Alliedbankers Insurance Corporation

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

2 0 1 0 2 1 0 2 2 2

COMPANY NAME

A L L I E D B A N K E R S I N S U R A N C E
C O R P O R A T I O N

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

1 7 t h F l o o r , F e d e r a l T o w e r
C o n d o m i n i u m , D a s m a r i ñ a s c o r n e r
M u e l l e D e B i n o n d o , B i n o n d o ,
M a n i l a

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
mail@alliedbankers.com.ph	245-2886	0919-9997988

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
7	3rd Day of April, Tuesday	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ms. Eileen A. Sy	eileen.sy@alliedbankers.com.ph	245-2886 (801)	0917-6296820

CONTACT PERSON's ADDRESS

17th Floor, Federal Tower Condominium, Dasmarinas St. cor. Muelle de Binondo, Binondo, Manila

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

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

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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
Alliedbankers Insurance Corporation
17th Floor, Federal Tower Condominium
Dasmariñascorner Muelle de Binondo
Binondo, Manila

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Alliedbankers Insurance Corporation (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 (PFRSs).

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Alliedbankers Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Djole S. Garcia
Partner
CPA Certificate No. 0097907
SEC Accreditation No. 1285-AR-1 (Group A),
May 12, 2016, valid until May 12, 2019
Tax Identification No. 201-960-347
BIR Accreditation No. 08-001998-102-2015,
November 25, 2015, valid until November 24, 2018
PTR No. 5908702, January 3, 2017, Makati City

March 29, 2017

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Alliedbankers Insurance Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Alliedbankers Insurance Corporation (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 (PFRSs).

Basis for Opinion

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit 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 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Alliedbankers Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Djole S. Garcia
Partner
CPA Certificate No. 0097907
SEC Accreditation No. 1285-AR-1 (Group A),
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March 29, 2017

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November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Alliedbankers Insurance Corporation
17th Floor, Federal Tower Condominium
Dasmariñascorner Muelle de Binondo
Binondo, Manila

We have audited the accompanying financial statements of Alliedbankers Insurance Corporation (the Company) as at and for the year ended December 31, 2016, on which we have rendered the attached report dated March 29, 2017.

In compliance with Securities Regulation Code Rule No. 68, As Amended (2011), we are stating that the Company has seven (7) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

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March 29, 2017

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November 10, 2015, valid until November 9, 2018

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULE**

The Stockholders and the Board of Directors
Alliedbankers Insurance Corporation
17th Floor, Federal Tower Condominium
Dasmariñascorner Muelle de Binondo
Binondo, Manila

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Alliedbankers Insurance Corporation (the Company) as at and for the year ended December 31, 2016 and have issued our report thereon dated March 29, 2017. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all the effective standards and interpretations is the responsibility of the Company's management. This schedule is presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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November 25, 2015, valid until November 24, 2018
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March 29, 2017

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ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Cash and Cash Equivalents (Note 4)	**₱558,160,810**	₱404,573,569
Insurance Receivables - net (Note 5)	**282,288,484**	133,983,376
Financial Assets (Note 6)		
Available-for-sale financial assets	**883,198,122**	882,135,342
Loans and receivables	**152,550,403**	16,371,346
Accrued income (Note 7)	**6,174,309**	5,893,131
Reinsurance Assets (Notes 8 and 13)	**406,249,494**	250,693,127
Deferred Acquisition Costs (Note 9)	**30,072,358**	13,223,971
Property and Equipment- net (Note 10)	**25,322,579**	21,596,728
Deferred Tax Assets- net (Note 22)	**13,981,428**	23,667,521
Other Assets (Note 11)	**71,743,252**	75,369,904
	₱2,429,741,239	₱1,827,508,015
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 13 and 23)	**₱546,589,872**	₱379,538,906
Accounts payable and accrued expenses (Notes 12, 23 and 24)	**204,199,563**	152,542,995
Insurance payables (Notes 14 and 23)	**188,134,771**	56,394,972
Net pension liability (Note 21)	**13,538,974**	22,271,628
Dividends payable (Note 16)	**125,000,000**	–
Deferred reinsurance commissions (Note 9)	**17,697,041**	8,706,335
	1,095,160,221	619,454,836
Equity		
Capital stock (Notes 16 and 27)	**345,000,000**	282,500,000
Subscribed Capital Stock (Note 16)	**117,412,500**	–
Contributed surplus (Note 16)	**566,615,510**	566,615,510
Reserve for fluctuation on available-for-sale financial assets	**14,807,844**	3,976,839
Remeasurement gains (losses) on defined benefit plan (Note 21)	**285,397**	(2,428,400)
Retained earnings (Note 16)	**290,459,767**	357,389,230
	1,334,581,018	1,208,053,179
	₱2,429,741,239	₱1,827,508,015

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2016	2015
Revenue		
Gross earned premiums	**₱443,824,360**	₱406,964,521
Reinsurers' share of gross earned premiums	**294,131,005**	288,680,189
Net earned premiums (Note 17)	**149,693,355**	118,284,332
Investment income - net (Note 18)	**51,694,732**	46,457,491
Commission income (Note 9)	**28,363,468**	31,816,832
Foreign exchange gain - net	**2,697,324**	138,326
Gain on sale of available-for-sale financial assets (Note 6)	**780,899**	6,909,666
Others	**7,738,330**	2,529,985
Other income	**91,274,753**	87,852,300
Total income	**240,968,108**	206,136,632
Gross insurance benefits and claims paid	**35,339,982**	121,017,927
Reinsurers' share of gross insurance benefits and claims paid	**(1,815,976)**	(75,357,862)
Gross change in insurance contract liabilities	**81,679,824**	(3,357,934)
Reinsurers' share of gross change in insurance contract liabilities	**(89,239,809)**	(24,693,127)
Net insurance benefits and claims (Notes 8, 13 and 19)	**25,964,021**	17,609,004
General and administrative expenses (Notes 20 and 24)	**88,505,163**	78,181,589
Commission expense (Notes 9 and 24)	**37,938,029**	48,608,499
Underwriting expenses	**10,446,912**	9,086,670
Interest expense	**517,115**	582,760
Expenses	**137,407,219**	136,459,518
Total benefits, claims and expenses	**163,371,240**	154,068,522
INCOME BEFORE INCOME TAX	**77,596,868**	52,068,110
PROVISION FOR INCOME TAX (Note 22)	**19,526,331**	11,287,432
NET INCOME (Note 26)	**₱58,070,537**	₱40,780,678

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
NET INCOME	**₱58,070,537**	₱40,780,678
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gains arising on defined benefit obligation (Note 21)	**3,876,854**	8,868,165
Income tax effect (Note 22)	**(1,163,056)**	(2,660,450)
	2,713,798	6,207,715
Items that will be reclassified to profit or loss in subsequent periods:		
Unrealized fair value loss on AFS financial asset (Note 6)	**(3,736,921)**	(5,716,496)
Realized gain on sale of AFS financial assets transferred to profit or loss (Note 6)	**(780,899)**	(6,909,666)
Impairment loss transferred to profit or loss (Notes 6 and 20)	**15,348,825**	17,653,750
	10,831,005	5,027,588
Total Other Comprehensive Income	**13,544,803**	11,235,303
TOTAL COMPREHENSIVE INCOME	**₱71,615,340**	₱52,015,981

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

				Other Reserves			
	Capital Stock (Note 16)	**Subscribed Capital Stock** (Note 16)	**Contributed Surplus**	**Reserve for fluctuation on Available for Sale Financial Assets** (Note 6)	**Remeasurement gains (losses) on defined benefit plan** (Note 21)	**Retained Earnings**	**Total**
As of January 1, 2016	**₱282,500,000**	**₱–**	**₱566,615,510**	**₱3,976,839**	**(₱2,428,401)**	**₱357,389,230**	**₱1,208,053,178**
Issued	**62,500,000**	**–**	**–**	**–**	**–**	**–**	**62,500,000**
Subscribed Capital	**–**	**117,412,500**	**–**	**–**	**–**	**–**	**117,412,500**
Total	**345,000,000**	**117,412,500**	**566,615,510**	**3,976,839**	**(2,428,401)**	**357,389,230**	**1,387,965,678**
Net income	**–**	**–**	**–**	**–**	**–**	**58,070,537**	**58,070,537**
Other comprehensive income	**–**	**–**	**–**	**10,831,005**	**2,713,798**	**–**	**13,544,803**
Total comprehensive income	**–**	**–**		**10,831,005**	**2,713,798**	**58,070,537**	**71,615,340**
Cash Dividend	**–**	**–**	**–**	**–**	**–**	**(125,000,000)**	**(125,000,000)**
As of December 31, 2016	**₱345,000,000**	**₱117,412,500**	**₱566,615,510**	**₱14,807,844**	**₱285,397**	**₱290,459,767**	**₱1,334,581,018**
As of January 1, 2015	₱282,500,000	₱–	₱566,615,510	(₱1,050,749)	(₱8,636,116)	₱316,608,552	₱1,156,037,197
Net income	–	–	–	–	–	40,780,678	40,780,678
Other comprehensive income	–	–	–	5,027,588	6,207,715	–	11,235,303
Total comprehensive income	–	–	–	5,027,588	6,207,715	40,780,678	52,015,981
As of December 31, 2015	₱282,500,000	₱–	₱566,615,510	₱3,976,839	(₱2,428,401)	₱357,389,230	₱1,208,053,178

