNR may be analyzed as follows:

	2016			2015		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net
At January 1	**₱1,846,340,972**	**₱1,194,292,367**	**₱652,048,605**	₱2,723,388,991	₱2,170,198,716	₱553,190,275
Claims incurred during the year	**1,814,666,809**	**558,168,840**	**1,256,497,969**	3,235,560,867	2,059,649,293	1,175,911,574
Claims paid during the year - net of salvage and subrogation (Note 23)	**(1,742,659,753)**	**(556,917,032)**	**(1,185,742,721)**	(4,084,533,517)	(3,034,499,977)	(1,050,033,540)
Increase (decrease) in IBNR (Note 23)	**93,109,026**	**379,696**	**92,729,330**	(28,075,369)	(1,055,665)	(27,019,704)
At December 31	**₱2,011,457,054**	**₱1,195,923,871**	**₱815,533,183**	₱1,846,340,972	₱1,194,292,367	₱652,048,605

Provision for unearned premiums may be analyzed as follows:

	2016			2015		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities (Note 8)**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net
At January 1	**₱1,805,526,582**	**₱849,191,680**	**₱956,334,902**	₱2,285,186,819	₱1,066,030,804	₱1,219,156,015
New policies written during the year (Note 20)	**7,881,759,244**	**3,888,738,978**	**3,993,020,266**	7,213,558,270	3,750,746,524	3,462,811,746
Premiums earned during the year (Note 20)	**(7,677,168,475)**	**(3,689,277,540)**	**(3,987,890,935)**	(7,693,218,507)	(3,967,585,648)	(3,725,632,859)
At December 31	**₱2,010,117,351**	**₱1,048,653,118**	**₱961,464,233**	₱1,805,526,582	₱849,191,680	₱956,334,902

13. Insurance Payables

The movements in due to reinsurers as of December 31 follow:

	2016	2015
At January 1	**₱1,517,565,568**	₱1,211,875,518
Additions (Note 20)	**3,888,738,978**	3,750,746,524
Payments	**(3,952,781,870)**	(3,445,056,474)
At December 31	**₱1,453,522,676**	₱1,517,565,568

14. Accounts Payable and Accrued Expenses

This account consists of:

	2016	2015
Taxes payable	**₱584,256,284**	₱368,764,447
Accounts payable	**545,804,851**	730,766,920
Commissions payable	**200,387,188**	138,768,550
Accrued expenses	**31,612,824**	36,480,004
	₱1,362,061,147	₱1,274,779,921

15. Loans Payable

The movements in loans payable as of December 31 follow:

	2016	2015
Balance at beginning of year	**₱60,047,027**	₱149,547,027
Payments	**(50,047,027)**	(89,500,000)
Balance at end of year	**₱10,000,000**	₱60,047,027

This account represents unsecured short-term and secured long-term loans obtained from banks with annual interest rate of 2.75% in 2016 and annual rates ranging from 2.75% to 6.50% in 2015.

For 2016 and 2015, the interest expense on loans amounted to ₱406,389 and ₱3,858,262, respectively.

16. Net Pension Obligation

The Company has a funded, non-trustee, and non-contributory defined benefit retirement plan covering all of its employees.

Net Pension benefit expense for the years ended December 31 consists of the following (see Note 24):

	2016	2015
Current service cost	**₱19,560,745**	₱18,177,900
Net interest cost	**7,743,156**	7,904,931
	₱27,303,901	₱26,082,831

Remeasurement loss on defined benefit plan recognized in other comprehensive income for the years ended December 31 are as follow:

	2016	2015
Remeasurement loss (gain) arising from:		
Experience adjustments	**₱3,339,331**	₱12,873,957
Changes in financial assumptions	**(2,905,650)**	(9,431,689)
Changes in demographic assumptions	**–**	1,184,219
	433,681	4,626,487
Return on assets, excluding amount included in net interest cost	**3,048,943**	1,247,003
	₱3,482,624	₱5,873,490

Details of accumulated remeasurement loss on defined benefit plan as of December 31 follow:

	2016	2015
At January 1	**₱115,611,020**	₱109,737,530
Remeasurement loss recognized in other comprehensive income during the year	**3,482,624**	5,873,490
	119,093,644	115,611,020
Tax effect (Note 25)	**35,728,093**	34,683,306
At December 31	**₱83,365,551**	₱80,927,714

Net pension obligation as of December 31 follows:

	2016	2015
Present value of pension benefit obligation	**₱306,414,454**	₱275,004,409
Fair value of plan assets	**164,281,188**	116,657,668
	₱142,133,266	₱158,346,741

The reconciliation of the present value of defined benefit obligation as of December 31 follows:

	2016	2015
At January 1	**₱275,004,409**	₱248,329,783
Current service cost	**19,560,745**	18,177,900
Interest cost	**13,447,716**	11,075,508
Benefits paid	**(2,032,097)**	(7,205,269)
Actuarial losses on obligation	**433,681**	4,626,487
At December 31	**₱306,414,454**	₱275,004,409

The movements in the fair value of the plan assets as of December 31 follow:

	2016	2015
At January 1	**₱116,657,668**	₱71,089,173
Interest income	**5,704,560**	3,170,577
Return on assets (excluding amount included in net interest cost)	**(3,048,943)**	(1,247,002)
Contributions	**47,000,000**	50,850,189
Benefits paid	**(2,032,097)**	(7,205,269)
At December 31	**₱164,281,188**	₱116,657,668

The actual return on plan assets amounted to ₱2,655,617 and ₱1,923,575 in 2016 and 2015, respectively. The Company expects to contribute ₱44,807,066 to its defined benefit plan in 2017.

The distribution of plan assets as of December 31 follows:

	2016	2015
Cash on hand and in banks	**₱157,771,550**	₱104,739,624
Investment in commercial bills	**292,950**	292,950
Receivables	**6,216,688**	11,625,094
	₱164,281,188	₱116,657,668

The carrying value of the retirement plan assets approximates its fair value as of December 31, 2016 and 2015. The plan assets are diverse investments and do not have any concentration risk.

The Company does not currently employ any asset-liability matching strategy.

The pension benefit expense and the present value of the defined benefit obligation are determined using actuarial valuations. The latest actuarial valuation report is as of December 31, 2016. The actuarial valuation involves making various assumptions.

