PNB General Insurers Co., Inc.
(A Subsidiary of Philippine National Bank)

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

SGV
Building a better working world

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
PNB General Insurers Co., Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PNB General Insurers Co., Inc. ("the Company"), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

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 Regulation 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 Regulation No. 15-2010 in Note 28 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 PNB General Insurers Co., Inc. 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.

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PTR No. 5908702, January 3, 2017, Makati City

February 21, 2017

PNB GENERAL INSURERS CO., INC.
(A Subsidiary of Philippine National Bank)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Cash and Cash Equivalents (Notes 5, 22 and 23)	**₱406,830,011**	₱379,022,531
Insurance Receivables - net (Notes 6 and 22)	**1,253,610,994**	1,366,498,905
Financial Assets (Notes 7, 22 and 23)		
Available-for-sale financial assets	**928,027,621**	974,698,569
Loans and receivables - net	**13,843,365**	13,476,546
Accrued Interest (Notes 8 and 22)	**7,207,917**	4,106,449
Reinsurance Assets (Notes 9 and 12)	**3,996,078,639**	4,008,924,003
Deferred Acquisition Costs (Notes 10 and 22)	**64,512,256**	59,449,901
Property and Equipment - net (Note 11)	**14,496,573**	12,275,060
Intangible Asset - net (Note 11)	**64,577**	117,777
Deferred Tax Assets - net (Note 21)	**31,513,137**	23,756,367
Other Assets (Notes 11 and 22)	**161,842,649**	206,892,656
	₱6,878,027,739	₱7,049,218,764
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 12 and 22)	**₱4,952,330,207**	₱5,157,174,310
Insurance payables (Notes 13 and 22)	**729,560,407**	737,610,675
Deferred reinsurance commissions (Note 10)	**19,611,769**	9,393,247
Accounts payable and accrued expenses (Notes 14)	**482,963,075**	555,518,250
Net pension liability (Note 20)	**27,445,600**	33,023,227
	6,211,911,058	6,492,719,709
Equity		
Capital stock (Note 15)	**912,600,000**	912,600,000
Contributed surplus	**906,000**	906,000
Revaluation reserve on available-for-sale financial assets (Note 7)	**(18,520,219)**	(12,092,811)
Remeasurement loss on defined benefit obligation (Note 20)	**(26,690,964)**	(31,833,291)
Deficit	**(202,178,136)**	(313,080,843)
	666,116,681	556,499,055
	₱6,878,027,739	₱7,049,218,764

See accompanying Notes to Financial Statements.

PNB GENERAL INSURERS CO., INC.
(A Subsidiary of Philippine National Bank)

STATEMENTS OF INCOME

	Years Ended December 31	
	2016	2015
Gross earned premiums	**₱2,356,179,184**	₱2,410,912,995
Reinsurers' share of gross earned premiums	**(1,726,353,642)**	(1,924,739,095)
Net earned premiums (Notes 12 and 16)	**629,825,542**	486,173,900
Commission income (Note 10)	**142,515,588**	115,706,554
Investment and other income (Note 17)	**38,169,728**	20,581,133
Gain on sale of available-for-sale financial assets (Note 7)	**19,098,869**	12,704,155
Net foreign exchange gain	**1,515,773**	6,694,865
Other underwriting income	**21,477,870**	31,735,391
Other income	**222,777,828**	187,422,098
Total income	**852,603,370**	673,595,998
Gross insurance contract benefits and claims paid	**787,557,549**	1,729,179,941
Reinsurers' share of gross insurance contract benefits and claims paid	**(304,381,628)**	(1,045,149,873)
Gross change in insurance contract liabilities	**(69,051,380)**	(631,944,042)
Reinsurers' share of change in insurance contract liabilities	**(158,426,405)**	349,801,245
Net benefits and claims (Notes 12 and 18)	**255,698,136**	401,887,271
Operating expenses (Notes 19 and 20)	**231,428,300**	226,015,055
Commission expense (Note 10)	**129,480,400**	153,001,090
Other underwriting expenses	**118,291,492**	81,157,626
Provision for impairment on loans and receivables (Note 6)	**1,432**	149,355,511
Provision for impairment loses on AFS financial assets (Note 7)	**–**	5,978,697
Interest expense (Note 20)	**1,595,022**	1,225,551
Other expenses	**480,796,646**	616,733,530
Total benefits, claims and other expenses	**736,494,782**	1,018,620,801
INCOME (LOSS) BEFORE INCOME TAX	**116,108,588**	(345,024,803)
PROVISION FOR INCOME TAX (Note 21)	**5,205,881**	145,473,610
NET INCOME (LOSS) (Note 24)	**₱110,902,707**	(₱490,498,413)

See accompanying Notes to Financial Statements.

PNB GENERAL INSURERS CO., INC.
(A Subsidiary of Philippine National Bank)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
NET INCOME (LOSS)	**₱110,902,707**	(₱490,498,413)
OTHER COMPREHENSIVE LOSS (Note 7)		
Item that will be reclassified to profit or loss in subsequent periods:		
Net changes in the revaluation of available-for-sale financial assets (Note 7)	**(6,427,408)**	(25,558,200)
Items that will be not reclassified to profit and loss in subsequent periods:		
Remeasurement gains (losses) on defined benefit obligation (Note 20)	**7,346,182**	(4,142,450)
Income tax effect	**(2,203,855)**	1,242,735
	(1,285,081)	(28,457,915)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱109,617,626**	(₱518,956,328)

See accompanying Notes to Financial Statements.

PNB GENERAL INSURERS CO., INC.
(A Subsidiary of Philippine National Bank)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Capital Stock (Note 15)	Contributed Surplus	Revaluation Reserve on Available-for-Sale Financial Assets (Note 7)	Remeasurement loss on defined benefit obligation (Note 20)	Retained Earnings (Deficit)	Total
As of January 1, 2016	**₱912,600,000**	**₱906,000**	**(₱12,092,811)**	**(₱31,833,291)**	**(₱313,080,843)**	**₱556,499,055**
Net income for the year	**–**	**–**	**–**	**–**	**110,902,707**	**110,902,707**
Other comprehensive income (loss), net of tax effect	**–**	**–**	**(6,427,408)**	**5,142,327**	**–**	**(1,285,081)**
Total recognized income (loss) for the year	**–**	**–**	**(6,427,408)**	**5,142,327**	**110,902,707**	**109,617,626**
At December 31, 2016	**₱912,600,000**	**₱906,000**	**(₱18,520,219)**	**(₱26,690,964)**	**(₱202,178,136)**	**₱666,116,681**
As of January 1, 2015	₱912,600,000	₱906,000	₱13,465,389	(₱28,933,576)	₱177,417,570	₱1,075,455,383
Net loss for the year	–	–	–	–	(490,498,413)	(490,498,413)
Other comprehensive loss, net of tax effect	–	–	(25,558,200)	(2,899,715)	–	(28,457,915)
Total recognized loss for the year	–	–	(25,588,200)	(2,899,715)	(490,498,413)	(518,956,328)
At December 31, 2015	₱912,600,000	₱906,000	(₱12,092,811)	(₱31,833,291)	(₱313,080,843)	₱556,499,055

See accompanying Notes to Financial Statements.

PNB GENERAL INSURERS CO., INC.
(A Subsidiary of Philippine National Bank)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**₱116,108,588**	(₱345,024,803)
Adjustments:		
Amortization of premium on AFS financial assets (Note 7)	**28,337,336**	14,923,888
Depreciation and amortization (Notes 11 and 19)	**5,075,565**	4,741,494
Provision for impairment loss on loans and receivables (Note 6)	**1,432**	149,355,511
Provision for impairment loss on AFS financial assets (Note 7)	**–**	5,978,697
Dividend income (Note 17)	**(2,707,169)**	(3,548,999)
Gain on sale of available-for-sale financial assets (Note 7)	**(19,098,869)**	(12,704,155)
Interest income (Note 17)	**(35,253,709)**	(17,008,116)
Operating income (loss) before changes in working capital	**92,463,174**	(203,286,483)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Insurance receivables	**112,886,480**	293,918,912
Loans and receivables	**(366,819)**	42,145,040
Reinsurance assets	**12,845,362**	219,885,437
Deferred acquisition costs	**(5,062,355)**	(4,681,477)
Other assets	**44,041,227**	(33,967,248)
Increase (decrease) in:		
Insurance contract liabilities	**(204,844,102)**	(461,913,076)
Insurance payables	**(8,050,267)**	(19,419,653)
Provisions	**–**	(4,838,055)
Accounts payable and accrued expenses	**(72,555,177)**	13,727,131
Deferred reinsurance commissions	**10,218,522**	(2,044,200)
Net pension liability	**1,768,555**	1,340,286
Net cash used in operations	**(16,655,400)**	(159,133,386)
Income tax paid	**(14,157,724)**	(906,294)
Net cash used in operating activities	**(30,813,124)**	(160,039,680)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**32,152,240**	15,928,866
Dividends received	**2,707,169**	3,548,999
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 7)	**1,075,241,301**	1,363,714,994
Property and equipment (Note 11)	**3,288,613**	2,882,413

(Forward)

	Years Ended December 31	
	2016	2015
Acquisitions of:		
Available-for-sale financial assets (Note 7)	**(₱1,044,236,228)**	(₱1,265,459,784)
Property and equipment (Note 11)	**(10,532,492)**	(5,590,382)
Net cash provided by investing activities	**58,620,604**	115,025,106
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**27,807,480**	(45,014,574)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**379,022,531**	424,037,105
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱406,830,011**	₱379,022,531

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

PNB General Insurers Co., Inc. (the Company) is a subsidiary of Philippine National Bank (PNB or ultimate parent company). The Company is engaged in fire, marine, motor car, fidelity and surety, and all other kinds of nonlife insurance business.

The Company was incorporated in the Philippines on December 29, 1965. On August 29, 2014, the Securities and Exchange Commission approved the Company's Amended Articles of Incorporation extending its corporate term for another fifty (50) years after December 29, 2015.

PNB has 66% direct ownership in the company. PNB Holdings Corporation, a wholly owned subsidiary of PNB owns the remaining 34%. Both PNB Holdings Corp. and PNB are incorporated in the Philippines. The Company's principal place of business is 2nd Floor, PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City.

The accompanying financial statements of the Company were authorized for issue by the Board of Directors (BOD) during its meeting held on February 21, 2017.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The accompanying financial statements have been prepared using the historical cost except for available-for-sale (AFS) financial assets which have been measured at fair value. The Company's presentation and functional currency is the Philippine Peso (₱). All amounts are rounded off to the nearest peso unit, unless otherwise indicated.

Statement of Compliance
The Company's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, *Investment Entities: Applying the Consolidation Exception*

  These amendments clarify that the exemption in PFRS 10 from presenting financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

- Amendments to PFRS 11, *Joint Arrangements*, *Accounting for Acquisitions of Interests in Joint Operations*

  The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

- PFRS 14, *Regulatory Deferral Accounts*

  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

  Since the Company is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements*, *Disclosure Initiative*

  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets*, *Clarification of Acceptable Methods of Depreciation and Amortization*

  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

  These amendments are applied prospectively.