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱77,596,868**	₱52,068,110
Adjustments for:		
Depreciation and amortization (Notes 10 and 20)	**3,214,696**	2,382,703
Interest expense	**517,115**	582,761
Dividend Income	**(15,133,626)**	(12,825,348)
Interest Income	**(35,822,399)**	(32,716,584)
Provision for impairment loss on AFS financial assets (Note 6)	**15,348,825**	17,653,750
Provision for doubtful accounts (Note 5)	**–**	871,147
Gain on sale of available-for-sale financial assets (Note 6)	**(780,899)**	(6,909,666)
Operating income before changes in operating assets and liabilities	**44,940,580**	21,106,873
Changes in working capital		
Decrease (increase) in:		
Insurance receivables	**(148,305,108)**	2,710,471
Loans and receivables	**(139,717,711)**	(13,028,075)
Reinsurance assets	**(155,556,367)**	(30,178,402)
Deferred acquisition costs	**(16,848,387)**	6,073,266
Other assets	**15,527,026**	(16,293,045)
Increase (decrease) in:		
Accounts payable and accrued expenses	**167,980,538**	13,844,655
Insurance contract liabilities	**167,050,966**	31,111,409
Insurance payables	**131,739,799**	(27,708,532)
Deferred reinsurance commission	**8,990,706**	(4,803,231)
Net pension liability	**(4,855,801)**	(3,631,407)
Net cash generated by (used in) operations	**70,946,241**	(20,796,018)
Income tax paid	**(10,688,983)**	(9,328,523)
Interest paid	**(517,115)**	(582,760)
Net cash used in operating activities	**(65,259,857)**	(30,707,301)
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	**15,133,626**	12,825,348
Interest received	**35,739,206**	33,126,829
Proceeds from sale/maturities of available-for-sale financial assets (Note 6)	**32,702,550**	171,906,187
Acquisitions of:		
Available-for-sale financial assets (Note 6)	**(37,700,234)**	(270,570,107)
Property and equipment (Note 10)	**(6,940,551)**	(5,046,949)
Net cash generated by (used in) investing activities	**38,934,597**	(57,758,692)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of stocks (Note 16)	**62,500,000**	–
Proceeds from capital stocks subscription (Note 16)	**117,412,500**	–
Net cash generated by financing activities	**179,912,500**	–
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**153,587,240**	(88,465,993)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**404,573,569**	493,039,562
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱558,160,810**	₱404,573,569

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Alliedbankers Insurance Corporation (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 2010 primarily to engage in the business of nonlife insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events and to act as agent to other insurance or surety companies, or any of its branches, including life insurance. It includes lines such as health, accident, fire and allied lines, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks.

The registered office address of the Company is 17th Floor, Federal Tower Condominium, Dasmariñas corner Muelle de Binondo, Binondo, Manila.

The accompanying financial statements were authorized for issuance by the Board of Directors (BOD) on March 29, 2017.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value. The financial statements are presented in Philippine Peso (₱) which is also the Company's functional currency. All amounts are rounded off to the nearest peso unit, unless otherwise indicated.

<u>Statement of Compliance</u>
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous financial year except the new standard and amendments to existing PFRSs that became effective beginning January 1, 2016 and which did not have any significant impact on the Company's financial statements.

- 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 PFRSs* (2012 - 2014 cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* - Changes in Methods of Disposal
  - PFRS 7, *Financial Instruments: Disclosures* - Servicing Contracts
  - PFRS 7, *Financial Instruments: Disclosures* - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
  - PAS 19, *Employee Benefits* - Regional Market Issue regarding Discount Rate
  - PAS 34, *Interim Financial Reporting* - Disclosure of Information 'Elsewhere in the Interim Financial Report'

<u>Standards Issued but Not Yet Effective</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they 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 PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows* - Disclosure Initiative
- Amendments to PAS 12, *Income Taxes* - Recognition of Deferred Tax Assets for Unrealized Losses

Effective beginning on or after January 1, 2018
- Amendments to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property* - Transfers of Investment Property
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to PFRS 2, *Share-based Payment* - Classification and Measurement of Share-based Payment Transactions
- PFRS 15, *Revenue from Contracts with Customers*
- 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 assessing which approach it will use and the potential impact of the chosen approach in its financial statements.

- 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 adopting this standard.

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 profit or loss. 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 adopting PFRS 16.

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

<u>Product Classification</u>
Insurance contracts are defined as those contracts under which the Company (the insurer) accepts 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 policyholder. As a general guideline, the Company defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Fair Value Measurement
The Company measures financial instrument at fair value at each reporting period. Also, fair values of financial assets measured at amortized cost are disclosed in Note 23.

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 by 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.

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 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 input that is significant to the fair value measurement is directly or indirectly observable
- *Level 3* - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Cash and Cash Equivalents
Cash and cash equivalents are carried in the statement of financial position at face amount or nominal amount.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 that are subject to an insignificant risk of changes in value and are free of any encumbrances.

Short-term Investments
Short-term investments are short-term placements with maturities of more than three months but less than one year from 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 profit or loss.Insurance receivables are derecognized following the derecognition criteria of financial assets.

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

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

As of December 31, 2016 and 2015, the Company's financial instruments are of the nature of 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' profit or loss amount.

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, Held-to-maturity (HTM) financial assets or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, equity investments, and private debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in profit or loss when the right of the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as “Reserve for fluctuation 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 provisions for impairment losses in the statement of income.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as “Gain (loss) on sale of AFS financial assets” in the statement of income.

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

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 held-for-trading, nor designated as AFS financial assets or at financial assets at FVPL. This accounting policy relates to the statement of financial position captions “Cash and cash equivalents”, “Short-term investments”, “Insurance receivables”, “Loans and receivables” and “Accrued income”.

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

Other financial liabilities
Issued financial instruments or their components, which are not designated as financial liabilities at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to exchange financial assets or liabilities with the holder under conditions that are potentially unfavorable to the Company.
After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

This accounting policy relates to the statement of financial position captions: “Insurance contract liabilities”, “Insurance payables” and “Accounts payable and accrued expenses” that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable).

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it has a contractual obligation to:

- deliver cash or another financial asset to another entity, or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. Financial instruments are classified as liability or equity in accordance with the substance of the contractual agreement. Interests, 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 instrument classified as other comprehensive income are charged directly to other comprehensive income net of any related income tax benefits.

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

Impairment of Financial Assets
The Company assesses at every end of the reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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 an 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.

AFS financial assets carried at fair value
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 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 statement of income) 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 the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Investment income" in the statement of income. If, in a subsequent period, 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 objective evidence that an impairment loss has been incurred 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, 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>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- 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.

When 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 the consideration that the Company could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, 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 include balances recoverable from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence shows 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, which are included under “Insurance payables” in the statement of financial position. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

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

Deferred Acquisition Costs and Deferred Reinsurance Commission
Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged against income using the 24th method except for marine cargo where the deferred acquisition costs pertains to the commissions for the last two months of the year. The unamortized acquisition costs are shown in the assets section of the statement of financial position as “Deferred acquisition costs”. Reinsurance commissions are deferred and shown in the liabilities section of the statement of financial position as “Deferred reinsurance commission”, subject to the same amortization method as the related acquisition costs.

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

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

	Years
Condominium units	50
Furniture, fixtures and equipment	10
Electronic and Data Processing (EDP) equipment	5-10
Transportation equipment	3-5

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income in the year the item is derecognized.

<u>Impairment of Nonfinancial Assets</u>
At each reporting period, the Company assesses whether there is any indication that nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed for the cash generating unit to which the asset belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit).

An impairment loss is charged against operations in the year in which it arises, unless the asset is carried at revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset in the statement of comprehensive income.

For nonfinancial assets excluding goodwill, an assessment is made at each end of the reporting period 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 and amortization, had no impairment loss been recognized for the asset in prior periods. 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 in the statement of other comprehensive income. After such reversal, the depreciation and amortization expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Creditable Withholding taxes
Creditable withholding taxes, which are presented under "Other assets" in the statements of financial position, represent taxes withheld by customers upon collection. Creditable withholding taxes are being applied for payment of the Company's income tax due.

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

Claims provision and incurred but not reported (IBNR) losses
Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and 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 end of the reporting period. The liability is not discounted for the time value of money and includes provision for claims reported and claims IBNR. The provision for claims liability is based on the independent adjusters' report on the individual claims and the provision for claims IBNR is calculated based on time experience. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract is discharged, cancelled or has expired.

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 contracts using 24th method except for marine cargo where premiums for the last two months are considered earned the following year. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting dates are accounted for as Provision for unearned premiums as part of Insurance contract liabilities and presented in liabilities section of the statements of financial position. 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.

Liability adequacy test
At each end of the reporting period, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related DAC. 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 provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Pension Cost
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 profit or loss. 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 profit or loss.

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 profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. 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

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

Contributed surplus

Contributed surplus represents the original contribution of the stockholders of the Company, in addition to the paid-up capital stock.

Retained earnings

Retained earnings represent the cumulative balance of net income or loss of the Company, net of any dividend distribution.

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

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 the provision for unearned premiums pertains to the premiums for the last two months of the year. The gross premiums written for marine cargo insurance policies for the first ten months of the year and the last two months of the preceding year are recognized as premium income in the current year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of the reporting period and the last two months of marine cargo policies are accounted for as provision for unearned premiums and is presented under “Insurance contract liabilities” in the liabilities section of 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 shown under “Reinsurance assets” in the assets section of the statement of financial position. The net changes in these accounts between each end of the reporting periods are charged against or credited to income for the year.

Commission income

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo insurance contracts where the deferred portion pertains to the commissions for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as “Deferred reinsurance commissions” and presented in the liabilities section of 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 rate method.

Dividend income

Dividend income is recognized when the shareholders’ right to receive the payment is established.

Other income

Income from other sources is recognized when earned.

Benefits and claims

Gross benefits and claims consist of benefits and claims paid to policyholders and changes in the gross valuation of insurance contract liabilities, except for gross changes in the provision for unearned premiums which are included in net earned premiums. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims.

General and Administrative Expenses

Expense is recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen and expense can be measured reliably.

The following specific recognition criteria must also be met before revenue is recognized:

Commission expenses
Commissions incurred from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo insurance contracts where the deferred portion pertains to the commissions for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as "Deferred Acquisition Cost" and presented in the asset section of the statement of financial position.

Underwriting expense
Underwriting expense is recognized in the statement of income as they are incurred.

Interest expense
Interest expense is recognized as incurred, taking into account the effective yield of the liabilities.

<u>Leases</u>
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 term, 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.

A lease where the lessor retains substantially all the risks and benefits of ownership of the asset is classified as an operating lease

<u>Income Tax</u>
Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in the statement of income, except to the extent that it relates to items recognized directly in equity or other comprehensive income. Tax on these items is recognized in the statement of comprehensive income.

Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute this amount are those that have been enacted or substantially enacted as of the end of the reporting period.

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

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

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

Current income tax and deferred income tax relating to items recognized directly in the statement of comprehensive income are likewise recognized in the statement of comprehensive income.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted as of end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in the rates are charged against or credited to operations for the period.

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

<u>Value-added Tax (VAT)</u>
Revenue, expenses and assets are recognized net of the amount of sales tax except:

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

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

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 profit or loss, except where it relates to equity securities where gains or losses are recognized in other comprehensive income.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and when 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 discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Events after the Reporting Date
Post year-end events that provide additional information about the Company's position at end of the reporting period (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. Significant Accounting Judgments and Estimates

The preparation of the 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 estimates and assumptions, which have the most significant effect on the amounts recognized in the financial statements.

Product classification
The Company has determined that the insurance policies have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

Operating lease commitments - Company as lessee
The Company has entered into commercial property leases with various lessors. The Company has determined that the lessors retain all the significant risks and rewards of ownership of the leased properties thus accounts for them as operating leases. The future minimum rentals payable under noncancellable operating leases amounted to ₱1.42 million and ₱0.46 million as of December 31, 2016 and 2015, respectively (see Note 25).

Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying 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 end of the reporting date and for the expected ultimate cost of claims IBNR at the end of the reporting date. It can take a significant period of time before the ultimate claim cost can be established with certainty and for some types of policies, claims IBNR form the majority of the claims provision.

At each reporting date, prior year claims estimates are assessed for adequacy and any changes made are charged to provision. Insurance claims liabilities are not discounted for the time value of money.

The carrying value of claims reported and IBNR included in the insurance contract liabilities account amounted to ₱277.44 million and ₱195.76 million as of December 31, 2016 and 2015, respectively (see Note 13).

Impairment of AFS financial assets
The Company assesses its AFS financial assets for impairment when there has been a significant or prolonged decline in the fair value below cost. This determination of what is significant or prolonged requires judgment. The Company treats ‘significant’ generally as 30% or more of the original cost of investment, and ‘prolonged’ as being more than twelve (12) months. In making this judgment, the Company evaluates, among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The carrying value of the Company’s AFS equity financial assets amounted to ₱291.84 million and ₱276.82 million as of December 31, 2016 and 2015, respectively (see Note 6).

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

The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, 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 allowance 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. An increase in allowance for impairment losses would increase recorded expenses and decrease the assets' carrying values.

The carrying value of insurance receivables amounted to ₱282.29 million and ₱133.98 million as of December 31, 2016 and 2015, respectively (see Note 5). The allowance for impairment losses amounted to ₱8.75 million as of December 31, 2016 and 2015. As of December 31, 2016 and 2015, the carrying value of loans and receivables amounted to ₱152.55 million and ₱16.37 million, respectively. The Company did not recognize impairment loss on loans and receivables in 2016 and 2015 (see Note 6).

Estimation of useful lives of property and equipment
The Company reviews annually the estimated useful lives of property and equipment 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.

As of December 31, 2016 and 2015, the carrying value of property and equipment amounted to ₱25.32 million and ₱21.60 million, respectively (see Note 10).

Impairment of property and equipment
The Company assesses the impairment of its property and equipment 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 acquired assets; and
- significant negative industry or economic trends.

As of December 31, 2016 and 2015, the carrying value of property and equipment amounted to ₱25.32 million and ₱21.60 million, respectively. The Company did not recognize impairment loss on its property and equipment in 2016 and 2015 (see Note 10).

Recognition of deferred tax assets
Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that the taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

As of December 31, 2016 and 2015, the Company recognized deferred tax assets amounting to ₱13.55 million and ₱23.67 million, respectively (see Note 22).

Pension benefits
The determination of obligation and cost of pension benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate. In accordance with PFRS, actual results that differ from the Company's assumptions are recognized outright in the statement of comprehensive income.

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 obligation.

As of December 31, 2016 and 2015, net pension liability amounted to ₱13.54 million and ₱22.27 million, respectively (see Note 21).

Contingencies
The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Company does not believe these proceedings will have a material adverse effect on the Company's financial position.

4. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand	**₱44,900**	₱20,900
Cash in banks (Note 24)	**188,106,558**	127,670,346
Cash equivalents (Note 24)	**370,009,352**	276,882,323
	₱558,160,810	₱404,573,569

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earned interest at annual rates that ranged from 1% to 4.5% in 2016 and 2015 (see Note 18).

5. Insurance Receivables

This account consists of:

	2016	2015
Premiums receivable	**₱209,490,929**	₱114,565,031
Reinsurance recoverable on paid losses	**58,796,223**	5,529,843
Due from ceding companies	**13,583,939**	12,768,601
Funds held by ceding companies	**5,294,130**	9,865,193
Commission receivable	**3,868,555**	–
	291,033,776	142,728,668
Less allowance for doubtful accounts	**8,745,292**	8,745,292
	₱282,288,484	₱133,983,376

As of December 31, 2016 and 2015, allowance for doubtful accounts for insurance receivables determined on an individual basis follows:

	2016			
	Premiums receivable	**Due from ceding companies**	**Reinsurance recoverable on paid losses**	**Total**
Balance at beginning/end of year	**₱4,599,194**	**₱852,181**	**₱3,293,917**	**₱8,745,292**
Individually impaired	**₱4,599,194**	**₱852,181**	**₱3,293,917**	**₱8,745,292**

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	2015			
	Premiums receivable	Due from ceding companies	Reinsurance recoverable on paid losses	Total
Balance at beginning/end of year	₱3,728,047	₱852,181	₱3,293,917	₱7,874,145
Provision	871,147	–	–	871,147
Individually impaired	₱4,599,194	₱852,181	₱3,293,917	₱8,745,292

Provision for doubtful accounts recognized in 2015 profit or loss amounted to ₱.87 million (nil in 2016).

6. Financial Assets

As of December 31, 2016 and 2015, the Company's financial assets are summarized by measurement categories as follows:

	2016	2015
AFS financial assets	**₱883,198,122**	₱882,135,342
Loans and receivables	**152,550,403**	16,371,346
	₱1,035,748,525	₱898,506,688

The assets included in each of the categories above are detailed as follow:

a. AFS financial assets

This account consists of:

	2016	2015
Quoted securities - at fair value		
Government debt securities		
Local currency	**₱143,293,067**	₱153,819,208
Private debt securities		
Local currency	**378,048,875**	315,793,680
Listed equity securities		
Common shares- net of impairment loss of ₱33.00 million and ₱17.65 million in 2016 and 2015, respectively	**291,836,968**	276,824,077
	813,178,910	746,436,965
Unquoted securities		
Private debt securities - at fair value	**68,999,212**	134,678,377
Common shares - at cost	**1,020,000**	1,020,000
	₱883,198,122	₱882,135,342

The costs of AFS financial assets are as follows:

	2016	2015
Quoted securities		
Government debt securities		
Local currency	**₱150,039,730**	₱153,333,009
(forward)		

	2016	2015
Private debt securities		
Local currency	**₱375,718,882**	₱320,310,856
Listed equity securities		
Common shares	**273,041,666**	275,494,638
	798,800,278	749,138,503
Unquoted securities		
Private debt securities	**69,000,000**	128,000,000
Common shares	**1,020,000**	1,020,000
	₱868,820,278	₱878,158,503

The carrying values of AFS financial assets have been determined as follows:

At December 31, 2014	₱790,377,530
Additions	270,570,107
Disposal/Maturities	(171,906,187)
Amortization of premium	(1,189,612)
Unrealized fair value gain	(5,716,496)
At December 31, 2015	882,135,342
Additions	**37,700,234**
Disposal/Maturities	**(32,702,550)**
Amortization of premium	**(197,983)**
Unrealized fair value gain/(loss)	**(3,736,921)**
At December 31, 2016	**₱883,198,122**

In 2016 and 2015, impairment loss recognized pertains to investments in various listed equity securities amounting to ₱15.35 million and ₱17.65 million, respectively.

The rollforward analysis of the reserve for fluctuation on AFS financial assets is as follows:

	2016	2015
Balance at beginning of year	**₱3,976,839**	(₱1,050,749)
Unrealized fair value loss on AFS financial assets	**(3,736,921)**	(5,716,496)
Transferred to profit or loss		
Impairment loss (Note 20)	**15,348,825**	17,653,750
Realized gain on sale of AFS financial assets	**(780,899)**	(6,909,666)
Balance at end of year	**₱14,807,844**	₱3,976,839

b. *Loans and receivables*

Loans and receivables include advances to employees, which are to be reimbursed by indebted employees and accrued investment income.

	2016	2015
Accounts receivable	**₱43,303,802**	₱16,336,244
Advances to employees	**246,601**	35,103
Long term investments	**109,000,000**	–
Balance at end of year	**₱152,550,403**	₱16,371,347

Long term investments are composed of time deposits that have been acquired more than one year before maturity. These time deposits earns interest that ranges from 3.25% to 5.5% and will mature on 2019 to 2022.

7. Accrued Income

This account consists of accrued interest income pertaining mainly to interests arising from cash and cash equivalents and AFS financial assets.