The principal actuarial assumptions used to determine pension benefits are as follows:

	2016	2015
Discount rate	**5.03%**	4.89%
Salary increase rate	**5.00%**	5.00%

The Company's discount rate for the defined benefit obligation was determined by reference to market yields at the reporting date of high quality corporate bonds or government bonds consistent with the estimated term of the obligations. A lower discount rate would increase the present value of benefit obligations. The expected salary increase rate was determined by considering the inflation, seniority, promotion and other factors. The Company evaluates these assumptions on a periodic basis taking into consideration current market conditions and historical market data.

The Company performed sensitivity analysis for the changes in the significant assumptions that would increase the defined benefit obligation. The sensitivity analysis has been determined based on reasonably possible changes in the following assumptions occurring at the end of the reporting date assuming all other assumptions were held constant.

	Increase (decrease)	Increase (decrease) in defined benefit obligation 2016	2015
Discount rate	0.50%	**(₱8,670,226)**	(₱8,653,290)
	(0.50%)	**11,256,819**	11,049,043
Salary rate increase	1.00%	**22,723,246**	21,994,883
	(1.00%)	**(15,572,667)**	(15,356,870)

Shown below is the maturity analysis of the undiscounted benefits payments as of December 31:

	2016	2015
Less than 1 year	**₱118,677,974**	₱107,197,890
More than 1 year to 5 years	**67,377,507**	46,817,502
More than 5 years to 10 years	**123,350,607**	118,471,584
More than 10 years to 15 years	**201,158,993**	195,386,327
More than 15 years to 20 years	**221,367,709**	200,927,054
More than 20 years	**763,335,149**	709,946,870
	₱1,495,267,939	₱1,378,747,227

The weighted average duration of the defined benefit obligation is 17 years in 2016 and 2015.

17. Other Liabilities

This account consists of:

	2016	2015
Customers' deposits	**₱359,340,198**	₱239,966,259
Others	**42,910,777**	89,231,609
	₱402,250,975	₱329,197,868

Customers' deposits pertain to security deposits from policyholders holding bond insurance policies.

Others pertain to checks issued for payment of claims which were unreleased as of December 31.

18. Equity

a. Capital Stock
As of December 31, 2016 and 2015, capital stock consists of 2,500,000 issued and outstanding common shares with par value of ₱100 per share amounting to ₱250,000,000.

b. Contributed Surplus
This represents the original contribution of the shareholders of the Company in addition to the paid-up capital stock, in order to comply with the pre-licensing requirement under the Insurance Code. Contributed surplus amounted to ₱23,691,470 as of December 31, 2016 and 2015.

c. Deposits for Future Stock Subscription
The following transactions were entered into by the Company in anticipation of the increase in capital requirements by the Insurance Code (refer to Note 28):

- On February 16, 2016, the Company's shareholders contributed a total of ₱320,000,000 cash as capital infusion which will be used for future subscription of stocks.

- At a meeting held on March 14, 2016, the Company's shareholders and BOD approved of the subscription of the 500,000 shares with par value of ₱100 per share or an equivalent of ₱50,000,000 from the initial authorized capital stock of 3,000,000 shares. Of the ₱50,000,000 subscription, ₱20,000,000 cash received by the Company from shareholders last February 16, 2016 will be used as payment for subscription and the remaining ₱30,000,000 will be taken from the "Contingency surplus" (see Note 18d).

- At a meeting held on August 24, 2016, the Company's shareholders and BOD approved the increase in authorized capital stock from ₱300,000,000 divided into 3,000,000 common shares with par value of ₱100 per share to ₱1,500,000,000 divided into 15,000,000 shares with the same par value. On the same meeting, the Company's shareholders and BOD approved the subscription of 3,000,000 shares with par value of ₱100 per share or an equivalent of ₱300,000,000. The balance of the cash received last February 16, 2016 amounting to ₱300,000,000 was used as payment for the said subscription. As of December 31, 2016, the Company has applied for an increase in authorized capital stock with the SEC. On January 25, 2017, the SEC approved the Company's application for the increase in authorized capital stock.

d. Contingency Surplus
This represents contributions of the shareholders in order to comply with capital requirements of the Insurance Code. This can be withdrawn only upon approval of the IC.

In 2016, the Company transferred a total of ₱30,000,000 to "Deposits for future stock subscription" which will be used for the subscription of the remaining 500,000 shares of the initial authorized capital stock of 3,000,000 shares (see Note18c).

19. Related Party Transactions

Transactions between related parties are based on terms similar to those offered to non-related parties. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individual or corporate entities. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

The Company has the following transactions with related parties:

Related party	Year	Premiums (Note 19a)	Rental income (Note 19b)	Service income (Note19c)	Claims and benefits (Note19a)	Insurance expenses (Note 19a)	General expenses (Note19d)
PGA Sompo Insurance Corp. (PGA Sompo)	**2016**	**₱259,663**	**₱7,536,233**	**₱1,887,232**	**₱12,262,720**	**₱2,270,347**	**₱–**
	2015	286,331	6,838,905	1,561,579	523,852	2,070,132	–
First Life Financial Inc. (First Life)	**2016**	**1,931,509**	**192,850**	–	–	**1,931,703**	–
	2015	70,000	96,425	–	–	1,961,774	–

(Forward)

Related party	Year	Premiums (Note 19a)	Rental income (Note 19b)	Service income (Note19c)	Claims and benefits (Note19a)	Insurance expenses (Note 19a)	General expenses (Note19d)
PGA Cars Inc	**2016**	**₱3,195,353**	**₱4,800,000**	**₱–**	**₱29,373**	**₱–**	**₱1,624,059**
(PGACars).	2015	5,876,404	4,800,000	–	–	–	614,759
National Grid	**2016**	**55,097,199**	–	–	**187,478**	–	–
Corporation	2015	65,892,867	–	–	–	–	–
R. Coyiuto	**2016**	**55,422**	–	–	–	–	**2,286,485**
Securities Inc. (RCSI)	2015	93,457	–	–	–	–	2,174,959
Universal Robina	**2016**	**36,277,295**	–	–	**5,828,931**	–	–
Corporation	2015	–	–	–	39,194,504	–	–
Robinsons Land	**2016**	**60,995,954**	–	–	**67,471,865**	–	–
Corporation	2015	–	–	–	–	–	–
Pioneer Tours	**2016**	–	–	–	–	–	**1,372,813**
Corporation	2015	–	–	–	–	–	4,478,583
Canon Marketing Inc.	**2016**	**2,484,563**	–	–	–	–	**390,957**
	2015	–	–	–	–	–	651,221
Guarantee Development	**2016**	–	–	–	–	–	**11,936,160**
Corp. (GDC)	2015	–	–	–	–	–	11,936,160
Total	**2016**	**₱160,296,958**	**₱12,529,083**	**₱1,887,232**	**₱85,780,367**	**₱4,202,050**	**₱17,610,474**
Total	2015	₱72,219,059	₱11,735,330	₱1,561,579	₱39,718,356	₱4,031,906	₱19,855,682