- Amendments to PAS 16 and PAS 41, Agriculture*: Bearer Plants*

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

  The amendments are applied retrospectively.

- Amendments to PAS 27, *Separate Financial Statements*, *Equity Method in Separate Financial Statements*

  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

<u>Annual Improvements to PFRSs 2012 - 2014 Cycle</u>

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*

  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*

  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required.

The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*

  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- Amendment to PAS 34, *Interim Financial Reporting*, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

<u>Standards and Interpretation 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 consolidated 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, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2018

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

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

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

- 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.

- PFRS 15, *Revenue from Contracts with Customers*

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

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

- 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.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

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

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

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

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

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

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.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Summary of Significant Accounting Policies

Product Classification

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 22.

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.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level 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.

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

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

Insurance Receivables
Insurance receivables are recognized when due and measured on initial recognition at the fair value of the amount receivable for the period of coverage.

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

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

Financial Instruments

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

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, loans receivables and held-to-maturity investments (HTM). Financial liabilities are classified 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 end of the reporting date.

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' difference amount.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated as financial assets at FVPL, 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.

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 the statement of income. 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 the statement of income as dividend income when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Revaluation reserve on AFS financial assets" in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized as "Provision for impairment losses on AFS financial assets" 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 or loss on sale of AFS financial assets" in the statement of income.

Loans and receivables
Loans and receivables are 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, designated as AFS or FVPL. This accounting policy relates to the statement of financial position captions: (a) "Cash and cash equivalents", (b) "Insurance receivables", (c) "Loans and receivables", and (c) "Accrued interest.

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 in the interest income under "Investment and other income" in the statement of income. The losses arising from impairment of such loans and receivables are recognized in the "Provision for impairment on loans and receivables" in the statement of income.

Other financial liabilities
Other financial assets pertain to issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no or insignificant insurance risk.

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 applies primarily to the Company's 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 provisions, 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;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or

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.

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 a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the 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 based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income under "Investment income" account in the statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the company statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the date of reversal.

<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.

Where the Company has transferred its right to receive cash flows from an asset 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.

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

Reinsurance
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged against 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 for insurance contracts. 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 ceding 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.

When the Company enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Company initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as Insurance payables in the liabilities section of the statement of financial position will be withheld and recognized as Funds held for reinsurers and included as part of the Insurance payables in the liabilities section of the statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Costs

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

Subsequent to initial recognition, these costs are amortized using the 24th method except for marine cargo where the deferred acquisition cost pertains to the commissions for the last two months of the year. Amortization is charged to the statement of income. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the statement of financial position. Reinsurance commissions are deferred and shown in the liabilities section of the statement of financial position as "Deferred reinsurance commissions", subject to the same amortization method as the related acquisition costs.

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

Deferred acquisition costs are derecognized when the related contracts are either settled or disposed of.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, 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 to the statement of income during the financial period in which they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

	Years
Furniture, fixtures and equipment	5
Electronic data processing equipment	3
Transportation equipment	5

Leasehold improvements are amortized over the estimated useful life of the improvement or the term of the lease, whichever is shorter. The estimated useful life of the improvement is five years and the improvements are amortized over the term of the lease.

The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method 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.

Creditable Withholding Taxes (CWTs)

Creditable withholding pertains to the taxes paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under “Other assets” account.

At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company. If these CWTs are claimed as a refund, these will be recorded as a receivable under “Loans and receivables” account.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of these CWTs.

Intangible Asset

Intangible asset acquired separately is measured on initial recognition at cost. Following initial recognition, intangible asset is carried at cost less any accumulated amortization and any accumulated impairment loss. The estimated useful life of intangible asset with finite life is assessed at the individual asset level. Intangible asset with finite life is amortized over its estimated useful life of five years. Periods and method of amortization for intangible asset with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the statement of income when the asset is derecognized.

Impairment of Nonfinancial Assets

At each reporting date, the Company assesses whether there is any indication that its nonfinancial assets (property and equipment, intangible asset 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 group of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit).

An impairment loss is charged against the statement of income in the year in which it arises.

For nonfinancial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

<u>Insurance Contract Liabilities</u>
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Claims provisions and incurred but not reported (IBNR) losses
Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, 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 IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract, is discharged or cancelled and 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 the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the statement 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 reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition costs. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of 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 cost, past service cost 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.

Value-added Tax (VAT)
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 "Other Assets" or "Accounts Payable and Accrued Expenses" in the statement of financial position.

Equity

Capital stock

Capital stock represents the value of shares that have been issued at par. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of the transaction and are deducted first from additional paid-in capital and then from retained earnings, net of any related tax benefit.

Contributed surplus

This represents the original contribution of the stockholders of the Company as provided under the Insurance Code (the 'Code').

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 will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Premiums revenue

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums shown as part of "Reinsurance assets" in the statement of financial position. The net changes in these accounts between reporting dates are credited to or charged against the statement of income for the year.

Commission income

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums 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" in the liabilities section of the statement of financial position.

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets and loans and receivables, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate, but not future credit losses.

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

Other underwriting income
Other underwriting income pertains to income other than premiums but related to the issuance of policy. These are recognized as income when earned.

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

Benefits and claims
Benefits and claims consists of benefits and claims paid to policyholders, which includes changes in the valuation of insurance contract liabilities, except for changes in the provision for unearned premiums which are recorded in net earned premiums. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims. General insurance claims are recorded on the basis of notifications received.

Operating expenses
Operating expenses constitute costs of administering the business. These are recognized as expense when incurred.

Commission expense
Commissions are recognized as expense over the period of the contracts using the 24th method. 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 acquisition cost" in the assets section of the statement of financial position.

Other underwriting expenses
Other underwriting expenses are fees incurred by the Company in relation to the issuance of policy. These are recognized as expense when incurred.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment 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:

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

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

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

Company as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as an expense in the statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Income Tax
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 the amount are those that are enacted or substantially enacted at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (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 carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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

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

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

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 reporting date. 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. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. All foreign exchange differences are taken to the statement of income, except where it relates to equity securities where gains or losses are recognized directly 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, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain and the expense relating to any provision is presented in the statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 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 benefit is probable.

Events After the Reporting Date
Any post year-end event up to the date of approval of the BOD of the financial statements that provides additional information about the Company's position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements when material.

4. Significant Accounting Judgments and Estimates

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

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 reasonable under the circumstances.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations which have the most significant effect on the amounts recognized in the financial statements. The judgments are based upon management's evaluation of relevant facts and circumstances as of the reporting date.

Product classification

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

Functional currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine Peso. It is the currency of the primary economic environment which the Company operates and that mainly influences the Company's revenue, costs and expenses.

Operating leases - Company as a lessee

The Company has entered into property leases for its operations. The Company has determined, based on evaluation of the terms and conditions that the lessor retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases. The future minimum rentals payable under noncancellable operating leases amounted to ₱20,438,525 and ₱14,049,327 as of December 31, 2016 and 2015, respectively (see Note 26).

Estimates and Assumptions

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

Valuation of insurance contracts

Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

The carrying values of total provisions for claims reported and claims IBNR amounted to ₱3,876,598,172 and ₱3,945,649,552 as of December 31, 2016 and 2015, respectively (see Note 12).

Fair values of financial assets

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

The carrying values of AFS financial assets amounted to ₱928,027,621 and ₱974,698,569 as of December 31, 2016 and 2015, respectively (see Note 7).

The carrying value of the loans and receivables amounted to ₱13,843,365 and ₱13,476,546 as of December 31, 2016 and 2015, respectively (see Note 7).

Impairment of financial assets
The Company treats equity investments as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company considers decline in fair value of at least 20% as significant while a decline in fair value of at least six months as prolonged. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment also may be appropriate when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

The carrying values of AFS financial assets amounted ₱928,027,621 and ₱974,698,569 as of December 31, 2016 and 2015, respectively (see Note 7).

Impairment loss recognized in the Company's AFS financial assets amounted to nil and ₱5,978,697 in 2016 and 2015, respectively (see Note 7).

The carrying value of the loans and receivables amounted to ₱13,843,365 and ₱13,476,546 as of December 31, 2016 and 2015, respectively (see Note 7).The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on 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 age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

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 net income.

The carrying value of insurance receivables amounted to ₱1,253,610,994 and ₱1,366,498,905 as of December 31, 2016 and 2015, respectively (see Note 6). The allowance for impairment losses amounted to ₱241,476,237 and ₱241,474,805 as of December 31, 2016 and 2015, respectively (see Note 6).

Loans and receivables amounted to ₱13,843,365 and ₱13,476,546 as of December 31, 2016 and 2015, respectively (see Note 7). The allowance for impairment losses amounted to ₱2,942,060 as of December 31, 2016 and 2015 (see Note 7).

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

As of December 31, 2016 and 2015, property and equipment and intangible asset amounted to ₱14,496,573 and ₱12,275,060 respectively (see Note 11).

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

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

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. As of December 31, 2016 and 2015, property and equipment and intangible asset amounted to ₱14,496,573 and ₱12,275,060 respectively (see Note 11). The Company did not recognize impairment loss on its nonfinancial assets in 2016 and 2015.

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

As of December 31, 2016 and 2015, deferred tax assets amounted to ₱31,513,137 and ₱23,756,367 respectively (see Note 21).

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

In determining the appropriate discount rate, management considers the interest rate of government bonds. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of each end of the reporting period. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately in other comprehensive income in the period in which they arise. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

As of December 31, 2016 and 2015, the Company has net pension liability amounting to ₱27,445,600 and ₱33,023,227, respectively (see Note 20).

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

5. Cash and Cash equivalents

This account consists of:

	2016	2015
Cash on hand	**₱311,628**	₱257,212
Cash in banks (Note 23)	**105,516,049**	234,587,285
Cash equivalents (Note 23)	**301,002,334**	144,178,034
	₱406,830,011	₱379,022,531

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents consist of short-term Philippine Peso cash placements with PNB and other banks which earn at the rates ranging from 0.025% to 2.25% and 0.03% to 2.35% in 2016 and 2015, respectively.

Interest income from cash in banks and cash equivalents amounted to ₱2,031,580 and ₱475,880 respectively (see Note 17).