8. Reinsurance Assets

This account consists of:

	2016	2015
Reinsurance recoverable on unpaid losses (Note 13)	**₱224,848,872**	₱135,609,063
Deferred reinsurance premiums (Note 13)	**181,400,622**	115,084,064
	₱406,249,494	₱250,693,127

9. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The rollforward analysis of deferred acquisition costs follows:

	2016	2015
Balance at beginning of year	**₱13,223,971**	₱19,297,237
Cost deferred during the year	**54,786,416**	42,535,233
Cost incurred during the year	**(37,938,029)**	(48,608,499)
Balance at end of year	**₱30,072,358**	₱13,223,971

The rollforward analysis of deferred reinsurance commissions follows:

	2016	2015
Balance at beginning of year	**₱8,706,335**	₱13,509,566
Income deferred during the year	**37,354,174**	27,013,601
Income earned during the year	**(28,363,468)**	(31,816,832)
Balance at end of year	**₱17,697,041**	₱8,706,335

10. Property and Equipment - net

The rollforward analysis of this account follows:

	2016					
	Condominium Units	**Furniture, Fixtures and Equipment**	**EDP Equipment**	**Leasehold Improvements**	**Transportation Equipment**	**Total**
Cost						
Balance at beginning of year	**₱24,721,098**	**₱1,560,712**	**₱9,870,157**	**₱–**	**₱3,314,582**	**₱39,466,549**
Additions	**-**	**969,220**	**1,015,591**	**3,953,954**	**1,001,786**	**6,940,551**
Balance at end of year	**24,721,098**	**2,529,932**	**10,885,748**	**3,953,954**	**4,316,368**	**45,844,298**
Accumulated Depreciation						
Balance at beginning of year	**11,248,099**	**187,435**	**5,658,468**	**–**	**775,824**	**17,869,825**
Depreciation (Note 20)	**494,422**	**148,254**	**1,771,139**	**167,044**	**633,837**	**3,214,696**
Balance at end of year	**11,742,521**	**335,689**	**7,429,606**	**167,044**	**1,409,661**	**21,084,521**
Net Book Value	**₱12,978,577**	**₱2,194,243**	**₱3,456,142**	**₱3,786,910**	**₱2,906,707**	**₱25,322,579**

	2015				
	Condominium Units	Furniture, Fixtures and Equipment	EDP Equipment	Transportation Equipment	Total
Cost					
Balance at beginning of year	₱24,721,098	₱462,692	₱8,673,010	₱562,800	₱34,419,600
Additions	-	1,098,020	1,197,147	2,751,782	5,046,949
Balance at end of year	24,721,098	1,560,712	9,870,157	3,314,582	39,466,549
Accumulated Depreciation					
Balance at beginning of year	10,753,678	149,764	4,095,920	487,757	15,487,118
Depreciation (Note 20)	494,422	37,671	1,562,547	288,063	2,382,703
Balance at end of year	11,248,099	187,435	5,658,468	775,820	17,869,821
Net Book Value	₱13,472,999	₱1,373,277	₱4,211,690	₱2,538,762	₱21,596,728

The cost of fully depreciated property and equipment still in use amounted to ₱3.35 million and ₱3.08 million as of December 31, 2016 and 2015, respectively.

11. Other Assets

This account consists of:

	2016	2015
Escrow fund	**₱40,000,000**	₱40,000,000
Creditable withholding taxes (CWTs)	**23,085,437**	23,399,748
Input VAT	**3,402,252**	3,278,003
Deferred input VAT	**1,567,033**	987,416
Miscellaneous deposits	**1,167,637**	1,131,635
Prepaid expenses	**333,876**	333,876
Security deposit - LTO	**–**	5,000,000
Others	**2,187,017**	1,239,226
	₱71,743,252	₱75,369,904

The escrow funds was established in pursuant to the requirement of Land Transportation Franchising and Regulatory Board (LTFRB) wherein the Company, being accredited for the Personal Passenger Accident Insurance Program (PPAI), is required to establish an escrow to guaranty the payment of the claims of insured Public Utility Vehicles. In 2016 and 2015 the escrow agreement were entered into by the Company, LTFRB, and PNB Trust Banking Group (escrow agent) amounting to ₱40 million in both years.

CWTs pertain to the excess of payments made against current income tax due which can be claimed against income tax in future periods. CWTs applied for payment of the Company’s income tax due in 2016 and 2015 amounted to ₱3.77 million and ₱13.75 million, respectively.

Input VAT arises from purchases of goods and services from VAT-registered suppliers. The Company will be able to apply the input VAT against output VAT from revenues.

Deferred input VAT arises from purchases of goods and services from VAT registered suppliers which were not yet paid as of reporting date.

Deposits represents security rent deposits of branches and fund set aside as per the requirement of Supreme Court for the issuance of bonds for the Company's assured.

Prepaid expenses pertain to prepayments for various expenses.

Security deposit - LTO pertains to the deposit required by SCCI while accreditation is in process. In 2016, the Company has already accredited by LTO.

Others pertain to security fund and stationery and supplies.

12. Accounts Payable and Accrued Expenses

This account consists of:

	2016	2015
Accounts payable	**₱74,245,797**	₱71,209,019
Taxes payable	**41,670,958**	22,085,117
Commission payable	**37,793,634**	33,871,031
Deferred Output VAT	**34,518,145**	17,733,528
Accrued expenses	**5,700,951**	5,377,089
Others	**10,270,078**	2,267,211
	₱204,199,563	₱152,542,995

Accounts payable and accrued expenses pertain to operating expenses of the Company which are non-interest bearing and due and demandable. These also include accruals of for bonus.

Taxes payable pertains to documentary stamps payable, withholding taxes payable, fire service tax payable and other taxes and licenses payable due for settlement.

Commission payable pertain to agents, brokers and ceding company commissions. These are to be settled within 90 days from policy issuance date.

Deferred output VAT consists of VAT incurred from policy issuances where the corresponding premiums remain unpaid as of reporting date.

Other liabilities mainly consist of payable to the Company's sub-agents which are non-interest bearing and due and demandable.

13. Insurance Contract Liabilities

Insurance contract 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	**₱272,654,078**	**₱224,848,872**	**₱47,805,206**	₱170,073,287	₱135,609,063	₱34,464,224
Provision for claim IBNR	**4,783,684**	**-**	**4,783,684**	25,684,651	–	25,684,651
Total provision for claims reported and claims IBNR	**277,437,762**	**224,848,872**	**52,588,890**	195,757,938	135,609,063	60,148,875
Provision for unearned premiums	**269,152,110**	**181,400,622**	**87,751,488**	183,780,968	115,084,064	68,696,904
	₱546,589,872	**₱406,249,494**	**₱140,340,378**	₱379,538,906	₱250,693,127	₱128,845,779

The provision for claims reported 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
Balance at beginning of year	**₱195,757,938**	**₱135,609,063**	**₱60,148,875**	₱199,115,872	₱110,915,936	₱88,199,936
Claims incurred during the year	**137,920,773**	**91,055,785**	**46,864,988**	119,556,193	100,050,989	19,505,204
Claims reversed during the year	**–**	**–**	**–**	(12,210,307)	–	(12,210,307)
Claims paid during the year (Note 19)	**(35,339,982)**	**(1,815,976)**	**(33,524,006)**	(121,017,927)	(75,357,862)	(45,660,065)
Increase in IBNR	**(20,900,967)**	**–**	**(20,900,967)**	10,314,107	–	10,314,107
Balance at end of year	**₱277,437,762**	**₱224,848,872**	**₱52,588,890**	₱195,757,938	₱135,609,063	₱60,148,875

The provision for unearned premiums may be analyzed as follows:

	2016			2015		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Balance at beginning of year	**₱183,780,968**	**₱115,084,064**	**₱68,696,904**	₱149,311,626	₱109,598,789	₱39,712,837
Policies written during the year (Note 17)	**529,195,502**	**360,447,564**	**168,747,938**	441,433,863	294,165,464	147,268,399
Premiums earned during the year (Note 17)	**(443,824,360)**	**(294,131,005)**	**(149,693,355)**	(406,964,521)	(288,680,189)	(118,284,332)
Balance at end of year	**₱269,152,110**	**₱181,400,622**	**₱87,751,488**	₱183,780,968	₱115,084,064	₱68,696,904

14. Insurance Payables

This account consists of:

	2016	2015
Premiums due to reinsurers	**₱171,376,107**	₱40,407,936
Funds held for reinsurers	**16,758,664**	15,987,036
	₱188,134,771	₱56,394,972

Premiums due to reinsurers represent the reinsurance premiums due and payable by the Company to all its reinsurers whether by treaty or facultative.

Funds held for reinsurers represent the amount pertaining to a certain percentage of the total reinsurance premiums due within one year from date of retention being held by the Company.

The roll forward analysis of insurance payable follows:

	Premiums Due to Reinsurers	Funds Held for Reinsurers	Total
At January 1, 2015	₱62,987,451	₱21,116,054	₱84,103,505
Arising during the year	321,002,167	32,507,969	353,510,136
Paid during the year	(343,581,682)	(37,636,987)	(381,218,669)
At December 31, 2015	₱40,407,936	₱15,987,036	₱56,394,972
Arising during the year	419,019,125	35,450,366	454,469,491
Paid during the year	(288,050,954)	(34,678,738)	(322,729,692)
At December 31, 2016	**₱171,376,107**	**₱16,758,664**	**₱188,134,771**

Interest expense on funds held for reinsurers amounted to ₱0.48 million and ₱0.54 million in 2016 and 2015, respectively.

15. Insurance Contract Liabilities and Reinsurance Assets - Terms, Assumptions and Sensitivities

Terms and Conditions
The major classes of general insurance written by the Company include aviation, fire, surety, casualty, and engineering. Risks under these policies usually cover a 12-month period.
For general insurance contracts, claims provisions (comprising provision for claims reported and claims IBNR) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.
The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The measurement process primarily includes projections of future claims through use of historical experience statistics. In certain cases, where there is lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims are usually assessed by loss adjusters.

Assumptions
The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs 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.

Sensitivities
The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain variables such as legislative change and uncertainty in the estimation process is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting date.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

The table below indicates the impact of changes in certain key assumptions in respect of general insurance business whilst other assumptions remain unchanged.

	2016			
	Change in Assumption	**Impact on Gross Insurance Contract Liabilities**	**Impact on Net Insurance Contract Liabilities**	**Impact on Income Before Income Tax**
Average claim costs	-14.00%	**(₱38,841,187)**	**(₱31,478,842)**	**₱31,478,842**
Average number of claims	+81.00%	**31,461,361**	**25,497,862**	**(25,497,862)**

	2015			
	Change in Assumption	Impact on Gross Insurance Contract Liabilities	Impact on Net Insurance Contract Liabilities	Impact on Income Before Income Tax
Average claim costs	+18.08%	₱35,393,035	₱24,518,119	(₱24,518,119)
Average number of claims	+24.36%	8,040,173	2,394,507	(2,394,507)

The average claim costs and number of claims were based on the Company's claims development experience in the next page.