The Company has the following account balances with related parties:

Related party	Terms and Condition	Year	AFS financial assets (Note 6)	Due from ceding companies (Note 5)	Due to reinsurers (Note13)
PGA Sompo.	(i)	**2016**	**₱–**	**₱8,915,551**	**₱218,705,740**
		2015	–	21,461,342	2,567,196
Oriental Petroleum and Mineral Corporation	(ii)	**2016**	**146,757,994**	–	–
		2015	140,786,851	–	–
Total		**2016**	**₱146,757,994**	**₱8,915,551**	**₱218,705,740**
Total		2015	₱140,786,851	₱21,461,342	₱2,567,196

(i) Unsecured, with 90-day credit term and are not impaired.
(ii) Listed equity securities in Philippine Stock Exchange; with impairment loss of ₱29,521,672 in 2016.

a. Premiums, claims and benefits, and related insurance expenses pertain to insurance contracts entered with, policies assumed by or policies ceded out to, the Company's related parties.

b. The Company, as a lessor, leases its office spaces as follows:

- In June 2016, the Company renewed its sublease agreement with PGA Sompo for the lease of its office space in Makati until May 2019. Rental income from PGA Sompo amounted to ₱7,536,233 and ₱6,838,905 in 2016 and 2015, respectively.

- The Company entered into a sublease agreement with PGA Cars for the lease of its office and parking spaces in Greenhills until December 2017. Rental income from PGA Cars amounted to ₱4,800,000 in 2016 and 2015.

- In June 2015, the entered into a lease agreement with First Life for the lease of office space in Bacolod until June 2018. Rental income from First Life amounted to ₱192,850 and ₱96,425 in 2016 and 2015, respectively.

c. The Company provides administrative services including payroll and accounting functions to PGA Sompo.

d. The Company, as a lessee, has lease agreements with its related parties covering mainly office spaces, among others is as follows:

- In January 2016, the Company entered into a lease agreement with GDC covering mainly office spaces for its head office in Makati. The lease is for six years until December 2021 and are not subject to escalation. Total rental charged against operations amounted to ₱11,936,160 in 2016 and 2015.

The Company also purchases various services from its related parties including transportation, travel and advertising expense.

e. The compensation and benefits paid to the Company's key management personnel follows:

	2016	2015
Salaries and wages	**₱128,457,181**	₱114,210,202
Other short-term benefits	**503,387**	1,223,736
	₱128,960,568	₱115,433,938

20. Net Premiums Earned

Net premiums earned consist of the following:

	2016	2015
Gross premiums on insurance contracts (Note 19):		
Direct	**₱7,042,407,301**	₱6,543,526,745
Assumed	**839,351,943**	670,031,525
Total gross premiums on insurance contracts (Note 12)	**7,881,759,244**	7,213,558,270
Gross change in provision for unearned premiums (Note 12)	**(204,590,769)**	479,660,237
Total gross premiums earned on insurance contracts	**7,677,168,475**	7,693,218,507
Reinsurers' share of gross premiums on insurance contracts (Note 19):		
Direct	**3,220,851,045**	3,236,558,794
Assumed	**667,887,933**	514,187,730
Total reinsurers' share of gross premiums on insurance contracts (Note 12)	**3,888,738,978**	3,750,746,524
Reinsurers' share of gross change in provision for unearned premiums (Note 12)	**(199,461,438)**	216,839,124
Total reinsurers' share of gross premiums earned on insurance contracts	**3,689,277,540**	3,967,585,648
Net premiums earned	**₱3,987,890,935**	₱3,725,632,859

21. **Investment and Other Income**

This account consists of:

	2016	2015
Interest income from:		
Cash and cash equivalents and short-term investments (Note 4)	**₱40,543,660**	₱28,491,900
Financial assets at FVPL (Note 6)	**2,466,010**	2,485,017
Loans and receivables (Note 6)	**129,161**	134,233
Dividend income	**3,281,141**	3,535,327
Gain on redemption of financial assets at FVPL (Note 6)	**2,586,997**	144,087
	₱49,006,969	₱34,790,564

22. **Other Income**

This account consists of:

	2016	2015
Contingent profit commission	**₱99,330,868**	₱62,760,277
Rental income (Note 19)	**15,908,846**	13,522,678
Service income (Note 19)	**1,887,232**	1,561,579
Gain on sale of property and equipment	**27,467**	6,887
Others	**5,940,185**	464,557
	₱123,094,598	₱78,315,978

23. **Net Insurance Contract Benefits and Claims**

Gross insurance contract benefits and claims paid consist of the following:

	2016	2015
Insurance contract benefits and claims paid (Note 12):		
Direct	**₱1,729,519,763**	₱3,983,941,777
Assumed	**13,139,990**	100,591,740
	₱1,742,659,753	₱4,084,533,517

Reinsurers' share of insurance contract benefits and claims paid consist of the following:

	2016	2015
Reinsurers' share of insurance contract benefits and claims paid (Note 12):		
Direct	**₱527,642,597**	₱3,034,499,977
Assumed	**29,274,435**	–
	₱556,917,032	₱3,034,499,977

Gross change in insurance contract benefits and claims liabilities follow:

	2016	2015
Change in provision for claims reported and loss adjustment expenses (Note 12):		
Direct	**₱119,412,296**	(₱858,046,045)
Assumed	**(47,405,240)**	9,073,395
Change in provision for claims IBNR	**93,109,026**	(28,075,369)
	₱165,116,082	(₱877,048,019)

Reinsurers' share of change in insurance contract benefits and claims liabilities follow:

	2016	2015
Reinsurers' share of change in insurance provision for claims reported and loss adjustment expenses (Note 12)	**(₱1,251,808)**	₱974,850,684
Reinsurer's share of change in provision for claims IBNR	**(379,696)**	1,055,665
	(₱1,631,504)	₱975,906,349

24. General Expenses

This account consists of:

	2016	2015
Salaries, wages and benefits (Note 19)	**₱458,090,922**	₱427,171,126
Service fees	**99,056,560**	94,221,684
Communications, light and water	**52,887,799**	65,568,323
Rent (Note 19)	**44,462,414**	47,815,908
Depreciation and amortization (Notes 10 and 11)	**41,918,421**	50,482,564
Entertainment, amusement and recreation	**34,457,184**	51,897,654
Stationery and supplies	**28,688,824**	28,589,522
Net pension benefit expense (Note 16)	**27,303,901**	26,082,831
Professional fees	**23,735,506**	18,274,090
Transportation (Note 19)	**20,026,273**	13,375,092
Insurance	**17,135,958**	5,852,677
Advertising (Note 19)	**16,650,658**	8,958,952
Repairs and maintenance	**9,451,463**	8,904,134
Taxes and licenses	**6,583,184**	8,088,857
Subscriptions	**1,188,165**	1,613,983
Provision for bad debts expense (Note 5)	**–**	6,378,236
Others	**5,601,192**	3,464,714
	₱887,238,424	₱866,740,347

25. **Income Tax**

The Company's provision for income tax consists of:

	2016	2015
Current	**₱20,344,870**	₱9,839,399
Final	**7,036,118**	5,099,457
Deferred	**96,098,203**	116,780,724
	₱123,479,191	₱131,719,580

a. The current provision for income tax represents RCIT and MCIT in 2016 and 2015, respectively.

The reconciliation of income before tax using the statutory corporate income tax rate of 30% to provision for income tax as shown in the statements of income follows:

	2016	2015
Provision for income tax at 30%	**₱123,294,347**	₱139,886,038
Increase (decrease) in income tax resulting from:		
Impairment losses on AFS financial assets	**8,856,502**	1,299,640
Interest income subjected to final taxes	**(5,866,783)**	(4,193,618)
Gain on sale of AFS financial assets	**(3,242,410)**	(11,728,407)
Loss on write-off of AFS financial assets	**1,635,287**	–
Dividend income	**(984,342)**	(1,060,598)
Gain on redemption of financial assets at FVPL	**(776,099)**	(43,226)
Fair value losses on financial assets at FVPL	**547,689**	100,640
Other nondeductible expenses	**15,000**	7,459,111
	₱123,479,191	₱131,719,580

b. The components of the net deferred tax liabilities follows:

	2016	2015
Deferred tax assets through profit or loss:		
Provision for claims IBNR	**₱32,973,799**	₱5,155,000
Unamortized pension cost	**22,601,251**	17,287,891
Deferred reinsurance commissions	**22,064,477**	14,858,046
Allowance for impairment losses	**17,696,384**	17,696,384
Excess MCIT	**8,885,319**	29,230,189
Pension benefit obligation	**6,911,887**	12,820,716
NOLCO	–	61,123,305
Excess of provision for deferred reinsurance premiums per books over per tax basis	–	26,417,259
	111,133,117	184,588,790
Deferred tax assets through other comprehensive income - remeasurement loss on defined benefit plan (Note 16)	**35,728,093**	34,683,306
	146,861,210	219,272,096

(Forward)

	2016	2015
Deferred tax liabilities:		
Excess of provision for unearned premiums per books over per tax basis	**₱310,051,175**	₱286,651,135
Deferred acquisition costs	**208,906,703**	197,868,659
Excess of provision for deferred reinsurance premiums per books over per tax basis	**14,445,877**	–
Unrealized forex gain	**6,588,838**	11,640,838
Prepaid rent	**1,332,437**	2,176,998
	541,325,030	498,337,630
	₱394,463,820	₱279,065,534

The reconciliation of net deferred tax liabilities follows:

	2016	2015
At January 1	**₱279,065,534**	₱164,046,857
Deferred income tax recognized in profit or loss	**96,098,203**	116,780,724
Deferred income tax recognized in other comprehensive income	**(1,044,787)**	(1,762,047)
Application of excess MCIT	**20,344,870**	–
At December 31	**₱394,463,820**	₱279,065,534

c. Details of NOLCO and MCIT as of December 31 follow:

Year	Year	NOLCO		MCIT	
Incurred	Expiring	**2016**	2015	**2016**	2015
2015	2018	**₱–**	₱187,010,101	**₱8,885,319**	₱9,839,399
2014	2017	–	16,734,250	–	14,422,509
2013	2016	–	–	–	4,968,281
		₱–	₱203,744,351	**₱8,885,319**	₱29,230,189

The movements in NOLCO and MCIT as of December 31 follow:

	NOLCO		MCIT	
	2016	2015	**2016**	2015
At January 1	**₱203,744,351**	₱187,010,101	**₱29,230,189**	₱19,390,790
Additions (applications)	**(203,744,351)**	16,734,250	**(20,344,870)**	9,839,399
At December 31	**₱–**	₱203,744,351	**₱8,885,319**	₱29,230,189

26. Contingencies

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident in the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no material liabilities are likely to result.

27. Reconciliation of Net Income under PFRS to Statutory Net Income

The reconciliation of net income under PFRS to statutory net income follows:

	2016	2015
Net income under PFRS	**₱287,501,967**	₱334,567,213
Add (deduct):		
Difference in provision for unearned premiums - net	**(214,210,590)**	(376,726,033)
Deferred acquisition costs - net	**(12,772,044)**	(23,758,521)
Increase (decrease) in IBNR - net	**92,729,328**	(27,019,704)
Tax effect of adjustments	**40,275,992**	128,251,277
Statutory net income	**₱193,524,653**	₱35,314,232

28. Management of Capital, Insurance and Financial Risks

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions [e.g., minimum statutory networth and risk-based capital (RBC) requirements].

Capital Management Framework
The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders.

The Company reviews the capital requirements through monthly computation of the minimum statutory networth and the RBC which is regularly communicated to the major shareholders. With this procedure, shareholders are forewarned in anticipation of the IC requirements of additional capital infusion. Shareholders are well updated with these externally imposed capital, requirements since these are being discussed during the annual BOD meeting. Evidently, the shareholders have shown their commitment to comply with this regulation, same as prior years when they willingly infused additional cash as the need arise.

Minimum Statutory Networth
On August 15, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the “New Insurance Code” which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022.

The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

Networth	Compliance Date
₱550,000,000	December 31 ,2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

On January 13, 2015, the IC issued Circular Letter (CL) No. 2015-02-A which provides for the clarification of minimum capital requirements under Sections 194, 197, 200 and 289 of the New Insurance Code. The said circular supersedes the Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008.

The minimum networth requirement must remain unimpaired for the continuance of the license. The final networth can be determined only after the accounts of the Company have been examined by IC. As of December 31, 2016 and 2015, the estimated statutory net worth of the Company amounted to ₱2,571,868,116 and 1,905,354,480, respectively.