6. Insurance Receivables

This account consists of:

	2016	2015
Premiums receivable	**₱1,078,739,328**	₱1,131,901,366
Reinsurance recoverable on paid losses	**354,089,133**	422,125,251
Due from ceding companies	**62,258,770**	53,947,093
	1,495,087,231	1,607,973,710
Less allowance for impairment losses	**241,476,237**	241,474,805
	₱1,253,610,994	₱1,366,498,905

The aging analysis of insurance receivables follow:

	2016					
	> 30 Days	**30 > 60 Days**	**60 > 120 Days**	**120 > 180 Days**	**> 180 Days**	**Total**
Premiums receivable	**₱682,245,719**	**₱92,606,612**	**₱100,877,522**	**₱32,559,220**	**₱170,450,255**	**₱1,078,739,328**
Reinsurance recoverable on paid losses	**59,781,843**	**4,931,243**	**9,736,308**	**46,014,664**	**233,625,075**	**354,089,133**
Due from ceding companies	**20,007,782**	**1,727,249**	**11,529,675**	**6,922,514**	**22,071,550**	**62,258,770**
	₱762,035,344	**₱99,265,104**	**₱122,143,505**	**₱85,496,398**	**₱426,146,880**	**₱1,495,087,231**

	2015					
	> 30 Days	30 > 60 Days	60 > 120 Days	120 > 180 Days	> 180 Days	Total
Premiums receivable	₱793,308,621	₱49,962,881	₱76,571,974	₱29,138,284	₱182,919,606	₱1,131,901,366
Reinsurance recoverable on paid losses	44,404,857	42,481,621	30,512,977	6,384,413	298,341,383	422,125,251
Due from ceding companies	2,789,715	1,023,979	17,082,617	8,316,730	24,734,052	53,947,093
	₱840,503,193	₱93,468,481	₱124,167,568	₱43,839,427	₱505,995,041	₱1,607,973,710

The following is a reconciliation of the changes in allowance for impairment losses:

	2016			
	Premiums Receivable	**Due from Ceding Companies**	**Reinsurance Recoverable on Paid Losses**	**Total**
At January 1, 2016	**₱93,628,620**	**₱10,169,000**	**₱137,677,185**	**₱241,474,805**
Additions	**–**	**1,432**	**–**	**1,432**
At December 31, 2016	**₱93,628,620**	**₱10,170,432**	**₱137,677,185**	**₱241,476,237**
Individually impaired	**₱26,891,866**	**₱9,005,284**	**₱135,510,143**	**₱171,407,293**
Collectively impaired	**66,736,754**	**1,165,148**	**2,167,042**	**70,068,944**
	₱93,628,620	**₱10,170,432**	**₱137,677,185**	**₱241,476,237**

	2015			
	Premiums Receivable	Due from Ceding Companies	Reinsurance Recoverable on Paid Losses	Total
At January 1, 2015	₱36,427,390	₱28,220,610	₱48,550,293	₱113,198,293
Additions	57,201,230	3,027,389	89,126,892	149,355,511
Write-off	–	(21,078,999)	–	(21,078,999)
At December 31, 2015	₱93,628,620	₱10,169,000	₱137,677,185	₱241,474,805
Individually impaired	₱26,891,866	₱9,003,852	₱135,510,143	₱171,405,861
Collectively impaired	66,736,754	1,165,148	2,167,042	70,068,944
	₱93,628,620	₱10,169,000	₱137,677,185	₱241,474,805

7. Financial Assets

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

	2016	2015
AFS financial assets	**₱928,027,621**	₱974,698,569
Loans and receivables - net	**13,843,365**	13,476,546
	₱941,870,986	₱988,175,115

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

a) AFS financial assets

	2016	2015
Quoted securities - at fair value		
Government debt securities:		
Local currency	**₱654,382,706**	₱785,364,561
Private debt securities:		
Local currency	**272,090,099**	37,736,701
Quoted equity securities:		
Money market fund	**1,280,854**	–
Listed common shares	**18,962**	151,342,307
Club shares	**255,000**	255,000
	₱928,027,621	₱974,698,569

The amortized costs of AFS financial assets are as follows:

	2016	2015
Quoted securities - at cost or amortized cost		
Government debt securities:		
Local currency	**₱672,909,397**	₱796,638,320
Private debt securities:		
Local currency	**272,090,099**	36,750,000
Quoted equity securities:		
Money market fund	**1,276,844**	–
Listed common shares	**16,500**	153,148,060
Club shares	**255,000**	255,000
	₱946,547,840	₱986,791,380

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

	2016	2015
At January 1	**₱974,698,569**	₱1,106,710,409
Additions	**1,044,236,228**	1,265,459,784
Disposals	**(1,075,241,301)**	(1,363,714,994)
Amortization of premium	**(28,337,336)**	(14,923,888)
Unrealized fair value gains (losses)	**12,671,461**	(18,832,742)
At December 31	**₱928,027,621**	₱974,698,569

As of December 31, 2016 and 2015, government securities amounting to ₱65,000,000 are deposited with the Insurance Commission (IC) in accordance with the provision of the Insurance Code (the Code) as security for the benefit of policyholders and creditors of the Company.

The rollforward of revaluation reserve on AFS financial assets follows:

	2016	2015
At January 1	**(₱12,092,811)**	₱13,465,389
Unrealized fair value gains (losses)	**12,671,461**	(18,832,742)
Transferred to profit or loss:		
Gain on sale of AFS financial assets	**(19,098,869)**	(12,704,155)
Provision for impairment losses	–	5,978,697
At December 31	**(₱18,520,219)**	(₱12,092,811)

b) Loans and receivables

	2016	2015
General purpose loans	**₱4,877,271**	₱5,346,339
Accounts receivable	**4,593,006**	3,822,141
Mortgage loans	**4,375,291**	5,357,035
Short-term investments (Note 23)	**2,435,357**	1,393,091
Long-term investments (Note 23)	**504,500**	500,000
	16,785,425	16,418,606
Less: allowance for impairment losses	**2,942,060**	2,942,060
	₱13,843,365	₱13,476,546

Accounts receivable pertains to employee's cash advances, insurance premiums receivable from its employees and receivables which are endorsed to the legal department. Accounts receivable are all due within one year.

Short-term and long-term investments consist of risk-free high yielding financial instruments such as time deposits and special deposit accounts. Short-term investments have terms of more than 90 days but less than 360 days with interest rates of 0.09% to 2.30% in 2016 and 1.5% in 2015.

The following table shows aging information of accounts receivable:

	> 30 Days	**30 > 60 Days**	**60 > 120 Days**	**120 > 180 Days**	**> 180 Days**	**Total**
2016	**₱464,584**	**₱44,310**	**₱300,725**	**₱12,700**	**₱3,770,687**	**₱4,593,006**
2015	238,683	21,835	103,273	–	3,458,350	3,822,141

Allowance for impairment loss amounting to ₱2,942,060 as of December 31, 2016 and 2015, pertains to accounts receivable. No impairment loss was recognized for mortgage loans and general purpose loans.

Movements of allowance for impairment follow:

	2016	2015
At the beginning of the year	**₱2,942,060**	₱3,174,029
Write-off	–	(231,969)
At the end of the year	**₱2,942,060**	₱2,942,060

Mortgage and general purpose loans earn interest that ranged from 3.0% to 7.0% per annum in 2016 and 0.75% to 9.0% in 2015. Maturities of loans ranged from 1 to 25 years in 2016 and in 2015.

The following presents the breakdown of mortgage and general purpose loans by contractual maturity dates as of December 31, 2016 and 2015:

	2016	2015
Mortgage Loans		
Due within one year	**₱676,089**	₱24,329
Due over one year	**3,699,202**	5,332,706
	₱4,375,291	₱5,357,035
General Purpose Loans		
Due within one year	**₱3,106,176**	₱824,201
Due over one year	**1,771,095**	4,522,138
	₱4,877,271	₱5,346,339

8. Accrued Interest

This account consists of accrued interest income from:

	2016	2015
Cash and cash equivalents	**₱263,363**	₱329,582
AFS financial assets	**6,944,554**	3,776,867
	₱7,207,917	₱4,106,449

9. Reinsurance Assets

This account consists of:

	2016	2015
Reinsurance recoverable on unpaid losses (Note 12)	**₱3,368,217,654**	₱3,209,791,249
Deferred reinsurance premiums (Note 12)	**627,860,985**	799,132,754
	₱3,996,078,639	₱4,008,924,003

10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The rollforward analysis of deferred acquisition costs follows:

	2016	2015
At January 1	**₱59,449,901**	₱54,768,424
Cost deferred during the year	**134,542,755**	157,682,567
Cost incurred during the year	**(129,480,400)**	(153,001,090)
At December 31	**₱64,512,256**	₱59,449,901

The rollforward analysis of deferred reinsurance commissions follows:

	2016	2015
At January 1	**₱9,393,247**	₱11,437,447
Income deferred during the year	**152,734,110**	113,662,354
Income earned during the year	**(142,515,588)**	(115,706,554)
At December 31	**₱19,611,769**	₱9,393,247

11. **Nonfinancial Assets**

a) Property and equipment

The rollforward analysis of property and equipment follows:

	2016				
	Furniture, Fixtures and Equipment	**Electronic Data Processing Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Cost					
As of January 1	**₱6,260,635**	**₱14,612,461**	**₱13,624,784**	**₱5,432,740**	**₱39,930,620**
Additions	**1,175,826**	**1,175,086**	**8,122,006**	**59,574**	**10,532,492**
Disposals	**–**	**–**	**(3,462,941)**	**–**	**(3,462,941)**
As of December 31	**₱7,436,461**	**₱15,787,547**	**₱18,283,849**	**₱5,492,314**	**₱ 47,000,171**
Accumulated Depreciation and Amortization					
As of January 1	**₱3,999,591**	**₱12,133,583**	**₱7,595,716**	**₱3,926,671**	**₱27,655,561**
Depreciation and amortization (Note 19)	**753,629**	**1,315,334**	**1,944,201**	**1,009,201**	**5,022,365**
Disposals	**–**	**–**	**(174,328)**	**–**	**(174,328)**
As of December 31	**4,753,220**	**13,448,917**	**9,365,589**	**4,935,872**	**32,503,598**
Net Book Value	**₱2,683,241**	**₱ 2,338,630**	**₱ 8,918,260**	**₱ 556,442**	**₱14,496,573**

	2015				
	Furniture, Fixtures and Equipment	Electronic Data Processing Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
As of January 1	₱11,199,697	₱26,396,574	₱17,384,668	₱5,693,859	₱60,674,798
Additions	1,164,786	2,259,931	2,007,458	158,207	5,590,382
Disposals	(6,103,848)	(14,044,044)	(5,767,342)	(419,326)	(26,334,560)
As of December 31	₱6,260,635	₱14,612,461	₱13,624,784	₱5,432,740	₱39,930,620
Accumulated Depreciation and Amortization					
As of January 1	₱9,389,109	₱24,791,315	₱9,172,704	₱3,300,101	₱46,653,229
Depreciation and amortization (Note 19)	714,330	1,007,045	1,687,208	1,045,895	4,454,478
Disposals	(6,103,848)	(13,664,777)	(3,264,196)	(419,326)	(23,452,147)
As of December 31	3,999,591	12,133,583	7,595,716	3,926,670	27,655,560
Net Book Value	₱2,261,044	₱2,478,878	₱6,029,068	₱1,506,070	₱12,275,060

In 2016 and 2015, the Company disposed property and equipment at selling prices equal to their book values amounting to ₱3,288,613 and ₱2,882,413. Cost of fully depreciated property and equipment still being used amounted to ₱3,500,068 and ₱103,337 as of December 31, 2016 and 2015, respectively.