Claims development table

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis:

	Gross Insurance Contract Liabilities for 2016							
	2010 and prior	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Estimate of ultimate claim costs								
At the end of accident year	**₱409,518,106**	**₱16,721,607**	**₱157,720,354**	**₱80,895,723**	**₱126,221,480**	**₱183,096,949**	**₱226,914,246**	**226,914,246**
One year later	**3,638,802**	**9,827,179**	**94,365,468**	**64,449,819**	**66,103,256**	**154,886,828**	**–**	**154,886,828**
Two years later	**1,526,520**	**3,573,051**	**10,911,724**	**7,532,816**	**13,957,310**	**–**	**–**	**13,957,310**
Three years later	**1,371,893**	**1,895,263**	**9,008,449**	**2,171,891**	**–**	**–**	**–**	**2,171,891**
Four years later	**452,794**	**797,015**	**1,116,072**	**–**	**–**	**–**	**–**	**1,116,072**
Five years later	**5,258**	**118,310**	**–**	**–**	**–**	**–**	**–**	**118,310**
Six years later	**5,258**	**–**	**–**	**–**	**–**	**–**	**–**	**5,258**
Current estimate of cumulative claims	**5,258**	**118,310**	**1,116,072**	**2,171,891**	**13,957,310**	**154,886,828**	**226,914,246**	**399,169,913**
Cumulative payments to date	**–**	**42,786**	**116,072**	**104,461**	**7,379,954**	**40,989,392**	**73,099,486**	**121,732,151**
Total gross insurance contract liabilities in the statement of financial position	**₱5,258**	**₱75,524**	**₱1,000,000**	**₱2,067,430**	**₱6,779,919**	**₱113,393,160**	**₱137,061,076**	**₱277,437,762**

	Net Gross Insurance Contract Liabilities for 2016							
	2010 and prior	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Estimate of ultimate claim costs								
At the end of accident year	₱37,774,862	₱13,484,182	₱53,087,501	₱46,624,536	₱38,701,315	₱31,041,306	₱47,784,542	₱47,784,542
One year later	30,134,701	7,675,142	37,224,219	34,056,153	28,731,609	19,492,864	–	19,492,864
Two years later	1,979,448	3,550,984	8,660,785	5,614,240	9,270,053	–	–	9,270,053
Three years later	1,510,345	1,877,704	6,366,052	804,103	–	–	–	804,103
Four years later	864,251	779,455	804,268	–	–	–	–	804,268
Five years later	5,029	110,679	–	–	–	–	–	110,679
Six years later	2,629	–	–	–	–	–	–	2,629
Current estimate of cumulative claims	2,629	110,679	804,268	804,103	9,270,053	19,492,864	47,784,542	78,269,139
Cumulative payments to date	–	42,707	83,644	104,461	2,887,932	10,197,572	12,363,932	25,680,249
Total reinsurers' share on gross insurance contract liabilities in the statement of financial position	**₱2,629**	**₱7,552**	**₱279,376**	**₱1,367,788**	₱155,013	₱104,455,856	₱109,416,649	₱52,588,890

16. **Equity**

Capital Stock
The details of this account follow:

	2016	2015
Capital stock - ₱100 par value per share		
Authorized - 5,000,000 common shares	**₱500,000,000**	₱500,000,000
Issued and outstanding – 5,000,000 common shares in 2016 and 3,450,000 common shares in 2015	**345,000,000**	282,500,000
Contributed surplus	**566,615,510**	566,615,510
Subscribed Capital Stock	**117,412,500**	–

Subscription receivable in 2015 was fully paid in cash amounted to ₱62,500,000 in 2016. Additional 1,550,000 shares were subscribed in 2016 of which ₱117,412,500 were paid in cash.

Retained Earnings
In 2016, BOD approved the following cash dividends to stockholders:

Year	Date Declared	Record Date	Amount	Payment Date
2016	November 16, 2016	December 15, 2016	₱125,000,0000	December 15, 2016

Cash dividend remains outstanding as of December 31, 2017.

17. **Net Earned Premiums**

Gross earned premiums on insurance contracts are as follows:

	2016	2015
Gross premiums written		
Direct	**₱502,989,254**	₱415,158,387
Assumed	**26,206,248**	26,275,476
Total gross premiums written	**529,195,502**	441,433,863
Gross change in provision for unearned premiums	**(85,371,142)**	(34,469,342)
Total gross earned premiums (Note 13)	**₱443,824,360**	₱406,964,521

Reinsurers’ share of gross earned premiums on insurance contracts is as follows:

	2016	2015
Reinsurers’ share of gross premiums written		
Direct	**₱360,447,564**	₱294,165,464
Assumed	**-**	-
Total reinsurers’ share of gross premiums written	**360,447,564**	294,165,464
Reinsurers’ share of gross change in provision for unearned premiums	**(66,316,559)**	(5,485,275)
Total reinsurers’ share of gross earned premiums (Note 13)	**₱294,131,005**	₱288,680,189

18. **Investment Income** - net

This account consists of:

	2016	2015
Interest income on:		
Cash and cash equivalents (Note 4)	**₱5,112,450**	₱3,499,171
AFS financial assets	**30,709,949**	29,217,414
Dividend income	**15,133,626**	12,825,348
Bond Discount	**738,707**	915,558
	₱51,694,732	₱46,457,491

19. **Net Insurance Benefits and Claims**

Gross insurance contract benefits and claims paid:

	2016	2015
Insurance contract benefits and claims paid		
Direct	**₱54,843,847**	₱111,541,779
Assumed	**5,192,868**	9,476,148
	₱60,036,715	₱121,017,927

Reinsurers' share of gross insurance contracts benefits and claims paid:

	2016	2015
Reinsurers' share of gross insurance contracts benefits and claims paid (Note 13)		
Direct insurance	**₱1,815,376**	₱75,357,862
Assumed reinsurance	**–**	–
	₱1,815,376	₱75,357,862

Gross change in insurance contract liabilities:

	2016	2015
Change in provision for claims reported		
Direct insurance	**₱101,187,485**	₱58,561,533
Assumed reinsurance	**1,393,306**	(72,233,574)
Decrease in IBNR	**(20,900,967)**	10,314,107
	₱81,679,824	(₱3,357,934)

Reinsurers' share of gross change in insurance contract liabilities:

	2016	2015
Reinsurers' share of gross change in provision for claims reported		
Direct insurance	**₱91,055,785**	₱100,050,989
Assumed reinsurance	**(1,815,376)**	(75,357,862)
	₱89,240,409	₱24,693,127

20. General and Administrative Expenses

This account consists of:

	2016	2015
Salaries and allowances (Notes 24)	**₱31,918,150**	₱30,716,669
Impairment loss (Note 6)	**15,348,825**	17,653,750
Taxes and licenses	**9,244,953**	1,669,702
Professional and technical development	**8,907,741**	5,019,921
Pension expense (Note 21)	**5,182,575**	6,450,196
Depreciation and amortization (Note 10)	**3,214,696**	2,382,703
Miscellaneous	**1,581,494**	955,402
Board meeting expenses and directors' fees	**1,472,470**	815,000
Communication and postage	**1,296,193**	1,092,514
Stationery and supplies	**908,911**	1,143,751
Light and water	**872,209**	939,842
Professional fees	**793,568**	865,750
Bureau and association fees	**784,893**	1,029,833
Trust Fees	**770,216**	693,725
Social security and other contributions	**769,055**	657,595
Marketing expense	**717,607**	308,495
Repairs and maintenance	**702,734**	382,895
Software Maintenance Fee	**672,000**	697,000
Hospitalization contribution	**584,487**	453,816
Transportation and travel	**552,964**	486,221
Premium Expense Trust	**529,106**	645,875
Rent (Note 25)	**447,848**	161,559
Other employee benefits	**223,277**	413,886
Advertising	**236,989**	350,825
Insurance	**177,195**	278,505
Provision for doubtful accounts (Note 5)	**-**	871,147
Supervision Fees & Licenses	**-**	547,300
Others	**595,007**	497,712
	₱88,505,163	₱78,181,589

21. Pension Cost

The Company has an unfunded, noncontributory defined benefit retirement plan covering substantially all of its regular employees.

The following tables summarize the components of retirement costs in the statements of comprehensive income and pension obligation recognized in the statements of financial position:

	2016		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Total net pension liability (asset)**
Balance at beginning of the year	**₱75,117,828**	**(₱52,846,200)**	**₱22,271,628**

(forward)

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	2016		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Total net pension liability (asset)**
Benefit cost in statement of income			
Current service cost	**4,053,404**	**-**	**4,053,404**
Net interest expense (income)	**1,591,267**	**(462,096)**	**1,129,171**
Benefits paid	**-**	**-**	**-**
Remeasurements in other comprehensive income			
Actuarial gain on Defined benefit obligation	**(4,045,125)**	**-**	**(4,045,125)**
Remeasurement on Plan asset	**168,272**	**-**	**168,272**
Contributions	**-**	**(10,038,376)**	**(10,038,376)**
Balance at end of year	**₱76,885,646**	**(₱63,346,672)**	**₱13,538,974**

	2015		
	Present value of defined benefit obligation	Fair value of plan assets	Total net pension liability (asset)
Balance at beginning of the year	₱83,350,286	(₱48,579,086)	₱34,771,200
Benefit cost in statement of income			
Current service cost	4,806,009	–	4,806,009
Net interest expense (income)	1,822,175	(221,215)	1,600,960
Benefits paid	(5,992,477)	5,992,477	–
Remeasurements in other comprehensive income			
Actuarial gain on Defined benefit obligation	(8,868,165)	–	(8,868,165)
Contributions	–	(10,038,376)	(10,038,376)
Balance at end of year	₱75,117,828	(₱52,846,200)	₱22,271,628

The Company recorded pension expense under "General and Administrative Expenses" amounting to ₱5.18 million and ₱4.85 million in 2016 and 2015, respectively (see note 20).