Risk-based Capital Requirements
The New Insurance Code provides that the Commissioner may require the adoption of the RBC approach and other internationally accepted forms of capital framework. Together with the insurance industry, the IC is currently in the process of adopting a new RBC approach that would be more tailored to the Philippine insurance industry. Pending the adoption of the new RBC approach, the provisions of IMC No. 7-2006 shall still be used for purposes of the December 31, 2016 financial reporting.

IMC No. 7-2006 provides for the RBC framework for the nonlife insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every nonlife insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The following table shows how the RBC ratio as of December 31 was determined by the Company:

	2016	2015
Networth	**2,571,868,116**	₱1,905,354,480
RBC requirement	**954,068,738**	859,472,750
RBC Ratio	**269.57%**	221.69%

The RBC ratio shall be calculated as networth divided by the RBC requirement. Networth shall include the company’s paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of networth only to the extent authorized by the IC.

The final amount of the RBC ratio can only be determined after the accounts of the Company have been examined by the IC. Further, the IC has yet to finalize the new RBC Computation under the New Insurance Code.

If the Company failed to meet the minimum required statutory networth and RBC requirements, the IC is authorized to suspend or revoke all certificates of authority granted to the Company, its officers and agents, and no new business shall be done by and for the Company until its authority is restored by the IC.

Financial Reporting Framework

On December 28, 2016, IC CL No. 2015-29 was superseded by IC CL No. 2016-65 which will be fully implemented beginning January 1, 2017. This circular prescribes the new financial reporting framework (FRF) used for statutory quarterly and annual reporting. The new FRF includes the economic valuation of asset and liabilities based on internationally accepted accounting, actuarial, and insurance core principles which requires quarterly and annual reporting of net worth to the IC.

Valuation Standards for Policy Reserves

On December 28, 2016, IC CL No. 2015-32 was superseded by IC No. 2016-67 which will be fully implemented beginning January 1, 2017. This circular prescribes the new valuation methodology for the nonlife insurance policy reserves. The reserves for nonlife insurance companies will include premium and claims liabilities both determined using best estimate assumption by an actuary, with an appropriate Margin of Adverse Deviation (MfAD) for expected future experience.

Insurance Risk

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

The Company principally issues the following types of general insurance contracts: fire, motor, accident, casualty, marine, engineering and surety. Risks under general insurance policies usually cover a twelve-month duration.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities.

These risks vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's risk appetite as decided by management.

The following table sets out the concentration of the claims liabilities by type of contract:

	2016			2015		
	Gross Contract Liabilities	**Reinsurers Share of Liabilities**	**Net**	Gross Contract Liabilities	Reinsurers Share of Liabilities	Net
Fire	**₱1,189,006,102**	**₱766,088,902**	**₱422,917,200**	₱988,092,089	₱768,060,095	₱220,031,994
Motorcar	**248,817,163**	**754,566**	**248,062,597**	285,315,889	7,119,318	278,196,571
Engineering	**179,452,755**	**129,485,253**	**49,967,502**	269,342,642	203,369,822	65,972,820
Personal accident	**4,638,213**	**–**	**4,638,213**	12,921,466	696,609	12,224,857
Others	**389,542,821**	**299,595,150**	**89,947,671**	290,668,886	215,046,523	75,622,363
	₱2,011,457,054	**₱1,195,923,871**	**₱815,533,183**	₱1,846,340,972	₱1,194,292,367	₱652,048,605

The most significant risk arises from climate changes and natural disasters. These risks vary significantly in relation to the location of the risk insured by the Company, type of risks insured and in respect of commercial and business interruption, insurance by industry.

The Company also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company also has limited its exposure level by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's risk appetite as decided by management.

Assumptions
The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim cost, claims handling costs, claims inflation factors and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.
Other key assumptions include variation in interest, delays in settlement and changes in foreign currency rates.

Sensitivities
In insurance, as a rule, there may be claims filed in the current year that would attach policies issued in the previous years. This in effect makes claims provision highly sensitive as represented by the table below. Other unpredictable circumstances like legislative uncertainties make it impossible to quantify claims. Also, due to delays arising between occurrence of claims and their subsequent reporting to and settlement by the Company, the outstanding claim provisions cannot be ascertained with confidence at the end of the reporting period.

As a result, the final liabilities will change as a result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent financial statements.

The table below shows the impact of changes in certain important assumptions in general insurance business while other assumptions remain unchanged. The interrelation of these assumptions will have an important impact in the computation of the final liabilities. But these assumption changes should be done on an individual basis to show the effect on the claims liabilities. It is worthwhile mentioning that these assumptions are nonlinear and larger or smaller impacts cannot be seen from these results.

Sensitivity analysis as of December 31, 2016 and 2015 follows:

	2016			
	Change in Assumption	**Increase (decrease) on Gross Insurance Liabilities**	**Increase (decrease) on Net Insurance Liabilities**	**Increase (decrease) on Profit Before Income Tax**
Average claim costs	**Increase by 10%**	**₱188,667,387**	**₱81,553,318**	**(₱81,553,318)**
Average number of claims	**Increase by 10%**	**169,800,648**	**117,162,447**	**(117,162,447)**

	2015			
	Change in Assumption	Increase (decrease) on Gross Insurance Liabilities	Increase (decrease) on Net Insurance Liabilities	Increase (decrease) on Profit Before Income Tax
Average claim costs	Increase by 10%	₱320,748,549	₱114,889,187	(₱114,889,187)
Average number of claims	Increase by 10%	408,453,35	105,003,354	(105,003,354)

Loss Development Triangle

The table below is an exhibit that shows the development of claims over a period of time. It shows the cumulative incurred claims for each successive accident year at each reporting date, together with cumulative claims.