b) Intangible asset

The rollforward analysis of intangible asset follows:

	2016	2015
Cost		
At January 1 and December 31	**₱10,257,600**	₱10,257,600
Accumulated Amortization		
At January 1	**10,139,823**	9,852,807
Amortization (Note 19)	**53,200**	287,016
At December 31	**10,193,023**	10,139,823
Net Book Value	**₱64,577**	₱117,777

The intangible asset pertains to the Company's system development cost which was acquired in 2010.

c. *Other Assets*

This account consists of:

	2016	2015
Creditable withholding tax	**₱134,764,957**	₱104,383,248
Deferred input VAT	**5,821,659**	5,148,114
Input VAT	**4,090,128**	4,140,202
Documentary stamps fund	**3,693,950**	82,466,350
Prepayments and others	**13,471,955**	10,754,742
	₱161,842,649	₱206,892,656

12. **Insurance Contract Liabilities**

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 9)	**Net 2016**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net 2015
Provision for claims reported	**₱3,811,598,172**	**₱3,368,217,654**	**₱443,380,518**	₱3,880,649,552	₱3,209,791,249	₱670,858,303
Provision for claims IBNR	**65,000,000**	**–**	**65,000,000**	65,000,000	–	65,000,000
Total provision for claims reported and claims IBNR(Note 22)	**3,876,598,172**	**3,368,217,654**	**508,380,518**	3,945,649,552	3,209,791,249	735,858,303
Provision for unearned premiums	**1,075,732,035**	**627,860,985**	**447,871,050**	1,211,524,758	799,132,754	412,392,004
	₱4,952,330,207	**₱3,996,078,639**	**₱956,251,568**	₱5,157,174,310	₱4,008,924,003	₱1,148,250,307

The movements of total provision for claims reported and claims IBNR follow:

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 9)	**Net 2016**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net 2015
At January 1	**₱3,945,649,552**	**₱3,209,791,249**	**₱735,858,303**	₱4,577,593,594	₱3,559,592,494	₱1,018,001,100
Claims incurred during the year	**718,506,169**	**462,808,033**	**255,698,136**	1,082,235,899	695,348,628	386,887,271
Claims paid during the year (Note 18)	**(787,557,549)**	**(304,381,628)**	**(483,175,921)**	(1,729,179,941)	(1,045,149,873)	(684,030,068)
Increase in IBNR	**–**	**–**	**–**	15,000,000	–	15,000,000
At December 31	**₱3,876,598,172**	**₱3,368,217,654**	**₱508,880,518**	₱3,945,649,552	₱3,209,791,249	₱735,858,303

The movements of provision for unearned premiums follow:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net 2016	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net 2015
At January 1	**₱1,211,524,758**	**₱799,132,754**	**₱412,392,004**	₱1,041,493,792	₱669,216,946	₱372,276,846
Premiums written during the year (Note 16)	**2,220,386,461**	**1,555,081,873**	**665,304,588**	2,580,943,961	2,054,654,903	526,289,058
Premiums earned during the year (Note 16)	**(2,356,179,184)**	**(1,726,353,642)**	**(629,825,542)**	(2,410,912,995)	(1,924,739,095)	(486,173,900)
At December 31	**₱1,075,732,035**	**₱627,860,985**	**₱447,871,050**	₱1,211,524,758	₱799,132,754	₱412,392,004

13. **Insurance Payables**

This account consists of:

	2016	2015
Premiums due to reinsurers	**₱729,524,456**	₱736,960,880
Funds held for reinsurers	**35,951**	649,795
	₱729,560,407	₱737,610,675

The rollforward analysis of insurance balances payable follows:

	Premiums Due to Reinsurers	**Funds Held for Reinsurers**	**Total**
At January 1,2015	₱729,357,024	₱27,673,304	₱757,030,328
Arising during the year	1,513,645,407	920,703	1,514,566,110
Paid/utilized	(1,506,041,551)	(27,944,212)	(1,533,985,763)
At December 31, 2015	**736,960,880**	**649,795**	**737,610,675**
Arising during the year	**919,258,173**	**(731,405)**	**918,526,767**
Paid/utilized	**(926,694,597)**	**117,561**	**(926,577,035)**
At December 31, 2016	**₱729,524,456**	**₱35,951**	**₱729,560,407**

Interest expense on fund held for reinsurers amounted to ₱11,881 and ₱1,117,759 in 2016 and 2015, respectively.

14. **Accounts Payable and Accrued Expenses**

This account consists of:

	2016	2015
Accounts payable	**₱123,948,903**	₱120,572,336
Deferred output VAT	**111,670,441**	115,974,881
Commissions payable	**94,617,562**	129,757,635
Premium deposits	**73,903,831**	44,366,947
Taxes payable	**43,931,318**	115,261,941
Accrued expenses	**34,891,020**	29,584,510
	₱482,963,075	₱555,518,250

Accounts payable pertain to unpaid invoices from various suppliers.

Commissions payable are unpaid commissions on the Company’s direct business, payable to agents and brokers which are due upon the collection of the related premiums receivable.

Premium deposits pertain to advance premium collection from policyholders which will be recognized as premium income upon the inception of the policies.

Taxes payable consist of output VAT, documentary stamps, withholding taxes and other taxes.

Accrued expenses comprise of employee benefits, utilities and other expenses accrued as of the reporting date which are due within one year.

All accounts payable, accrued expenses and taxes payable are due within one year.

15. Equity

Capital stock
The details of capital stock follow:

	2016	2015
Capital stock - 100 par value per share		
Authorized - 10,000,000 common shares	**₱1,000,000,000**	₱1,000,000,000
Issued and outstanding - 9,126,000 common shares	**912,600,000**	912,600,000

On November 25, 2016, the BOD of the Parent Company approved the infusion of additional cash amounting to ₱200,000,000 (see Note 27).

On December 28, 2016, the Bangko Sentral ng Pilipinas approved the Parent Company's request to infuse additional capital to the Company.

16. Net Earned Premiums

Net earned premiums on insurance contracts consist of:

	2016	2015
Gross premiums written		
Direct	**₱2,068,948,858**	₱2,461,231,405
Assumed	**151,437,603**	119,712,556
Total gross premiums written (Note 12)	**2,220,386,461**	2,580,943,961
Gross change in provision for unearned premiums	**135,792,723**	(170,030,966)
Total gross earned premiums (Note 12)	**2,356,179,184**	2,410,912,995
Reinsurers' share of gross premiums written:		
Direct	**1,142,778,662**	1,580,923,868
Assumed	**412,303,211**	473,731,035
Total reinsurers' share of gross premiums written (Note 12)	**1,555,081,873**	2,054,654,903
Reinsurers' share of gross change in provision for unearned premiums	**171,271,769**	(129,915,808)
Total reinsurers' share of gross earned premiums (Note 12)	**1,726,353,642**	1,924,739,095
	₱629,825,542	₱486,173,900

17. **Investment and Other Income**

This account consists of:

	2016	2015
Interest income:		
AFS financial assets	**₱29,391,199**	₱15,211,388
Short-term investments	**3,380,399**	808,409
Mortgage loans and general purpose loans	**450,531**	512,439
Cash and cash equivalents	**2,031,580**	475,880
Dividend income	**2,707,169**	3,548,999
Other income	**208,850**	24,018
	₱38,169,728	₱20,581,133

18. **Net Insurance Benefits and Claims**

Gross insurance contract benefits and claims paid follow:

	2016	2015
Direct	**₱656,135,059**	₱1,632,423,542
Assumed	**131,422,490**	96,756,399
	₱787,557,549	₱1,729,179,941

Reinsurers' share of gross insurance contract benefits and claims paid follow:

	2016	2015
Direct	**₱117,013,346**	₱429,241,659
Assumed	**187,368,282**	615,908,214
	₱304,381,628	₱1,045,149,873

Gross change in insurance contract liabilities follow:

	2016	2015
Direct	**₱282,568,208**	₱564,352,622
Assumed	**(213,516,828)**	67,591,420
	₱69,051,380	₱631,944,042

Reinsurers' share of gross change in insurance contract liabilities follow:

	2016	2015
Direct	**(₱186,527,168)**	₱193,590,128
Assumed	**28,100,763**	156,211,117
	(₱158,426,405)	₱349,801,245

19. **Operating Expenses**

This account consists of:

	2016	2015
Salaries, wages and allowances (Note 23)	**₱135,597,468**	₱128,072,275
Employee benefits	**23,746,225**	12,217,235
Rent, light and water (Notes 23 and 26)	**15,804,978**	16,836,627
Office supplies	**14,456,790**	12,696,889
Pension expense (Notes 20 and 23)	**7,685,724**	6,993,867
Marketing and promotions	**6,889,103**	8,770,205
Depreciation and amortization (Note 11)	**5,075,565**	4,741,494
Communication	**3,632,427**	2,760,862
Professional fees	**3,338,303**	8,339,947
Transportation and travel	**2,266,150**	2,226,627
Taxes, licenses and fees	**1,616,424**	11,909,550
Entertainment, amusement and recreation	**976,078**	709,939
Repairs and maintenance	**379,885**	176,802
Miscellaneous	**9,963,180**	9,562,736
	₱231,428,300	₱226,015,055

20. **Pension Cost**

The Company has a funded defined benefit plan, covering substantially all of its employees, which requires contribution to be made to administered funds. The plan is administered by a local bank as trustee.

The following tables summarize the components of net pension expense recognized in the statements of income under “Operating expenses”, “Remeasurement loss on defined benefit obligation” recognized in the statements of comprehensive income and the unfunded status and amounts recognized in the statements of financial position for the plan:

Changes in net pension liability in 2016 are as follows:

	Net benefit cost in consolidated statement of income					**Remeasurements in other comprehensive income**						
	At January 1	**Current service cost**	**Net interest**	**Subtotal**	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Actuarial changes arising from changes in experience adjustments**	**Subtotal**	**Contribution by employer**	**At December 31**
Present value of defined benefit obligation	**₱57,704,920**	**₱7,685,724**	**₱2,787,148**	**₱10,472,872**	**(₱797,745)**	**₱–**	**₱–**	**(₱2,188,667)**	**(₱5,832,793)**	**(₱8,021,460)**	**₱–**	**₱59,358,587**
Fair value of plan assets	**(24,681,693)**	**–**	**(1,192,126)**	**(1,192,126)**	**797,745**	**675,278**	**–**	**–**	**–**	**675,278**	**(7,512,191)**	**(31,912,987)**
	₱33,023,227	**₱7,685,724**	**₱1,595,022**	**₱9,280,746**	**₱–**	**₱675,278**	**₱–**	**(₱2,188,667)**	**(₱5,832,793)**	**(₱7,346,182)**	**(₱7,512,191)**	**₱27,445,600**

Changes in net pension liability in 2015 are as follows:

	Net benefit cost in consolidated statement of income					Remeasurements in other comprehensive income						
	At January 1	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in experience adjustments	Subtotal	Contribution by employer	At December 31
Present value of defined benefit obligation	₱46,936,930	₱6,993,867	₱2,088,693	₱9,082,560	(₱2,128,714)	₱–	₱–	(₱9,214,215)	₱13,028,359	₱3,814,144	₱–	₱57,704,920
Fair value of plan assets	(19,396,439)	–	(863,142)	(863,142)	2,128,714	328,306	–	–	–	328,306	(6,879,132)	(24,681,693)
	₱27,540,491	₱6,993,867	₱1,225,551	₱8,219,418	₱–	₱328,306	₱–	(₱9,214,215)	₱13,028,359	₱4,142,450	(₱6,879,132)	₱33,023,227

The amount recognized in pension expense (Note 20) consists of the current service cost.