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used to determine pension for the defined benefit plans are shown below:

	2016	2015
Discount rate	**5.19%**	5.07%
Salary increase rate	**10.00%**	10.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

2016

	Increase (Decrease)	**Effect on defined benefit obligation Increase (Decrease)**
Discount Rate	**0.05%**	**(₱1,960,176)**
	(0.05%)	**2,158,466**
Salary increase rate	**1.00%**	**₱4,057,314**
	(1.00%)	**(3,443,771)**

2015

	Increase (Decrease)	Effect on defined benefit obligation Increase (Decrease)
Discount Rate	0.05%	(₱1,914,932)
	(0.05%)	2,097,749
Salary increase rate	1.00%	₱3,933,286
	(1.00%)	(3,376,235)

Shown below is the maturity analysis of the undiscounted benefit payments:

2016

	Expected benefit payments
Less than 1 year	**₱1,513,065**
More than 1 year to 5 years	**11,393,102**
More than 5 years to 10 years	**17,708,178**
More than 10 years to 15 years	**46,254,464**
More than 15 years to 20 years	**23,703,412**
More than 20 years	**605,324,855**

2015

	Expected benefit payments
Less than 1 year	₱418,655
More than 1 year to 5 years	11,043,352
More than 5 years to 10 years	11,516,879
More than 10 years to 15 years	32,103,215
More than 15 years to 20 years	39,493,095
More than 20 years	392,074,226

The average expected future working lives of the employees of the Company as of December 31, 2016 and 2015 is 22 years.

22. Income Tax

The provision for income tax consists of:

	2016	2015
Current		
RCIT	**₱3,773,118**	₱13,749,931
Final	**7,230,177**	6,381,020
	11,003,295	20,130,951
Deferred	**8,523,036**	(8,843,519)
	₱19,526,331	₱11,287,432

The net deferred income tax assets consist of the following:

	2016	2015
Presented in profit or loss		
Deferred tax assets on:		
Pension liability	**₱4,184,005**	₱5,640,745
Deferred reinsurance commissions	**5,309,112**	2,611,900
Unamortized past service cost	**5,505,946**	4,740,877
Allowance for doubtful accounts	**2,623,588**	2,623,588
Provision for IBNR claims	**1,435,105**	7,705,395
Excess of net provision for unearned premium per books over tax basis	**4,918,389**	3,312,963
Total deferred tax assets	**23,976,145**	26,635,468
(Forward)		
Deferred tax liabilities on:		
Deferred acquisition costs	**₱9,021,707**	₱3,967,191
Unrealized foreign gain	**809,197**	41,498
Total deferred tax liabilities	**9,830,904**	4,008,689
	14,145,241	22,626,779
Presented in OCI		
Deferred tax liability		
Actuarial (gain) loss on defined benefit obligation	**(122,313)**	1,040,742
Net deferred tax asset	**₱14,022,928**	₱23,667,521

Movements in net deferred tax assets comprise of:

	2016	2015
At beginning of the year	**₱23,667,521**	₱17,484,452
Amounts charged against statements of income	**(8,481,539)**	8,843,519
Amount credited to statements of comprehensive income	**(1,163,056)**	(2,660,450)
At end of the year	**₱14,022,928**	₱23,667,521

The reconciliation of the statutory corporate income tax rate to the effective income tax rate follows:

	2016	2015
Statutory corporate income tax rate	**30.00%**	30.00%
Add (deduct) the tax effects of:		
Nontaxable income	**(0.30%)**	(3.98%)
Interest income subjected to final tax	**(4.82%)**	(7.12%)
Dividend income	**(5.85%)**	(7.39%)
Nondeductible expenses	**6.13%**	10.17%
Effective income tax rate	**25.16%**	21.68%

23. Management of Insurance and Financial Risk

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

Regulatory Framework
Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency 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., capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise).

Fair Value of Financial Instruments
Due to the short term nature of the Company's financial instruments, their fair values approximate their carrying value as of December 31, 2016 and 2015.

The methods and assumptions used by the Company in estimating the fair values of the financial instruments are as follows:

- *Cash and cash equivalents, insurance receivables, accrued income and loans and receivables*: Due to the short-term nature of the instruments, the fair values approximate the carrying amounts as of the end of the reporting date.
- *AFS financial assets:* Fair values were determined using quoted market prices within the bid-offer price range at reporting date; in the case of the unlisted equity investments, the fair value could not be reliably determined and is presented at cost subject to impairment.
- *Other financial liabilities:* The fair values of liabilities approximate their carrying amounts due to either the demandable feature or the relatively short-term maturities of these liabilities.

As of December 31, 2016 and 2015, the Company classifies AFS financial assets (except for the unquoted security) under Level 1 of the fair value hierarchy. During the reporting period ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 of fair value measurements, and no transfers into and out of Level 3 fair value measurement.

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

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

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

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

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

As of December 31, 2016 and 2015, the carrying values of the Company’s financial instruments represent maximum exposure to credit risk as of reporting date.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company’s credit ratings of counterparties as of December 31:

	2016			
	Neither Past Due nor Impaired			
	Investment Grade	**Non-investment Grade**	**Past Due or Impaired**	**Total**
Loans and receivables				
Cash and cash equivalents	**₱–**	**₱558,115,910**	**₱–**	**₱558,115,910**
Insurance receivables:				
Premiums receivable	**–**	**170,911,952**	**38,578,977**	**209,490,929**
Funds held by ceding companies	**–**	**–**	**85,533**	**85,533**
Due from ceding companies	**–**	**1,607,561**	**11,976,378**	**13,583,939**
Reinsurance recoverable on paid losses	**–**	**12,074,466**	**46,721,757**	**58,796,223**
AFS financial assets				
Quoted securities:				
Government debt securities	**143,293,067**	**–**	**–**	**143,293,067**
Private debt securities	**363,057,619**	**–**	**–**	**363,057,619**
Listed equity securities				
Unquoted securities:				
Debt securities	**68,999,212**	**–**	**–**	**68,999,212**
Common shares				
Accounts receivable	**46,564,039**	**–**	**–**	**46,564,039**
Accrued income	**6,174,309**	**–**	**–**	**6,174,309**
	₱628,088,246	**₱742,709,890**	**₱97,362,645**	**₱1,468,160,781**

**Cash and cash equivalents exclude cash on hand.*

	2015			
	Neither Past Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due or Impaired	Total
Loans and receivables				
Cash and cash equivalents	₱404,552,669	₱–	₱–	₱404,552,669
Insurance receivables:				
Premiums receivable	–	46,787,698	67,777,333	114,565,031
Reinsurance recoverable on paid losses	–	2,699,903	7,165,290	9,865,193
Due from ceding companies	–	1,434,849	11,333,752	12,768,601
Funds held by ceding companies	–	(42,983,046)	48,512,889	5,529,843
AFS financial assets				
Quoted securities:				
Government debt securities	153,819,208	–	–	153,819,208
(forward)				

	2015			
	Neither Past Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due or Impaired	Total
Private debt securities	335,935,739	–	–	335,935,739
Listed equity securities	261,024,077	–	45,150,853	306,174,930
Unquoted securities:				
Debt securities	114,536,318	–	–	114,536,318
Common shares- at cost	16,820,000	–	–	16,820,000
Accounts receivable	–	–	–	–
Accrued income	–	–	–	–
	₱1,286,688,011	₱7,939,404	₱179,940,117	₱1,474,567,532

**Cash and cash equivalents exclude cash on hand.*

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

a. *Cash and cash equivalents and accrued income*
These are classified as investment grade. These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b. *Insurance receivables and loans and receivables*
The Company uses a credit rating concept based on the borrower's overall credit worthiness. Investment grade is given to borrowers and counterparties having good standing in terms of credit and paying habits and their outstanding account balance does not exceed 30% of their total production. Below investment grade is given to borrowers and counterparties having low standing in terms of credit and paying habits and their outstanding balance exceeds 50% of their total production.

c. *Debt securities*
These are classified as investment grade. The government debt securities are issued by the local government authority and are considered as risk-free debt securities. The private debt securities are issued by the stable companies and are considered to be high credit worthiness.

d. *Equity securities*
Equity securities not subjected to other than temporary decline are classified as investment grade.

The table below shows the aging analysis of financial assets that are past due but not impaired:

	2016						
	Past Due but not Impaired					**Past Due and Impaired**	**Total**
	< 30 Days	**31 to 60 Days**	**61 to 90 Days**	**> 90 Days**	**Total**		
Insurance receivables:							
Premiums receivable	₱–	₱–	₱–	₱–	₱–	₱4,599,194	₱4,599,194
Reinsurance recoverable on paid losses	–	–	–	43,613,349	43,613,349	3,293,917	46,907,266
Due from Ceding Companies	–	–	–	4,393,160	4,393,160	852,181	5,245,341
Funds held by ceding companies	–	–	–	11,105,940	11,105,940	–	11,105,940
	₱–	**₱–**	**₱–**	**₱59,112,449**	**₱59,112,449**	₱8,745,292	**₱67,857,741**

	2015						
	Past Due but not Impaired					Past Due and Impaired	Total
	< 30 Days	31 to 60 Days	61 to 90 Days	> 90 Days	Total		
Insurance receivables:							
Premiums receivable	₱–	₱–	₱–	₱63,178,139	₱63,178,139	₱4,599,194	₱67,777,333
Reinsurance recoverable on paid losses	–	–	–	44,425,667	44,425,667	3,293,917	47,719,584
Due from Ceding Companies	–	–	–	8,248,569	8,248,569	852,181	9,100,750
Funds held by ceding companies	–	–	–	7,165,290	7,165,290	–	7,165,290
	₱–	₱–	₱–	₱123,017,665	₱123,017,665	₱8,745,292	₱131,762,957

The Company has a significant concentration of credit risk with the Lucio Tan Group as of December 31, 2016 and 2015 (see Note 28).

Liquidity risk
Liquidity or funding 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; counterparty failing on repayment of a contractual obligation; insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

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

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

The tables below analyze financial assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates.