Gross insurance contract liabilities as of December 31, 2016:

Accident Year	2006 & Prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims costs:												
At the end of accident year	₱6,131,597,817	₱717,408,183	₱742,285,772	₱3,059,418,085	₱1,148,049,095	₱2,615,567,594	₱2,099,691,887	₱3,748,592,453	₱2,589,564,147	₱3,680,977,390	₱2,255,249,498	₱2,255,249,498
One year later	10,451,951,648	1,437,479,909	1,274,059,648	3,248,544,323	1,204,097,252	3,394,215,106	4,087,957,286	1,732,673,699	2,430,178,116	3,632,031,874	–	3,632,031,874
Two years later	11,666,693,889	1,566,141,542	1,302,214,434	3,816,527,406	1,306,193,984	3,725,588,895	3,622,191,986	1,920,443,608	2,237,549,861	–	–	2,237,549,861
Three years later	12,187,304,719	1,584,032,963	1,316,175,282	4,241,410,016	1,481,212,254	3,724,894,216	3,644,866,156	1,830,090,040	–	–	–	1,830,090,040
Four years later	12,339,187,705	1,594,748,095	1,353,007,522	4,307,456,541	1,478,377,955	3,787,178,409	3,639,872,136	–	–	–	–	3,639,872,136
Five years later	12,420,636,965	1,595,961,997	1,355,380,791	4,309,834,696	1,506,520,383	3,795,031,980	–	–	–	–	–	3,795,031,980
Six years later	12,443,028,446	1,599,757,540	1,355,421,458	4,312,606,631	1,510,323,455	–	–	–	–	–	–	1,510,323,455
Seven years later	12,463,317,981	1,599,724,970	1,355,536,239	4,324,814,802	–	–	–	–	–	–	–	4,324,814,802
Eight years later	12,465,230,618	1,600,064,606	1,356,640,729	–	–	–	–	–	–	–	–	1,356,640,729
Nine years later	12,481,631,045	1,600,478,812	–	–	–	–	–	–	–	–	–	1,600,478,812
Ten years later	12,479,765,522	–	–	–	–	–	–	–	–	–	–	12,479,765,522
Current estimate of cumulative claims	12,479,765,522	1,600,478,812	1,356,640,729	4,324,814,802	1,510,323,455	3,795,031,980	3,639,872,136	1,830,090,040	2,237,549,861	3,632,031,874	2,255,249,498	38,661,848,709
Cumulative payments to date	12,479,764,405	1,600,386,396	1,356,530,954	4,324,387,185	1,510,081,991	3,793,986,323	3,637,437,138	1,807,499,102	2,111,459,578	3,276,758,569	752,100,014	36,650,391,655
Total gross insurance contract liabilities included in the statement of financial position	₱1,117	₱92,416	₱109,775	₱427,617	₱241,464	₱1,045,657	₱2,434,998	₱22,590,938	₱126,090,283	₱355,273,305	₱1,503,149,484	₱2,011,457,054

Net of insurance contract liabilities as of December 31, 2016:

Accident Year	2006 & Prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims costs:												
At the end of accident year	**₱2,320,580,281**	**₱452,123,244**	**₱451,262,706**	**₱478,062,307**	**₱483,757,572**	**₱127,414,610**	**₱381,092,266**	**₱1,312,802,031**	**₱1,393,065,099**	**₱1,278,128,832**	**₱1,123,438,950**	**₱1,123,438,950**
One year later	**4,015,033,995**	**919,668,479**	**883,008,527**	**494,756,741**	**504,230,399**	**392,918,564**	**531,922,337**	**1,935,838,186**	**2,441,433,071**	**1,447,152,910**	**–**	**1,447,152,910**
Two years later	**4,466,170,287**	**1,007,160,392**	**890,146,087**	**508,394,382**	**556,056,344**	**411,109,945**	**546,134,556**	**2,569,836,206**	**2,547,883,098**	**–**	**–**	**2,547,883,098**
Three years later	**4,521,776,664**	**1,008,057,305**	**897,283,648**	**524,360,058**	**564,769,036**	**414,190,708**	**563,887,115**	**2,575,728,976**	**–**	**–**	**–**	**2,575,728,976**
Four years later	**4,541,305,840**	**1,011,599,522**	**902,605,805**	**527,399,553**	**577,574,770**	**417,259,063**	**562,754,496**	**–**	**–**	**–**	**–**	**562,754,496**
Five years later	**4,556,314,918**	**1,013,941,911**	**902,890,597**	**528,217,723**	**590,427,259**	**420,459,123**	**–**	**–**	**–**	**–**	**–**	**420,459,123**
Six years later	**4,565,226,599**	**1,014,017,646**	**903,000,999**	**529,330,958**	**591,900,160**	**–**	**–**	**–**	**–**	**–**	**–**	**591,900,160**
Seven years later	**4,565,882,306**	**1,014,331,427**	**903,119,888**	**541,539,129**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**541,539,129**
Eight years later	**4,566,684,445**	**1,014,645,207**	**904,224,377**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**904,224,377**
Nine years later	**4,574,828,596**	**1,015,059,412**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,015,059,412**
Ten years later	**4,604,970,023**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,604,970,023**
Current estimate of cumulative claims	**4,604,970,023**	**1,015,059,412**	**904,224,377**	**541,539,129**	**591,900,160**	**420,459,123**	**562,754,496**	**2,575,728,976**	**2,547,883,098**	**1,447,152,910**	**1,123,438,950**	**16,335,110,654**
Cumulative payments to date	**4,604,968,906**	**1,014,966,996**	**904,114,602**	**541,111,512**	**591,658,696**	**419,413,466**	**560,319,498**	**2,564,581,734**	**2,523,258,178**	**1,347,112,260**	**448,071,623**	**15,519,577,471**
Total net insurance contract liabilities included in the statement of financial position	**₱1,117**	**₱92,416**	**₱109,775**	**₱427,617**	**₱241,464**	**₱1,045,657**	**₱2,434,998**	**₱11,147,242**	**₱24,624,920**	**₱100,040,650**	**₱675,367,327**	**₱815,533,183**

Financial Instruments
The carrying values of cash and cash equivalents, insurance receivables, loans and receivables, insurance payables, accounts payable and accrued expenses, loans payable and other liabilities approximate their fair values due to the short-term nature of these financial instruments.

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

Fair value Hierarchy
The fair value hierarchy of the Company's financial assets are summarized in the tables below.

As of December 31, 2016:

	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
AFS financial assets				
Listed equity securities				
Common shares	**₱187,352,675**	**₱–**	**₱–**	**₱187,352,675**
Preferred shares	**60,191,970**	**–**	**–**	**60,191,970**
Club shares	**42,270,000**	**–**	**–**	**42,270,000**
Financial assets at FVPL				
Government debt securities at local currency	**376,588,504**	**–**	**–**	**376,588,504**
Investment properties	**–**	**–**	**20,872,000**	**20,872,000**
	₱666,403,149	**₱–**	**₱20,872,000**	**₱687,275,149**

As of December 31, 2015:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
AFS financial assets (Note 6)				
Listed equity securities				
Common shares	₱168,328,250	₱–	₱–	₱168,328,250
Preferred shares	31,109,560	–	–	31,109,560
Club shares	39,775,000	–	–	39,775,000
Financial assets at FVPL (Note 6)				
Government debt securities at local currency	94,148,872	–	–	94,148,872
Investment properties	–	–	20,872,000	20,872,000
	₱333,361,682	₱–	₱20,872,000	₱354,233,682

There were no transfers between level 1 and level 2, and no transfers into and out of level 3 fair value measurements during 2016 and 2015.