The distribution of the plan assets is as follows:

	2016	2015
Cash	**₱19,568,462**	₱10,042,089
Investments in debt securities	**12,364,941**	14,664,258
Liabilities	**(20,416)**	(24,654)
	₱31,912,987	₱24,681,693

The principal assumptions used in determining pension obligation for the Company's plan are shown below:

	2016	2015
Discount rate	**5.20%**	4.83%
Salary increase rate	**7.00%**	7.00%
Mortality rate	**1994 GAMT**	1994 GAMT
Average years of service	**6.38**	6.03

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

	Change in variables	**Impact on present value of defined benefit obligation Increase (Decrease)**
Discount rate	**+1.00%**	**(₱5,341,159)**
	–1.00%	**6,374,891**
Salary increase rate	**+1.00%**	**6,081,194**
	–1.00%	**(55,272,015)**

2015

	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
Discount rate	+1.00%	(₱5,643,129)
	–1.00%	6,713,294
Salary increase rate	+1.00%	6,440,753
	–1.00%	(5,561,613)

Below is the maturity profile of the undiscounted benefit payments:

	Expected Benefit
Less than one year	₱2,679,959
More than one year to five years	11,006,839
More than five years to ten years	25,127,265
More than ten years to fifteen years	30,845,865
More than fifteen to twenty years	152,207,911

The average duration of the defined benefit obligation at the end of the reporting period is 20 years.

21. **Income Tax**

Provision for (benefit from) income tax consists of:

	2016	2015
Final	**₱9,965,014**	₱906,294
Current	**5,201,492**	–
Deferred	**(9,960,625)**	144,567,316
	₱5,205,881	₱145,473,610

The components of the Company's net deferred tax assets are as follows:

	2016	2015
Deferred tax assets through profit or loss:		
Allowance for impairment losses	**₱21,763,905**	₱21,763,905
Excess of net provision for unearned premiums per books over tax basis	**7,498,151**	6,338,992
Deferred reinsurance commissions	**5,883,531**	2,817,974
Unamortized pension cost	**1,522,352**	1,874,128
MCIT	**5,201,492**	–
Unrealized foreign exchange loss	**869,269**	–
	42,738,700	32,794,999
Deferred tax assets through OCI:		
Remeasurements on pension	**11,438,984**	13,642,839
Total deferred tax assets	**54,177,684**	46,437,838
Deferred tax liabilities:		
Deferred acquisition costs	**19,353,677**	17,834,970
Pension liability	**3,310,870**	3,841,436
Unrealized foreign exchange gain	–	1,005,065
	22,664,547	22,681,471
	₱31,513,137	₱23,756,367

As of December 31, 2016, details of NOLCO which can be claimed as deduction from future taxable income follow:

Year incurred	Amount	Applications	Expirations	Balance	Year of Expiry
2015	₱260,537,398	₱–	₱–	₱260,537,398	2018
2014	170,349,416	–	–	170,349,416	2017
2013	937,386,035	157,950,712	779,435,323	–	2016
	₱1,368,272,849	₱157,950,712	₱779,435,323	₱430,886,814	

The Company has MCIT amounting to ₱5.20 million that will expire in 2019 which can be claimed as deduction from future taxable income.

The table below shows the temporary differences for which no deferred income tax assets have been set up because the Company believes that there will be no future taxable profit against which the benefit from these can be utilized.

	2016	2015
NOLCO	**₱430,886,814**	₱1,368,272,849
Provision for IBNR	**65,000,000**	65,000,000
Allowance for doubtful accounts:		
Premiums receivable	**168,928,455**	168,928,455
Loans and receivables	**2,942,060**	2,942,060
Prepayments	**1,800,000**	1,800,000
Accruals	**24,391,162**	–

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

	2016	2015
Statutory income tax rate	**30.00%**	(30.00%)
Add (deduct) tax effects of:		
Change in unrecognized deferred tax assets	**(19.80)**	73.80
Interest income already subjected to final tax	**(0.41)**	(1.17)
Nontaxable income	**(4.94)**	(1.11)
MCIT	**–**	0.37
Income exempt from tax	**(0.70)**	(0.31)
Nondeductible expense	**0.33**	0.58
Effective income tax rate	**4.48%**	42.16%

22. Management of Capital, Insurance and Financial Risks

Regulatory Framework

Regulators are interested in protecting the rights of the policy holders and maintain close right to ensure that the Company is satisfactorily managing the affairs for their benefit. At the same time, the regulators are also ensuring that the Company maintains appropriate solvency position to meet liabilities arising from claims and that the risks 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).

<u>Capital Management Framework</u>
The primary objective of the Company's capital management is aligned with the statutory requirements imposed by the IC for nonlife insurance companies.

The Company's Compliance Unit is tasked with the responsibility of ensuring compliance with externally imposed capital requirements.

Minimum Statutory Networth
On August 5, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required networth 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 New Insurance Code. Under the said circular, all domestic life and non-life insurance companies duly licensed by the IC must have a networth of at least Two hundred and fifty million pesos (₱250,000,000) by December 31, 2013. The minimum networth of the said companies shall increase to the amounts as follows:

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

The said circular supersedes the Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008.

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

As of December 31, 2016 and 2015, the Company's estimated statutory net worth amounted to ₱484,305,286 and ₱374,054,957 respectively. In compliance with the minimum net worth requirement, the BOD of PNB approved the infusion of additional cash amounting to ₱200,000,000 on November 25, 2016 (see Note 15).

On December 28, 2016, the Bangko Sentral ng Pilipinas approved the Parent Company's request to infuse additional capital to the Company.

On January 12, 2017, the Company received the additional capital infusion from PNB amounting to ₱200,000,000.

RBC
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.

As of December 31, 2016 and 2015, the Company's estimated RBC ratio is 72.00% and 21.55%, respectively, based on RBC requirements of ₱855,324,930 and ₱1,706,816,198, respectively.

Under Section D of IMC No. 7-2006, Mandatory Control Event shall occur if the RBC ratio of the company is less than 35%. Should this event occur, the Commissioner is required to place the company under regulatory control under Sec.247 (Title 13, Suspension or Revocation of Authority) of the Code. The Mandatory Control Event shall be deemed sufficient grounds for the Commissioner to take action under Sec. 247 of the Insurance Code.

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

Pursuant to Section 194 of the Amended Insurance Code (R.A. 10607), the Insurance Commission conducted a review of the current Risk-based Capital (RBC) Framework contained in Insurance Memorandum Circulars Numbered 6-2006 and 7-2006 both dated October 5, 2006. On June 10, 2015, the Insurance Commission issued Circular Letter No. 2015-30 requiring all non-life insurance to participate in parallel runs for the RBC 2-QIS (Quantitative Impact Study).

Circular Letter No. 2015-29 prescribes the new financial reporting framework (FRF) that will be used for the statutory quarterly and annual reporting. This also includes rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies.

Circular Letter 2015-32, *Valuation Standards for Non-life Insurance Policy Reserves*, prescribes the new valuation methodology for the nonlife insurance companies. Non-life insurance companies will be changing the basis of valuation of their non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The incurred but not reported (IBNR) reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. A margin for adverse deviation is provisionally set at 10% during the parallel runs and shall be incorporated on both premiums and claims liability valuation. Discount rates to be used shall be based on the latest PDST-R2 rates and the Bloomberg IYC Curve for PhP and USD-denominated policies, respectively.

Circular Letter No. 2015-31 discussed the transition period and full implementation requirements for FRF, valuation standards for insurance policy reserves and new risk-based capital framework. The new regulatory requirements in the Circulars shall take effect after a transition period, the purpose of which is to allow the insurance industry to assess the collective impact of implementing FRF, Reserving and RBC2-QIS simultaneously. Full implementation will be June 30, 2016 with transition cut-off date as at January 1, 2016.

On December 28, 2016, the IC issued Circular Letter No. 2016-69 which provides that the following new regulatory requirements under their respective Circular Letters (CL) shall take effect beginning January 1, 2017:

1. Financial Reporting Framework (FRF): CL No. 2016-65
2. Valuation Standards for Life Insurance Policy Reserves: CL No. 2016-66
3. Valuation Standards for Non-Life Insurance Policy Reserves: CL No. 2016-67
4. Amended Risk-Based Capital (RBC2) Framework: CL No. 2016-68

Insurance Risk

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

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

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

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

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

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

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

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

	2016		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net**
Fire	**₱3,703,366,240**	**₱3,305,741,119**	**₱397,625,121**
Engineering	**41,768,669**	**5,090,768**	**36,677,901**
Surety	**38,846,313**	**38,222,166**	**624,147**
Motorcar	**35,955,583**	**–**	**35,955,583**
Casualty	**34,058,997**	**12,641,855**	**21,417,142**
Accident	**19,783,558**	**4,983,233**	**14,800,325**
Marine	**2,803,812**	**1,523,663**	**1,280,149**
Aviation	**15,000**	**14,850**	**150**
	₱3,876,598,172	**₱3,368,217,654**	**₱508,380,518**

	2015		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Fire	₱3,669,712,104	₱3,039,787,625	₱629,924,479
Casualty	101,093,442	94,517,957	6,575,485
Surety	56,124,659	38,237,017	17,887,642
Motorcar	49,354,752	118,316	49,236,436
Engineering	41,853,965	31,777,295	10,076,670
Accident	18,703,271	50,892	18,652,379
Marine	8,807,359	5,302,147	3,505,212
	₱3,945,649,552	₱3,209,791,249	₱735,858,303

Assumptions
The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, and number of claims for each accident year. Judgment is further 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 assumptions such as legislative change, uncertainty in the estimation process, etc., is not possible to quantify.

The analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant, on the statements of income and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

	2016		
	Change in Assumptions	**Increase on Net Liabilities**	**Decrease on Profit Before Tax**
Average claim cost	**+12%**	**₱40,359,094**	**(₱40,359,094)**
Average number of claims	**+11%**	**25,560,874**	**(25,560,874)**

	2015		
	Change in Assumptions	Increase on Net Liabilities	Decrease on Profit Before Tax
Average claim cost	+12%	₱41,568,509	(₱41,568,509)
Average number of claims	+11%	24,035,873	(24,035,873)

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

Claims Development Table
The following tables show the development of claims over a period of time.

The tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

The Company aims to maintain strong reserves in respect of its general insurance in order to protect against adverse future claims experience and development. As claims develop and ultimate costs of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years.