	2016				
	Up to a Year	**2-5 Years**	**Over 5 Years**	**No Term**	**Total**
Loans and receivables					
Cash and cash equivalents	**₱558,115,910**	**₱–**	**₱–**	**₱–**	**₱558,115,910**
Insurance receivables:					
Premiums receivable	**170,911,952**	**38,578,977**	**–**	**–**	**209,490,929**
Reinsurance recoverable on paid losses	**55,687,815**	**3,108,408**	**–**	**–**	**58,796,223**
Due from ceding companies	**6,000,721**	**7,583,218**	**–**	**–**	**13,583,939**
Funds held by ceding companies	**(11,017,123)**	**16,311,253**	**–**	**–**	**5,294,130**
AFS financial assets					
Quoted securities:					
Government debt securities	**–**	**51,987,500**	**117,550,000**	**–**	**169,537,500**
Private debt securities	**10,031,240**	**319,900,412**	**98,849,263**	**–**	**428,780,915**
Listed equity securities	**–**	**–**	**–**	**272,336,968**	**272,336,968**
Unquoted securities:					
Debt securities	**–**	**–**	**93,337,000**	**–**	**93,337,000**
Unlisted common shares	**–**	**–**	**–**	**20,520,000**	**20,520,000**
Accounts receivable	**46,564,039**	**–**	**–**	**–**	**46,564,039**
Accrued income	**6,174,309**	**–**	**–**	**–**	**6,174,309**
Reinsurance asset					
Total financial assets	**842,468,863**	**437,469,768**	**309,736,263**	**292,856,968**	**1,882,531,862**
Other financial liabilities					
Insurance contract liabilities	**₱277,437,762**	**₱–**	**₱–**	**₱**	**₱277,437,762**
Accounts payable and accrued expenses*	**–**	**–**	**–**	**–**	**244,334,429**
Insurance payables	**–**	**–**	**–**	**–**	**188,134,770**
Total other financial liabilities	**₱709,906,961**	**₱–**	**₱–**	**₱–**	**₱709,906,961**

**Accounts payable and accrued expenses exclude taxes payable.*

	2015				
	Up to a Year	2-5 Years	Over 5 Years	No Term	Total
Loans and receivables					
Cash and cash equivalents	₱402,191,272	₱–	₱–	₱–	₱402,191,272
Insurance receivables:					
Premiums receivable	61,332,500	53,218,024	14,506	–	114,565,030
Reinsurance recoverable on paid losses	5,529,843	–	–	–	5,529,843
Due from ceding companies	12,768,601	–	–	–	12,768,601
Funds held by ceding companies	9,865,193	–	–	–	9,865,193
AFS financial assets					
Quoted securities:					
Government debt securities	–	56,049,833	97,769,375	–	153,819,208
Private debt securities	–	76,812,636	259,123,103	–	335,935,739
Listed equity securities	–	–	–	261,024,077	261,024,077
Unquoted securities:					
Debt securities	–	10,011,752	104,524,566	–	114,536,318
Unlisted common shares				16,820,000	16,820,000
Accounts receivable	16,371,346	–	–	–	16,371,346
Accrued income	5,893,131	–	–	–	5,893,131
Reinsurance assets	250,693,127	–	–	–	250,693,127
Total financial assets	₱764,645,013	₱196,092,245	₱461,431,550	₱277,844,077	₱1,700,012,885

	2015				
	Up to a Year	2-5 Years	Over 5 Years	No Term	Total
Other financial liabilities					
Insurance contract liabilities	₱195,757,938	₱–	₱–	₱–	₱195,757,938
Accounts payable and accrued expenses*	112,724,350	–	–	–	112,724,350
Insurance payables	56,394,972	–	–	–	56,394,972
Total other financial liabilities	₱364,877,260	₱–	₱–	₱–	₱364,877,260

**Accounts payable and accrued expenses exclude taxes payable.*

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; determines the basis used to fair value financial assets and liabilities; defines asset allocation and portfolio limit structure; provides diversification benchmarks by type of instrument; sets out the net exposure limits by each counterparty or group of counterparties, reports market risk exposures and breaches; and monitors compliance with market risk policy; and reviews 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.

The Company's financial assets are denominated in the same currencies as its insurance liabilities, which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

The following table shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents.

	2016		2015	
	US$	**PHP**	US$	PHP
Cash and cash equivalents	$1,426,872	₱70,944,070	$330,482	₱15,552,524

The exchange rates used are ₱49.72 to US$1 in 2016 and ₱47.06 to US$1 in 2015.

The Company has no foreign currency-denominated financial liabilities as of December 31, 2016 and 2015.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity (that reflects adjustments to profit before tax).

	2016		2015	
Currency	**Change in Rate**	**Impact on Income Before Tax**	Change in Rate	Impact on Income Before Tax
US Dollar	+4.00%	₱57,075	+4.58%	₱712,306
	-4.00%	(57,075)	-4.58%	(712,306)

As of December 31, 2016 and 2015, the Company used the average of changes in year-end closing rate for the past three years in determining the reasonably possible change in foreign exchange rates.

b. *Interest rate risk*

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

The following tables show the information relating to the Company's financial instruments that are exposed to interest rate risk presented by maturity profile.

	2016				
	Interest Rate	**Within 1 Year**	**2-5 Years**	**Over 5 Years**	**Total**
Financial assets					
Loans and receivable:					
Cash and cash equivalents	**0.88% to 1.00%**	₱558,115,911	₱–	₱–	₱558,115,911
AFS financial assets					
Quoted securities:					
Government debt securities	**3.25% to 6.63%**	–	51,987,500	117,550,000	69,537,500
Private debt securities	**4.47% to 5.92%**	10,031,240	319,900,412	98,849,263	428,780,915
Unquoted securities -					
Debt securities	**4.37% to 6.75%**	–	–	20,520,000	20,520,000
		₱568,147,151	₱371,887,912	₱236,919,263	₱1,076,954,326
Other financial liabilities					
Insurance payables	**5.00%**	₱16,758,664	₱–	₱–	₱16,758,664

	2015				
	Interest Rate	Within 1 Year	2-5 Years	Over 5 Years	Total
Financial assets					
Loans and receivable:					
Cash and cash equivalents	0.88% to 1.00%	₱402,191,272	₱–	₱–	₱402,191,272
AFS financial assets					
Quoted securities:					
Government debt securities	3.25% to 6.63%	–	56,049,833	97,769,375	153,819,208
Private debt securities	5.00% to 8.06%	–	76,812,636	259,123,103	335,935,739
(forward)					

	2015				
	Interest Rate	Within 1 Year	2-5 Years	Over 5 Years	Total
Unquoted securities -					
Debt securities	5.38% to 6.75%	₱–	₱10,011,752	₱104,524,566	₱114,536,318
		₱402,191,272	₱142,874,221	₱461,417,044	₱1,006,482,537
Other financial liabilities					
Insurance payables	5.00%	₱15,987,035	₱–	₱–	₱15,987,035

c. *Price risk*

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

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

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

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

The following table shows the equity impact of reasonably possible changes in the Philippine Stock Exchange index (PSEi):

	2016		2015	
Market Indices	**Change in Variables**	**Impact on Equity**	Change in Variables	Impact on Equity
PSEi	**+7.99%**	**₱15,049,824**	+9.31%	₱18,124,136
PSEi	**-7.99%**	**(15,049,824)**	-9.31%	(18,124,136)

The impact on other comprehensive income is arrived at using the reasonably possible change in Philippine Stock Exchange index and the specific adjusted beta of each stock the Company holds. Adjusted beta is the forecasted measure of the volatility of the security for a portfolio in comparison to the market as a whole.

Insurance Risk

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

The following table sets out the concentration of the claims liabilities by type of contract as of December 31.

	2016		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net**
Fire	**₱89,808,457**	**₱71,718,794**	**₱18,089,663**
Motorcar	**25,792,117**	**191,264**	**25,600,853**
Casualty	**158,558,182**	**152,263,380**	**6,294,802**
Marine	**1,345,206**	**2,244**	**1,342,962**
Engineering	**1,933,800**	**673,190**	**1,260,610**
	₱277,437,762	**₱224,848,872**	**₱52,588,890**

	2015		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Fire	₱61,576,209	₱35,031,200	₱26,545,009
Motorcar	27,644,619	360,000	27,284,619
Casualty	101,422,646	99,968,618	1,454,028
Marine	1,755,848	2,245	1,753,603
Engineering	1,987,619	247,000	1,740,619
Surety	1,370,997	−	1,370,997
	₱195,757,938	₱135,609,063	₱60,148,875

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

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

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

The majority of reinsurance business ceded is placed on a quota share basis with retention limits varying by product line. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statements of financial position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to the reinsurance ceded, to the extent that any reinsurers is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

24. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Outstanding balances as of year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2016 and 2015, the Company has not recorded any impairment on receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Transactions with related parties consist mainly of the following activities:

	2016			
Category	**Amount**	**Outstanding Balance**	**Terms**	**Conditions**
Entities under common control				
Philippine National Bank				
Deposits(a)				
Cash and cash equivalents	**₱550,173,490**	₱550,173,490	Interest-bearing	
Premiums	**974,979**	1,263,134	Noninterest-bearing, due and demandable	Unsecured
Himmel Industries, Inc.				
Premiums (b)	**(53,116)**	(34,757)	Noninterest-bearing, due and demandable	Unsecured
Air Philippines				
Premiums	**111,368**	141,880	Noninterest-bearing, due and demandable	Unsecured
Allied Savings Bank				
Premiums	**851**	2,922	Noninterest-bearing, due and demandable	Unsecured
Allied Leasing & Finance Corp.				
Premiums	**1,052,271**	1,333,265	Noninterest-bearing, due and demandable	Unsecured
Asia Brewery Incorporated				
Premiums	**6,315,637**	70,784,868	Noninterest-bearing, due and demandable	Unsecured
Fortune Tobacco Corp.				
Premiums	**166,540**	213,059	Noninterest-bearing, due and demandable	Unsecured

(forward)

Category	Amount	Outstanding Balance	Terms	Conditions
	2015			
Entities under common control				
Philippine National Bank				
Deposits				
Cash and cash equivalents	₱365,892,750	₱365,892,750	Interest-bearing	
Premiums	178,201	225,601	Noninterest-bearing, due and demandable	Unsecured
Commissions	216,882	1,784,496	Noninterest-bearing, due and demandable	Unsecured
Himmel Industries, Inc.				
Premiums	2,429	3,027	Noninterest-bearing, due and demandable	Unsecured
Commissions	193,596	214,229	Noninterest-bearing, due and demandable	Unsecured
Air Philippines				
Premiums	(2,610)	(2,063)	Noninterest-bearing, due and demandable	Unsecured
Allied Savings Bank				
Premiums	851	1,077	Noninterest-bearing, due and demandable	Unsecured
Commissions	607	33,480	Noninterest-bearing, due and demandable	Unsecured
Allied Leasing & Finance Corp.				
Commissions	9,204	55,702	Noninterest-bearing, due and demandable	Unsecured
Asia Brewery Incorporated				
Premiums	6,315,637	7,961,219	Noninterest-bearing, due and demandable	Unsecured
Commissions	875,959	441,174	Noninterest-bearing, due and demandable	Unsecured
Fortune Tobacco Corp.				
Commissions	23,877	100,853	Noninterest-bearing, due and demandable	Unsecured
Premiums	95,723	120,430	Noninterest-bearing, due and demandable	Unsecured
Commissions	286,801	283,292	Noninterest-bearing, due and demandable	Unsecured

a. The Company maintains savings, current accounts and cash equivalents with Philippine National Bank (PNB), a related party under common control. Cash equivalents consist of short-term Philippine Peso cash placements with PNB (see Note 4).

b. In the ordinary course of business, the Company accepts insurance business from related parties, normally through its general agent, Himmel Industries, Inc. (Himmel), an entity under common control. These transactions are mostly from the following related parties under common control: Air Philippines Corporation, Asia Brewery Incorporated, Fortune Tobacco Corporation and Subsidiaries and Philippine Airlines, Inc.