Financial Risk
The Company is exposed to financial risk through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

Credit risk
Credit risk is a risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Prior to extending credit, the Company manages its credit risk by assessing the credit quality of its counterparty.

Another method by which the Company manages its credit risk exposure is through credit analysis. This is a process of assessing the credit quality of a counterparty which is a process that entails judgment. The credit policy group reviews all information about the counterparty which may include the counterparty's statement of financial position, statements of income and other market information. The nature of the obligation is likewise considered. Based upon this analysis, the credit analyst assigns the counterparty a credit rating to determine whether or not credit may be provided.

Credit risk limit is also used to manage credit exposure which specifies exposure limits for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

The following table provides information regarding the credit risk exposure of the Company as of December 31, 2016 and 2015:

	2016	2015
Cash and cash equivalents*	**₱3,643,964,911**	₱3,227,055,139
Insurance receivables:		
Due from brokers and agents	**775,589,376**	679,742,316
Reinsurance recoverable on paid losses	**466,621,351**	899,405,480
Due from ceding companies	**36,581,759**	74,640,593
Financial assets:		
Financial assets at FVPL	**376,588,504**	94,148,872
Loans and receivables	**496,572,019**	97,076,327
Total	**₱5,795,917,920**	₱5,072,068,727

**Amount excluding cash on hand and special fund*

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

As of December 31, 2016:

	Neither past due nor impaired		**Past due**	
	High	**Medium**	**or impaired**	**Total**
Cash and cash equivalents*	**₱3,643,964,911**	**₱–**	**₱–**	**₱3,643,964,911**
Insurance receivables				
Due from agents and brokers	**380,066,197**	**91,451,288**	**304,071,891**	**775,589,376**
Reinsurance recoverable on paid losses	**220,086,298**	**52,671,098**	**193,863,955**	**466,621,351**
Due from ceding companies	**12,688,604**	**6,765,458**	**17,127,697**	**36,581,759**
Financial assets				
Financial assets at FVPL	**376,588,504**	–	–	**376,588,504**
Loans and receivables	**496,572,019**	–	–	**496,572,019**
Total financial assets	**₱5,129,966,533**	**₱150,887,844**	**₱515,063,543**	**₱5,795,917,920**

**Amount excluding cash on hand and special fund*

As of December 31, 2015:

	Neither past due nor impaired		Past due	
	High	Medium	or impaired	Total
Cash and cash equivalents*	₱3,227,055,139	₱–	₱–	₱3,227,055,139
Insurance receivables				
Due from agents and brokers	407,831,074	133,138,239	138,773,003	679,742,316
Reinsurance recoverable on paid losses	178,589,209	43,678,499	677,137,772	899,405,480
Due from ceding companies	40,781,351	16,959,922	16,899,320	74,640,593
Financial assets				
Financial assets at FVPL	94,148,872	–	–	94,148,872
Loans and receivables	97,076,327	–	–	97,076,327
Total financial assets	₱4,045,481,972	₱193,776,660	₱832,810,095	₱5,072,068,727

**Amount excluding cash on hand and special fund*

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

Cash and cash equivalents, financial assets at FVPL, and loans and receivables - High grade pertains to cash and cash equivalents deposited or invested in local banks belonging to the top 10 rankings and financial assets at FVPL with counterparties having a strong capacity to meet its obligation.

Insurance receivables - High grade pertains to receivables from counterparties with strong capacity to meet its obligation and has no default in payment history; medium grade pertains to receivables that are usually collected beyond 60 days. Accounts beyond the standard 90-day credit term are classified as 'past due'.

The tables below show the aging analysis of past due but not impaired and impaired financial assets:

As of December 31, 2016:

	Past due but not impaired					
	1 to 30 days	**31 to 120 days**	**Over 120 days**	**Total**	**Impaired**	**Total**
Reinsurance recoverable on paid losses	**₱50,802,814**	**₱55,819,038**	**₱28,254,155**	**₱134,876,007**	**₱58,987,948**	**₱193,863,955**
Due from agents and brokers	**147,916,383**	**156,155,508**	**–**	**304,071,891**	**–**	**304,071,891**
Due from ceding companies	**12,313,320**	**4,734,727**	**79,650**	**17,127,697**	**–**	**17,127,697**
	₱211,032,517	**₱216,709,273**	**₱28,333,805**	**₱456,075,595**	**₱58,987,948**	**₱515,063,543**

As of December 31, 2015:

	Past due but not impaired					
	1 to 30 days	31 to 120 days	Over 120 days	Total	Impaired	Total
Reinsurance recoverable on paid losses	₱142,643,425	₱326,868,760	₱148,637,639	₱618,149,824	₱58,987,948	₱677,137,772
Due from agents and brokers	126,918,495	11,854,508	–	138,773,003	–	138,773,003
Due from ceding companies	11,319,425	5,533,650	46,245	16,899,320	–	16,899,320
	₱280,881,345	₱344,256,918	₱148,683,884	₱773,822,147	₱58,987,948	₱832,810,095

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated. The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts. The Company manages liquidity through a liquidity risk policy which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; set up of contingency funding plans; specifies the sources of funding and the events that would trigger the plan; determines concentration of funding sources; reports liquidity risk exposures and breaches; monitoring compliance with liquidity risk policy and reviews liquidity risk policy for pertinence and changing environment.

The table below analyzes financial assets and liabilities of the Company, as well as the claims payable and related recoverable on reinsurers, into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates.