Gross General Insurance Contract Liabilities for 2016

Accident year	2002 & prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TOTAL
Estimate of ultimate claim costs:																
At the end of accident year	₱471,090,416	₱163,905,125	₱239,960,909	₱148,226,674	₱307,820,039	₱238,418,120	₱722,977,046	₱811,636,125	₱873,923,571	₱454,294,772	₱1,363,273,907	₱3,660,246,921	₱1,074,622,951	₱1,664,150,652	₱419,319,182	₱419,319,182
One year later	439,246,448	147,022,567	160,365,054	70,852,185	290,840,125	197,427,892	845,048,043	886,486,563	870,997,346	672,113,735	1,723,429,213	3,733,775,304	628,849,101	981,843,087		981,843,087
Two years later	411,203,334	129,653,880	92,961,118	55,621,021	256,638,835	182,529,123	788,044,754	1,014,812,195	512,510,170	566,480,846	1,361,698,515	3,560,004,485	1,291,881,865			1,291,881,865
Three years later	394,368,208	106,383,065	90,121,548	52,121,945	202,096,369	185,257,149	647,738,725	1,156,509,641	820,324,052	541,274,143	1,346,970,740	3,581,744,012				3,581,744,012
Four years later	389,739,246	97,210,321	92,602,457	52,401,602	186,197,402	177,135,828	642,501,454	1,366,817,198	473,071,350	508,127,764	1,341,974,845					1,341,974,845
Five years later	385,231,254	92,696,250	92,764,643	52,305,025	176,109,832	173,709,722	406,189,753	1,121,470,366	469,597,330	504,132,604						504,132,604
Six years later	382,823,423	89,861,112	92,818,614	78,699,356	171,616,794	166,506,292	630,384,988	1,353,809,125	458,437,914							458,437,914
Seven years later	377,819,486	89,929,778	90,136,146	79,795,930	155,713,958	167,375,934	405,148,448	1,463,906,714								1,463,906,714
Eight years later	378,424,303	89,853,779	92,395,849	78,981,973	164,864,959	164,856,817	624,999,620									624,999,620
Nine years later	401,680,143	89,853,779	90,749,797	78,702,178	154,892,069	166,024,240										166,024,240
Ten years later	383,833,535	89,684,689	90,136,146	78,702,178	162,243,641											162,243,641
Eleven Years later	381,334,676	89,853,779	90,136,146	78,702,665												78,702,665
Twelve years later	399,915,876	89,853,779	90,136,146													90,136,146
Thirteen years later	399,915,876	89,853,779														89,853,779
Fourteen years later	401,680,143															401,680,143
Current estimate of cumulative claims	401,680,143	89,853,779	90,136,146	78,702,665	162,243,641	166,024,240	624,999,620	1,463,906,714	458,437,914	504,132,604	1,341,974,845	3,581,744,012	1,291,881,865	981,843,087	419,319,182	11,656,880,456
Cumulative payments to date	400,216,471	89,853,779	90,136,146	78,702,178	154,901,755	165,633,321	398,440,084	1,103,954,417	454,957,847	500,056,264	1,332,432,650	1,908,779,294	489,214,173	535,393,741	142,610,165	7,845,282,285
Total gross insurance contract liabilities in the statement of financial position	₱1,463,672	₱-	₱-	₱487	₱7,341,886	₱390,919	₱226,559,536	₱359,952,296	₱3,480,067	₱4,076,340	₱9,542,195	₱1,672,964,718	₱802,667,692	₱446,449,346	₱276,709,017	₱3,811,598,172

Net General Insurance Contract Liabilities for 2016

Accident year	2002 & prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TOTAL
Estimate of ultimate claim costs:																
At the end of accident year	₱121,942,294	₱48,534,862	₱41,025,196	₱63,030,420	₱79,735,159	₱32,908,942	₱129,337,169	₱118,272,405	₱111,401,019	₱157,861,808	₱250,346,302	₱1,112,156,257	₱430,002,973	₱396,856,017	₱336,232,068	₱336,232,068
One year later	99,481,758	45,688,243	34,830,443	29,268,837	65,532,145	52,984,600	129,637,987	181,688,345	95,405,357	157,513,241	262,668,672	1,014,808,445	402,437,367	394,654,795		394,654,795
Two years later	77,021,223	42,841,624	28,635,689	18,241,587	49,840,449	48,003,672	101,735,189	96,650,858	84,185,614	179,799,648	223,824,365	858,590,020	369,366,378			369,366,378
Three years later	70,479,189	19,905,350	21,314,512	17,198,850	44,646,028	49,664,817	80,583,466	101,754,575	87,411,914	142,158,712	217,406,739	862,543,017				862,543,017
Four years later	39,532,404	10,925,063	20,368,454	17,291,607	47,292,417	43,897,011	89,310,913	118,533,956	75,811,124	138,176,180	215,838,686					215,838,686
Five years later	29,345,275	11,511,358	20,279,886	17,214,368	44,888,454	42,702,530	78,286,273	104,807,539	79,182,712	130,757,195						130,757,195
Six years later	50,268,434	8,910,825	20,273,786	16,574,501	44,184,273	42,601,714	87,618,663	122,513,159	74,981,887							74,981,887
Seven years later	47,585,687	8,914,500	20,180,390	15,761,843	44,505,638	43,695,143	77,894,326	127,224,841								127,224,841
Eight years later	48,653,058	8,839,647	20,180,390	15,800,598	46,042,702	41,731,056	85,016,053									85,016,053
Nine years later	52,161,328	8,828,368	20,648,988	15,575,280	43,971,205	42,045,390										42,045,390
Ten years later	52,206,115	8,828,368	20,035,336	15,574,100	45,903,742											45,903,742
Eleven Years later	49,707,319	8,842,647	20,035,336	15,574,587												15,574,587
Twelve years later	68,288,519	8,828,368	20,035,336													20,035,336
Thirteen years later	49,553,252	8,828,368														8,828,368
Fourteen years later	51,317,519															51,317,519
Current estimate of cumulative claims	51,317,519	8,828,368	20,035,336	15,574,587	45,903,742	42,045,390	85,016,053	127,224,841	74,981,887	130,757,195	215,838,686	862,543,017	369,366,378	394,654,795	336,232,068	2,780,319,862
Cumulative payments to date	49,853,847	8,828,368	20,035,336	15,574,100	43,507,444	41,960,636	76,736,820	98,881,595	74,239,148	129,650,664	213,842,267	774,009,344	339,824,272	310,907,088	139,088,415	2,336,939,344
Total net insurance contract liabilities in the statement of financial position	₱1,463,672	₱-	₱-	₱487	₱2,396,298	₱84,754	₱8,279,233	₱28,343,246	₱742,739	₱1,106,531	₱1,996,419	₱88,533,673	₱29,542,106	₱83,747,707	₱197,143,653	₱443,380,518

Fair Value of Financial Instruments

Due to the short-term nature of cash and cash equivalents, insurance receivables, short-term loans and other receivables, accrued interest, insurance payables, and accounts payable and accrued expenses, the fair values approximates the carrying values as of reporting date.

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

The fair value of AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business at the reporting date.

The fair values of the mortgage loans are estimated using the discounted cash flow technique that makes use of risk-free interest rates of 10-year government bonds. Discount rates used as of December 31, 2016 and 2015 ranges from 0.75% to 9.0%. The fair value and carrying value of the mortgage loans amounted to ₱3,330,487 and ₱4,375,291 respectively, as of December 31, 2016 and ₱5,842,711 and ₱5,537,035, respectively, as of December 31, 2015.

Fair Value Hierarchy

The Company classifies its financial assets at fair value as follows:

December 31, 2016

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:				
AFS financial assets				
Government debt securities				
Local currency	**₱654,382,706**	**₱–**	**₱–**	**₱654,382,706**
Private Securities				
Local currency	**272,090,099**	**–**	**–**	**272,090,099**
Unit investment trust fund	**1,280,854**	**–**	**–**	**1,280,854**
Listed equity securities	**18,962**	**–**	**–**	**18,962**
Club shares	**255,000**	**–**	**–**	**255,000**
	928,027,621	**–**	**–**	**928,027,621**
Assets for which fair values are disclosed				
Loans and receivables - net				
Mortgage loans	**–**	**3,330,487**	**–**	**3,330,487**
	–	**3,330,487**	**–**	**3,330,487**
	₱928,027,621	**₱3,330,487**	**₱–**	**₱931,358,108**

December 31, 2015

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:				
AFS financial assets				
Government debt securities				
Local currency	₱785,364,561	₱–	₱–	₱785,364,561
Private Securities				
Local currency	37,736,701	–	–	37,736,701
Listed equity securities	151,342,307	–	–	151,342,307
Golf club shares	255,000	–	–	255,000
	974,698,569	–	–	974,698,569
Assets for which fair values are disclosed				
Loans and receivables - net				
Mortgage loans	–	5,842,711	–	5,842,711
	–	5,842,711	–	5,842,711
	₱974,698,569	₱5,842,711	₱–	₱980,541,280

The Company uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Level 1: quoted (unadjusted prices) in active markets for identical assets and liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Fair values of equity and debt instruments classified as AFS financial assets were determined using Level 1.

There have been no reclassifications from Level 1 to Level 2 category.

Financial Risk
The Company is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk that the Company is exposed to 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 it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

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 reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs.

In respect of investment securities, the Company limits its exposure by setting maximum limits of portfolio securities with a single issuer or group of issuers. The Company also makes use of institutions with high credit worthiness.

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.

The Investment Committee determines the investment placements of the Company which is being implemented by the Treasury Division. The Collection Division enforces the strict collection of insurance balances receivable and ensures that set policies on credit term arrangements are complied with. If necessary, offsetting of receivables against payables are effected on reinsurance accounts.

With respect to credit risk arising from its financial assets, which comprise of cash and cash equivalents, insurance receivables, AFS financial assets and loans and receivables, the Company's maximum exposure is equal to the carrying amount of these instruments.