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

The summary of compensation of key management personnel is as follows:

	2016	2015
Salaries and other short term employee benefits	**₱22,750,010**	₱20,071,116
Post-employment benefits and others	**–**	4,173,460
	22,750,010	₱24,244,576

25. Lease Commitment

The Company's branches entered into noncancellable lease agreements with third parties for their office spaces. These leases are renewed annually upon agreement of both parties.
As of December 31, 2016 and 2015, future minimum rentals payable under noncancellable operating leases are as follow:

	2016	2015
Within one year	**₱548,810**	₱218,763
After one year but not more than five years	**871,745**	242,410
	₱1,420,555	₱461,173

Rent expense charged against operations amounted to ₱447, ₱848 and ₱161,559 in 2016 and 2015, respectively (see Note 20).

26. Reconciliation of Net Income Under PFRS to Statutory Net Income

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

	2016	2015
PFRS net income	**₱58,070,537**	₱40,780,678
Add (deduct):		
Deferred acquisition costs – net	**(16,848,387)**	6,073,266
Difference in change in provision for unearned premiums – net	**5,351,417**	18,439,943
Deferred reinsurance commission- net	**8,990,706**	(4,803,231)
Tax effects of PFRS adjustments	**751,879**	(5,912,993)
	₱56,316,152	₱54,577,663

27. Capital Management and Regulatory Requirements

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 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 by monitoring the minimum statutory net worth 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.

Financial Reporting Framework
IC issued Circular Letter (CL) No. 2016-65 on December 28, 2016 which provides the implementation of the provisions of Financial Reporting Framework under Section 189 of the Amended Insurance Code (Republic Act No. 10607) also known as the "New Insurance Code". This circular clarify the rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all the other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies. Enumeration of Section 202 (Admitted Assets), Section 203 (Non-Admitted Assets) and Title IV (Investments) are included in the New Insurance Code. Furthermore, the Commission is issuing the "Manual of Accounts" to clarify the financial reporting framework to be adopted by life and nonlife insurance and professional reinsurance companies in the preparation of their financial statements for submission to the IC. The manual of accounts discusses the nature, types and recognition and measurement of each account in the financial statement. The circular will be fully implemented starting January 1, 2017.

Valuation Standards for Policy Reserves
Insurance Commission issued Circular Letter (CL) No. 2016-67 which provides the new set of valuation standards for Non-Life Insurance Policy Reserves. Pursuant to Sections 219 and 220 of the New Insurance Code which require every insurance company other than life insurance to maintain reserve for unearned premium and other special reserves. It is intended to cover both direct and assumed reinsurance business, whether treaty or facultative, of non-life insurance companies. This circular primarily sets out the valuation method that should be used by insurance companies in determining the level of reserves that they should maintain. Further, the Actuary, as set out in the New Insurance Code, shall be responsible to determine the level of policy reserves of the company. Consequently, an actuarial valuation report shall be prepared on an annual basis and be submitted to Insurance Commission which must be certified by both the Actuary and Chief Executive Officer (CEO) or other responsible officer. The circular will be fully implemented starting January 1, 2017.

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
₱250,000,000	June 30, 2013
550,000,000	December 31 ,2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

On January 13, 2015, the IC issued the Circular Letter (CL) No. 2015-02-A which provides for the clarification of minimum capital requirements under sections 194, 197, 200 and 289 of the NewInsurance 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 estimated statutory networth and paid-up capital of the Company as of December 31, 2016 and 2015 amounted to ₱1.31 million and ₱1.39 million, respectively.

Unimpaired capital requirement
The issuance of IC CL No. 2015-02-A, superseding IC CL No. 22-2008, is provided to ensure the compliance set in Sections 194, 197, 200 and 289 of Republic Act No. 10607 to have minimum capitalization and net worth. It says that all domestic life and non-life insurance companies duly licensed by the Insurance Commission must have a networth of at least Two hundred and fifty million pesos (₱250,000,000) by December 31, 2013 and the minimum networth of these companies shall remain unimpaired at all times.

As of December 31, 2016 and 2015, the Company has complied with the unimpaired capital requirement.

Risk-based Capital Requirements
The Amended Code provides that the Commissioner may require the adoption of the risk-based capital 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 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 table below shows how the RBC ratio as of December 31, 2016 and 2015 was determined by the Company:

	2016	2015
Networth	**1,311,711,728**	1,392,638,870
RBC requirement	**237,924,787**	283,633,171
RBC Ratio	**551%**	491%

The final RBC ratio can only be determined after the accounts of the Company have been examined by IC.

If an insurance 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 such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

Consolidated Compliance Framework
IMC 10-2006 integrated the compliance standards for the fixed capitalization and risk-based capital framework. It provides the annual schedule of progressive rates for the RBC Hurdle Rates and Industry RBC Ratio Compliance Rates from 2007 to 2011. For the review year 2011 which shall be based on the 2010 synopsis, the RBC Hurdle Rate is 250% and the Industry RBC Ratio Compliance Rate is 90%.

On June 1, 2012, the DOF issued DOF Order 15-2012 which provides that after 2012, compliance with prescribed minimum paid-up capital requirement may be deferred for existing insurers that meet the RBC hurdle rate of 150%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirements for the period under review.

28. Contingencies

The Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. Provisions have been recognized in the financial statements to cover liabilities that may arise as a result of adverse decisions that may be rendered by the courts. The information usually required by PAS 37 is not disclosed on the grounds that it can be expected to prejudice the Company's position with regard to the outcome of these claims.

29. Supplementary Tax Information under Revenue Regulations 15-2010

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

<u>VAT</u>
The Company's sales are subject to output value added tax (VAT) while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.0%.

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns

	Net Collections	Output VAT
Taxable Sales:		
Sales of services	**₱282,112,550**	**₱33,853,506**

The Company has no output VAT from sale of goods and leasing income. There are no exempt sales during the year.

b. Input VAT

Balance at January 1	₱3,278,003
Current year's domestic purchases/payments for:	
Services lodged under other accounts	14,191,959
Goods other than for resale or manufacture	–
	17,469,962
Input VAT applied to output VAT	(14,067,710)
Balance at December 31	₱3,402,252

<u>Documentary Stamp Tax (DST)</u>
The DST paid for the current year amounted to ₱38,284,509 which is based on premiums written during the year amounting to ₱306,276,072.

<u>Other Taxes and License Fees</u>
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees. Details consist of the following:

Local	
Assessment	₱8,113,020
Payment of Capital gains tax	915,625
Filing annual statement	95,400
Business permit	59,908
Clearance and certificate fees	50,000
Community tax	10,500
VAT registration	500
	₱9,244,953

Taxes relating to nonlife insurance policies that has been shifted or passed on to the policyholders are follows:

Fire service tax	₱2,270,681
Premium tax	2,255,325
	₱4,526,006

Withholding Taxes
The amount of withholding taxes paid and accrued for the year amounted to:

Withholding taxes on compensation and benefits	₱6,008,148
Expanded withholding taxes	8,986,332
	₱14,994,480

Tax Assessments and Cases
The Company has no final assessment notice and/or formal letter of demand from the BIR.
In addition, the Company has no on-going pending tax case outside the administration of the BIR.

ALLIEDBANKERS INSURANCE CORPORATION

Schedule of all the effective standards and interpretations under Philippine Financial Reporting Standards as of December 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary			✓	
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendments to PFRS 1: Meaning of ‘Effective PFRSs’			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2:Definition of Vesting Condition			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2016**		**Adopted**	**Not Adopted**	**Not Applicable**
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Application of the Offsetting Disclosures to Condensed Interim Financial Statement			✓
PFRS 8	Operating Segments			✓
	Amendments to PFRS 8: Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments	*Not early adopted*		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	*Not early adopted*		
	Amendments to PFRS 9:Classification and Measurement	*Not early adopted*		
	Amendments to PFRS9: 2014 or final version	*Not early adopted*		
PFRS 10	Consolidated Financial Statements			✓
	Amendment to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10 and 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Applying Consolidation Exception			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendment to PFRS 12: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Investment Entities			✓
	Amendment to PFRS 13: Short-term Receivables and Payables			✓
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	*Not early adopted*		
PFRS 16	Leases	*Not early adopted*		
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Disclosure Initiative	*Not early adopted*		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
	Amendment to PAS 12: Recognition of deferred tax assets for unrealised losses	*Not early adopted*		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
	Equipment			
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16 and 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Discount Rate			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Amendments to PAS 19: Regional market issue regarding discount rate			✓
	Amendments to PAS 19: Employee Contributions			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24:Key Management Personnel		✓	
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendment to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendments to PAS 34: Disclosure of information ‘elsewhere in the interim financial report’			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets			✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 36:Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