As of December 31, 2016:

	Up to a year	**1-3 years**	**No term**	**Total**
Financial assets at FVPL	**₱255,317,842**	**₱121,270,662**	**₱–**	**₱376,588,504**
AFS financial assets	**–**	**–**	**289,814,645**	**289,814,645**
Loans and receivables - net				
Cash and cash equivalents	**3,668,514,788**	**–**	**–**	**3,668,514,788**
Reinsurance recoverable on unpaid losses	**1,195,923,871**	**–**	**–**	**1,195,923,871**
Insurance receivables - net	**1,219,804,538**	**–**	**–**	**1,219,804,538**
Loans and receivables	**496,572,019**	**–**	**–**	**496,572,019**
Total financial assets	**6,836,133,058**	**121,270,662**	**289,814,645**	**7,247,218,365**
Other financial liabilities				
Provision for claims reported and IBNR claims	**2,011,457,054**	**–**	**–**	**2,011,457,054**
Insurance payables	**1,453,522,676**	**–**	**–**	**1,453,522,676**
Accounts payable and accrued expenses*	**777,804,863**	**–**	**–**	**777,804,863**
Other liabilities	**402,250,975**	**–**	**–**	**402,250,975**
Loans payable	**10,000,000**	**–**	**–**	**10,000,000**
Total financial liabilities	**4,655,035,568**	**–**	**–**	**4,655,035,568**
Net excess liquidity	**₱2,181,097,490**	**₱121,270,662**	**₱289,814,645**	**₱2,592,182,797**

**Amount excluding statutory liability.*

As of December 31, 2015:

	Up to a year	1-3 years	No term	Total
Financial assets at FVPL	₱89,289,478	₱4,859,394	₱–	₱94,148,872
AFS financial assets	–	–	244,663,769	244,663,769
Loans and receivables - net				
Cash and cash equivalents	3,230,176,038	–	–	3,230,176,038
Insurance receivables – net	1,594,800,441	–	–	1,594,800,441
Reinsurance recoverable on unpaid losses	1,194,292,367	–	–	1,194,292,367
Loans and receivables	97,076,327	–	–	97,076,327
Total financial assets	6,205,634,651	4,859,394	244,663,769	6,455,157,814
Other financial liabilities				
Provision for claims reported and IBNR claims	1,846,340,972	–	–	1,846,340,972
Insurance payables	1,517,565,568	–	–	1,517,565,568
Accounts payable and accrued expenses*	906,015,474	–	–	906,015,474
Other liabilities	329,197,868	–	–	329,197,868
Loans payable	60,047,027	–	–	60,047,027
Total financial liabilities	4,659,166,909	–	–	4,659,166,909
Net excess liquidity	₱1,546,467,742	₱4,859,394	₱244,663,769	₱1,795,990,905

**Amount excluding statutory liability.*

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are based on management’s best estimate leveraging its past experiences.

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

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

a) *Currency risk*
The Company's principal transactions are carried out in Philippine peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar and Japanese Yen, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements

The Company maintains US Dollar-denominated and Japanese Yen-denominated fixed deposits to meet its dollar obligations from its dollar insurance products.

The following tables show the details of the Company's foreign currency-denominated monetary assets and their Philippine peso equivalents.

	2016			
	USD	**PHP**	**Japanese Yen**	**PHP**
Cash and cash equivalents	**$13,424,321**	**₱667,457,235**	¥5,926,943	₱2,519,543
Loans and receivables - net	**9,604,887**	**477,554,998**	–	–
	$23,029,208	**₱1,145,012,233**	¥5,926,943	₱2,519,543

	2015			
	USD	PHP	Japanese Yen	PHP
Cash and cash equivalents	$18,765,245	₱883,092,412	¥6,959,773	₱2,728,231
Loans and receivables - net	1,753,531	82,521,147	–	–
	$20,518,776	₱965,613,559	¥6,959,773	₱2,728,231

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Company's income before tax.

As of December 31, 2016:

Currency	**Change in exchange rate**	**Impact on income before tax Increase (decrease)**
US Dollar	**+4%**	**₱45,800,489**
	-4%	**(45,800,489)**
Japanese Yen	**+14%**	**352,736**
	-14%	**(352,736)**

As of December 31, 2015:

Currency	Change in exchange rate	Impact on income before tax Increase (decrease)
US Dollar	+4%	₱38,624,542
	–4%	(38,624,542)
Japanese Yen	+10%	272,823
	–10%	(272,823)

There is no other impact on the Company's equity other than those already affecting the statement of income.

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

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value risk. The Company's financial assets at FVPL in particular is exposed to fair value risk.

The Company's market risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

The following tables show information relating to the Company's financial instruments which are subject to interest rates based on maturity profile:

As of December 31, 2016:

	Interest rate (%)	**Maturity**		
		Within a year	**1-3 years**	**Total**
Cash in banks	**0.25 to 1.00**	**₱2,269,976,767**	**₱–**	**₱2,269,976,767**
Short-term deposits in commercial banks	**0.87 to 2.25**	**1,373,988,144**	**–**	**1,373,988,144**
Short-term investments	**0.82 to 2.00**	**478,448,252**	**–**	**478,448,252**
Financial assets at FVPL	**0.00 to 7.00**	**255,317,842**	**121,270,662**	**376,588,504**
Loans payable	**2.75**	**10,000,000**	**–**	**10,000,000**

As of December 31, 2015:

	Interest rate (%)	Maturity		
		Within a year	1-3 years	Total
Cash in banks	0.25 to 1.00	₱2,112,759,212	₱–	₱2,112,759,212
Short-term deposits in commercial banks	0.75 to 4.75	1,114,295,927	–	1,114,295,927
Short-term investments	0.50 to 1.50	82,521,147	–	82,521,147
Financial assets at FVPL	0.00 to 9.13	89,289,478	4,859,394	94,148,872
Loans payable	2.75 to 6.50	20,000,000	40,047,027	60,047,027

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on revaluing fixed rate financial assets at FVPL. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

	Change in variables	Impact on income before tax Increase (decrease)
December 31, 2016	**+100 basis points**	**(₱2,934,236)**
	–100 basis points	**2,992,825**
December 31, 2015	+100 basis points	(₱337,156)
	–100 basis points	340,779

There is no impact on the Company's equity other than those already affecting net income.

c) *Price risk*
The Company's price risk exposure at year end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), principally, its AFS equity financial assets.

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

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

The analysis below is performed for reasonably possible movements in the key variable, with all other variables held constant, showing the impact on equity that reflects changes in fair value of AFS financial assets on the Company's listed equity securities.

As of December 31, 2016:

Market index	**Change in equity prices**	**Impact on equity Increase (decrease)**
PSEi 2016	**+4.00%**	**₱3,622,378**
PSEi 2016	**-4.00%**	**(3,622,378)**

As of December 31, 2015:

Market index	Change in equity prices	Impact on equity Increase (decrease)
PSEi 2015	+12.46%	₱16,360,767
PSEi 2015	–12.46%	(16,360,767)