The tables below provide information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	2016			
	Neither Past Due nor Impaired			
	Investment Grade	Non-investment Grade Satisfactory	Past Due or Impaired	Total
Financial assets				
AFS financial assets:				
Government debt securities	**₱654,382,706**	**₱–**	**₱–**	**₱654,382,706**
Private debt securities	**272,090,099**	**–**	**–**	**272,090,099**
Loans and receivables:				
Cash and cash equivalents*	**406,518,383**	**–**	**–**	**406,518,383**
Insurance receivables:				
Premiums receivable	**–**	**844,335,349**	**234,403,979**	**1,078,739,328**
Due from ceding companies	**–**	**33,455,710**	**28,803,060**	**62,258,770**
Reinsurance recoverable on paid losses	**–**	**74,449,394**	**279,639,739**	**354,089,133**
Short-term investments	**2,435,357**	**–**	**–**	**2,435,357**
Accounts receivables	**–**	**1,134,656**	**3,458,350**	**4,593,006**
Mortgage loans	**–**	**4,375,291**	**–**	**4,375,291**
General purpose loans	**–**	**4,877,271**	**–**	**4,877,271**
Accrued interest	**7,207,917**	**–**	**–**	**7,207,917**
Total financial assets	**₱1,342,634,462**	**₱962,627,671**	**₱546,305,128**	**₱2,851,567,261**

**Excluding cash on hand.*

	2015			
	Neither Past Due nor Impaired			
	Investment Grade	Non-investment Grade Satisfactory	Past Due or Impaired	Total
Financial assets				
AFS financial assets:				
Government debt securities	₱785,364,561	₱–	₱–	₱785,364,561
Private debt securities	37,736,701	–	–	37,736,701
Loans and receivables:				
Cash and cash equivalents*	378,765,319	–	–	378,765,319
Insurance receivables:				
Premiums receivable	–	869,880,598	262,020,768	1,131,901,366
Due from ceding companies	–	23,266,481	30,680,612	53,947,093
Reinsurance recoverable on paid losses	–	109,630,733	312,494,518	422,125,251
Short-term investments	1,393,091	–	–	1,393,091
Accounts receivables	–	363,791	3,458,350	3,822,141
Mortgage loans	–	5,537,035	–	5,537,035
General purpose loans	–	5,346,339	–	5,346,339
Accrued interest	4,106,449	–	–	4,106,449
Total financial assets	₱1,207,366,121	₱1,014,024,977	₱608,654,248	₱2,830,045,346

The Company uses a credit rating concept based on the borrowers' and related parties' credit worthiness. Investment grade is the rating given to borrowers or related parties who have strong capacity to meet their obligations. Non-investment grade satisfactory pertains to the rating of borrowers and related parties whose outstanding obligations are within the acceptable age group. Past due or impaired pertains to financial assets that were subjected to individual and collective impairment testing which may show impairment loss.

The Company's cash and cash equivalents are short-term placements and cash funds invested or deposited in local universal and commercial banks belonging to the top banks in the Philippines in terms of resources and profitability.

The tables below show the aging analysis of financial assets that are past-due but are not impaired.

	2016						
	Age Analysis of Financial Assets Past Due But Not Impaired				**Total Past Due But Not Impaired**	**Past Due and Impaired**	**Total**
	< 30 days	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**			
Loans and receivables:							
Insurance receivables:							
Premiums receivable	**₱31,672,219**	**₱8,221,197**	**₱22,567,626**	**₱78,314,317**	**₱140,775,359**	**₱93,628,620**	**₱234,403,979**
Due from ceding companies	**3,076,411**	**3,649,411**	**1,232,512**	**10,674,294**	**18,632,628**	**10,170,432**	**28,803,060**
Reinsurance recoverable on paid losses	**39,689,141**	**6,325,523**	**17,852,220**	**78,095,670**	**141,962,554**	**137,677,185**	**279,639,739**
Accounts receivables	**–**	**–**	**–**	**516,290**	**516,290**	**2,942,060**	**3,458,350**
	₱74,437,771	**₱18,196,131**	**₱41,652,358**	**₱167,600,571**	**₱301,886,831**	**₱244,418,297**	**₱546,305,128**

	2015						
	Age Analysis of Financial Assets Past Due But Not Impaired				Total Past Due But Not Impaired	Past Due and Impaired	Total
	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days			
Loans and receivables:							
Insurance receivables:							
Premiums receivable	₱36,897,372	₱17,530,070	₱11,608,214	₱102,356,492	₱168,392,148	₱93,628,620	₱262,020,768
Due from ceding companies	5,793,297	2,494,036	2,218,795	10,005,484	20,511,612	10,169,000	30,680,612
Reinsurance recoverable on paid losses	56,514,608	42,481,621	10,634,504	65,186,600	174,817,333	137,677,185	312,494,518
Accounts receivables	–	–	–	516,290	516,290	2,942,060	3,458,350
	₱99,205,277	₱62,505,727	₱24,461,513	₱178,064,866	₱364,237,383	₱244,416,865	₱608,654,248

The amount and type of collateral required depends on the assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of the collateral and the valuation parameters. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed, and performs an impairment valuation when applicable.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The Company's funding requirements are being monitored by the Treasury Division. Disbursements entailing huge amounts are coursed through the Treasury Division which ensures that all disbursements are properly funded. Free funds are invested in government securities or placed in time deposits as overseen by the Investment Committee.

The tables below summarize the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual maturities based on remaining contractual obligations, or on the estimated timing of net cash outflows.

	2016					
	Up to a Year*	1-3 Years	3-5 Years	Over 5 Years	No Term	Total
Financial assets						
AFS financial assets:						
Debt securities	₱–	₱149,556,797	₱330,902,179	₱446,013,829	₱–	₱926,472,805
Equity securities	–	–	–	–	1,554,816	1,554,816
Loans and receivables:						
Cash and cash equivalents	406,518,383	–	–	–	–	406,518,383
Insurance receivables	1,495,087,231	–	–	–	–	1,495,087,231
Short-term investments	2,435,357	–	–	–	–	2,435,357
Accounts receivables	4,593,006	–	–	–	–	4,593,006
General purpose loans	3,106,176	1,771,095	–	–	–	4,877,271
Mortgage loans	676,089	1,808,099	706,045	1,185,058		4,375,291
Long-term investments	504,500	–	–	–	–	504,500
Accrued interest	7,207,917	–	–	–	–	7,207,917
Reinsurance recoverable on unpaid losses	3,368,217,654	–	–	–	–	3,368,217,654
Total financial assets	₱5,288,346,313	₱153,135,991	₱331,608,224	₱447,198,887	₱1,554,816	₱6,221,844,231
Other financial liabilities						
Total provision for claims reported and claims IBNR	3,876,598,172	–	–	–	–	₱3,876,598,172
Insurance payables	729,560,407	–	–	–	–	729,560,407
Accounts payable and accrued expenses**	327,361,316	–	–	–	–	327,361,316
Total financial liabilities	₱4,933,519,895	₱–	₱	₱–	₱–	₱4,933,519,895
Liquidity gap	₱354,826,418	₱153,135,991	₱331,608,224	₱447,198,887	₱1,544,816	₱1,288,324,336

**Up to a year are all commitments which are either due within the time frame or are payable on demand.*
***Excluding taxes payable.*

	2015					
	Up to a Year*	1-3 Years	3-5 Years	Over 5 Years	No Term	Total
Financial assets						
AFS financial assets:						
Debt securities	₱–	₱660,219,452	₱54,213,099	₱108,668,711	₱–	₱823,101,262
Equity securities	–	–	–	–	151,597,307	151,597,307
Loans and receivables:						
Cash and cash equivalents	378,765,319	–	–	–	–	378,765,319
Insurance receivables	1,607,349,710	–	–	–	–	1,607,349,710
Short-term investments	1,393,091	–	–	–	–	1,393,091
Accounts receivables	3,822,141	–	–	–	–	3,822,141
General purpose loans	824,201	4,522,138	–	–	–	5,346,339
Mortgage loans	24,329	292,493	282,598	4,757,615		5,357,035
Long-term investments	500,000	–	–	–	–	500,000
Accrued interest	4,106,449	–	–	–	–	4,106,449
Reinsurance recoverable on unpaid losses	3,209,791,247	–	–	–	–	3,209,791,247
Total financial assets	₱5,206,576,487	₱665,034,083	₱54,495,697	₱113,426,326	₱151,597,307	₱6,191,129,900
Other financial liabilities						
Total provision for claims reported and claims IBNR	3,945,649,552	–	–	–	–	₱3,945,649,552
Insurance payables	737,610,675	–	–	–	–	737,610,675
Accounts payable and accrued expenses**	324,281,428	–	–	–	–	324,281,428
Total financial liabilities	₱5,007,541,655	₱–	₱–	₱–	₱–	₱5,007,541,655
Liquidity gap	₱199,034,832	₱665,034,083	₱54,495,697	₱113,426,326	₱151,597,307	₱1,183,588,245

**Up to a year are all commitments which are either due within the time frame or are payable on demand.*
***Excluding taxes payable.*

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rate (currency risk), market interest rate (interest rate risk) and market price (price risk).

The following policies and procedures are in place to mitigate the Company's exposure to market risk:

- The Company's market risk policy which sets out the assessment and determination of what constitutes market risk for the Company. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Asset allocation and portfolio limit structure.
- Stipulated diversification benchmarks by type of instrument.

Currency risk
The Company's principal transactions are carried out in Philippine peso and its foreign exchange risk arises primarily with respect to the U.S. dollar. The Company's financial assets are primarily denominated in the same currency as the related insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which the insurance contracts are expected to be settled.

The foreign exchange-denominated asset as of December 31, 2016 consists only of three savings deposit account maintained with PNB Main Branch, Metrobank and Banco De Oro that acts as depository account for the dollar funds remitted by foreign reinsurance companies in settlement of cash calls/reinsurance recoveries/other insurance contracts denominated in US dollars. Ultimately, these funds are reinvested in risk-free high yielding financial instruments converted into peso-denominated instruments such as special deposit accounts, time deposits, government bonds, etc.

The Company's cash and cash equivalents in foreign currency denominated and Philippine peso equivalents amounted to $42,981 and ₱2,136,995 in 2016 and $1,042,906 and ₱49,075,155 in 2015. The foreign exchange rate used in converting the monetary assets in 2016 and 2015 are 49.72 and 47.06, respectively.

The following table shows the effect of the increase or decrease in applicable foreign exchange rates as follows:

	2016		2015	
Currency	**Change in Rate**	**Change in Rate**	Change in Rate	Impact on Income Before Tax
US Dollar	**+1%**	**₱24,701**	+1%	₱392,020
	-1%	**(24,701)**	-1%	(392,020)

Reasonably possible movements in foreign exchange rates are computed based on average percentage changes in closing rate for 5 years.

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

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value risk. The Company's fixed rate investments and receivables are exposed to fair value risk.

The Company's market risk policy requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

The following table shows the information relating to the Company's financial instruments that are exposed to fair value interest rate risk presented by maturity profile.

2016						
	Interest Rates	**Within One Year**	**1-3 Years**	**3-5 Years**	**Over 5 Years**	**Total**
Financial assets						
AFS financial assets						
Debt securities	**1.625%-8%**	**₱–**	**₱149,556,797**	**₱330,902,179**	**₱446,013,829**	**₱926,472,805**
Loans and receivables						
Cash and cash equivalents	**0.25% to 2.25%**	**406,518,383**	**–**	**–**	**–**	**406,518,383**
Short-term investments	**0875% to 2.30%**	**1,393,091**	**–**	**–**	**–**	**1,393,091**
General purpose loans	**3.00% to 7.00%**	**3,106,176**	**1,771,095**	**–**	**–**	**4,877,271**
Mortgage loans	**3.00% to 7.00%**	**676,089**	**1,808,099**	**706,045**	**1,185,058**	**4,375,291**
Long-term investments		**504,500**	**–**	**–**	**–**	**504,500**
Total financial assets		**₱412,198,239**	**₱153,135,991**	**₱331,608,224**	**₱447,198,887**	**₱1,344,141,341**
Other financial liabilities						
Funds held for reinsurers	**4%**	**₱35,951**	**₱–**	**₱–**	**₱–**	**₱35,951**
Total financial liabilities		**₱35,951**	**₱–**	**₱–**	**₱–**	**₱35,951**

	2015					
	Interest Rates	Within One Year	1-3 Years	3-5 Years	Over 5 Years	Total
Financial assets						
AFS financial assets						
Debt securities	1.625%-8%	₱–	₱660,219,452	₱54,213,099	₱108,668,711	₱823,101,262
Loans and receivables						
Cash and cash equivalents	0.03%-2.35%	378,765,319	–	–	–	378,765,319
Short-term investments	1.5%	1,393,091	–	–	–	1,393,091
General purpose loans	0.75%-9%	824,201	4,542,138	–	–	5,366,339
Mortgage loans	0.75%-9%	24,329	292,493	282,598	4,757,615	5,357,035
Long-term investments		500,000	–	–	–	500,000
Total financial assets		₱381,506,940	₱665,054,083	₱54,495,697	₱113,426,326	₱1,214,483,046
Other financial liabilities						
Funds held for reinsurers	4%	₱649,795	₱–	₱–	₱–	₱649,795
Total financial liabilities		₱649,795	₱–	₱–	₱–	₱649,795

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (of adjustments on revaluing fixed rate AFS financial asset).

	2016		2015	
Currency	**Change in Rate**	**Increase (Decrease) on Equity**	Change in rate	Increase (Decrease) on Equity
Peso	**+4%**	**₱45,658,660**	+3%	₱24,634,469
Peso	**-4%**	**(45,658,660)**	-3%	(24,634,469)

The reasonably possible movements in interest rates are computed based on the percentage changes in weighted average yield rates.

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

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

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

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

	2016		2015	
Market Indices	**Change in Variables**	**Impact on Equity**	Change in Variables	Impact on Equity
PSEi	**(4.32%)**	**(₱800)**	3.36%	₱4,309,378
PSEi	**4.32%**	**800**	(3.36%)	(4,309,378)

The impact on other comprehensive income is arrived at using the reasonably possible change of PSEi and the specific adjusted beta of each stock the Company holds. The possible change of PSEi is determined by obtaining expected movement of PSEi on December 31, 2016 based on five years movement of PSE index. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

23. Related Party Transactions

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

In the ordinary course of business, the Company engages in transactions with its ultimate parent company. The Company believes that the terms of these transactions are comparable with those available from unrelated parties.

Transactions with related parties consist mainly of the following activities:

	2016		2015			
Category	**Amount**	**Outstanding Balance**	Amount	Outstanding Balance	**Terms**	**Conditions**
Stockholder						
PNB						
Lease (A)	**₱14,951,944**	**₱372,436**	₱13,976,646	₱168,870	Interest-bearing, 30 to 60 days	Unsecured, no impairment
Deposits (B)						
Cash and cash equivalents	**–**	**234,587,285**	–	176,197,423	Interest-bearing, due and demandable	Unsecured, no impairment
Interest income	**1,769,674**	**–**	149,714	–	Not applicable	Not applicable
Premiums (C)	**29,861,962**	**9,483,651**	56,198,937	11,223,628	Non-interest bearing, 30 to 60 days	Unsecured, no impairment
Claims (C)	**9,268,213**	**2,272,027**	7,440,119	1,817,469	Non-interest bearing, due and demandable	Unsecured
Other Related Parties						
Premiums (C)						
Philippine Airlines	**592,199,829**	**393,377,569**	539,411,324	389,917,433	Non-interest bearing, 30 to 60 days	Unsecured, no impairment
Victorias Milling	**3,215,688**	**4,439,147**	4,248,544	3,622,399	Non-interest bearing, 30 to 60 days	Unsecured, no impairment
Fortune Tobacco Corp	**–**	**–**	–	34,236	Non-interest bearing, 30 to 60 days	Unsecured, no impairment
Eton Properties, Inc.	**1,283,889**	**1,678,168**	2,763,229	457,343	Non-interest bearing, 30 to 60 days	Unsecured, no impairment
Asia Brewery Inc.	**522,188**	**469,606**	–	–	Non-interest bearing, 30 to 60 days	Unsecured, no impairment
Interbev Philippines Inc.	**22,595**	**21,595**	–	–	Non-interest bearing, 30 to 60 days	Unsecured, no impairment
North Belton Communities Inc	**–**	**266,009**	–	266,009	Non-interest bearing, 30 to 60 days	Unsecured, no impairment
Tanduay Distillers Inc.	**1,142,348**	**26,132**	26,132	26,132	Non-interest bearing, 30 to 60 days	Unsecured, no impairment
Claims (C)						
Philippine Airlines	**469,454**	**4,820,042**	–	123,725	Non-interest bearing, due and demandable	Unsecured
Victorias Milling Company	**1,159,823**	**2,240,000**	–	56,750	Non-interest bearing, due and demandable	Unsecured
Eton Properties, Inc.	**4,421**	**16,274**	–	5,800	Non-interest bearing, due and demandable	Unsecured
Reinsurance (C)						
Alliedbankers Insurance						
Recoverires from reinsurance	**2,115,017**	**1,110,663**	1,527,825	889,397	Non-interest bearing, due and demandable	Unsecured
Reinsurance Premiums	**1,299,151**	**2,175,881**	3,891,345	2,967,095	Non-interest bearing, due and demandable	Unsecured
Salaries, wages and allowances (D)						
Key Management Personnel	**19,123,734**	**–**	19,215,817	–	Not applicable	Not applicable

a. Transactions with PNB consist of office and parking space (see Notes 20 and 28). The Company also insures the ultimate parent company's premises, branch offices and other properties.

b. The Company maintains savings, current accounts and short-term deposits with PNB and Allied Banking Corporation, an affiliate. Cash equivalents consist of short-term Philippine Peso cash placements with PNB (see Note 5). Short-term and long-term investments consist of risk-free high yielding financial instruments such as time deposits and special deposit accounts (see Note 7). Also, the Company's retirement fund with fund value of ₱31,912,987 and ₱24,681,693 is being managed by PNB Trust Banking Group, as of December 31, 2016 and 2015 (see Note 20).

c. The Company sells nonlife insurance products to PNB which are based on terms similar to those offered to nonrelated parties. In addition, the Company has transactions with affiliates which under common control of Lucio Tan Group in relation to nonlife insurance policies which are based on terms similar to those offered to nonrelated parties.

d. Key management personnel of the Company include all key officers.

The summary of compensation of key management personnel for the year is as follows:

	2016	2015
Salaries and other short-term employee benefits	**₱17,699,860**	₱17,784,190
Post-employment benefits	**1,423,874**	1,431,627
	₱19,123,734	₱19,215,817

24. 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(loss)	**₱110,902,707**	(₱490,498,413)
Add (deduct):		
Deferred acquisition costs - net	**(5,156,167)**	(6,725,678)
Difference in change in provision for unearned premiums - net	**35,479,046**	(17,876,903)
Tax effect of PFRS adjustments	**(9,096,864)**	7,380,774
Statutory net income (loss)	**₱132,128,722**	(₱507,270,220)

25. Contingent Liabilities

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

26. **Lease Commitment**

The Company entered into a lease agreement for its office space with PNB commencing on January 1, 2015 and terminating on December 31, 2015. The stipulated monthly rent amounted to ₱1,004,842.

In 2016, the lease term agreement was renewed for one (1) year commencing on January 1, 2016 and terminating on December 31, 2016. The stipulated monthly rent amounted to ₱1,055,084.

The lease agreement is renewed for another year commencing on January 1, 2017 to December 31, 2017 with monthly rental of ₱1,107,838 with 5% escalation rate when renewed.

The Company also has several lease agreements covering its branch offices for periods ranging from one to five years with remaining terms of three months to four years which have expiration dates ranging from March 31, 2017 and December 31, 2020. These lease contracts are noncancellable and renewable upon mutual agreement of the Company and the lessors.

Rent expense charged against operations amounted to ₱15,211,630 and ₱16,276,613 in 2016 and 2015, respectively (see Note 19).

As of December 31, 2016 and 2015, the future minimum lease payments under this operating lease follow:

	2016	2015
Within one year	**₱14,951,944**	₱13,976,646
After one year but not more than five years	**5,486,581**	72,681
	₱20,438,525	₱14,049,327

27. **Events after the Report Date**

On January 12, 2017, the Company received the additional capital infusion from PNB amounting to ₱200,000,000. The said capital infusion was approved by the Board of Directors of PNB on November 25, 2016.

28. **Supplementary Information Required Under Revenue Regulations 15-2010**

In compliance with the requirements set forth by Revenue Regulations 15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year 2016.

<u>VAT</u>
The Company is a VAT-registered Company with VAT output tax declaration of ₱212,178,609 for premiums, commissions and other miscellaneous collections amounting to ₱1,768,155,077.

The Company has ₱251,632,085 exempt sales and ₱260,263,947 zero rated sales in 2016.

The amount of VAT input taxes claimed are broken down as follows:

Domestic purchases/payments for:	
Services lodged under other accounts	₱38,351,619
Capital goods subject to amortization	886,618
Capital goods not subject to amortization	352,014
Goods other than for resale	187,462
Importations	366,737
Balance at December 31, 2016	₱40,144,450

Other adjustments for the year are as follows:

Input Tax Allocable to exempt sales	₱4,521,524
Input Tax on purchase of goods exceeding 1M deferred for the succeeding period	893,691
Less: Input Tax Deferred on capital goods exceeding 1M from previous quarter	(344,193)
Less: Input Tax on sales to government closed to expense	(13,865)
	₱5,057,157

Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees. Details of other taxes and licenses in 2016 follow:

Local	
Fines and penalties	₱20,590
License and permit fees	207,783
Community taxes	24,508
	252,881
National	
Documentary stamp taxes	335,792
Fines and penalties	826,241
Licenses and permit fees	201,510
	1,363,543
	₱1,616,424

The Company did not incur any excise tax in 2016.

The Company has taxes relating to nonlife insurance policies that has been passed on to the policyholders and are not recognized in the statement of income. Details follow:

DST on:	
DS110-Policies of insurance upon property	₱227,727,439
DS111-Fidelity bonds	2,218,020
DS109-Accident and health	90,455
DS114-CTPL	54,675
Fire service tax	10,269,009
Local government tax	7,037,619
Premium tax	5,025,290
	₱252,422,507

Withholding Taxes
Details of withholding taxes in 2016 are as follow:

Withholding taxes on compensation and benefits	₱25,046,980
Expanded withholding taxes	22,403,201
Final withholding taxes	3,368
Final withholding VAT	18,029
	₱47,471,578

Fringe Benefits
Details of fringe benefit tax in 2016 are as follow:

Carplan	₱310,413
Mortgage	27,259
Other Loans	104,336
	₱442,008

Tax Contingencies
The Company is not involved in any tax case under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.