

**PGA Sompo Insurance Corporation**  
*(formerly PGA Sompo Japan  
Insurance, Inc.)*

Financial Statements  
December 31, 2016 and 2015

and

Independent Auditor's Report



## **INDEPENDENT AUDITOR'S REPORT**

The Stockholders and the Board of Directors  
PGA Sampo Insurance Corporation

### **Report on the Audit of the Financial Statements**

#### **Opinion**

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

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

#### **Basis for Opinion**

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

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

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

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

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



## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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



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

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

SYCIP GORRES VELAYO & CO.



Djole S. Garcia

Partner

CPA Certificate No. 0097907

SEC Accreditation No. 1285-AR-1 (Group A),

May 12, 2016, valid until May 12, 2019

Tax Identification No. 201-960-347

BIR Accreditation No. 08-001998-102-2015,

November 25, 2015, valid until November 24, 2018

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

March 30, 2017



**PGA SOMPO INSURANCE CORPORATION**  
**(formerly PGA Sompo Japan Insurance, Inc.)**

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**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Cash and Cash Equivalents</b> (Notes 4, 22 and 23)	<b>₱640,383,217</b>	₱347,291,787
<b>Short-term Investments</b> (Notes 4, 22 and 23)	<b>4,972,000</b>	24,806,578
<b>Insurance Receivables - net</b> (Notes 5, 22 and 23)	<b>461,907,681</b>	398,014,729
<b>Financial Assets</b> (Notes 6, 22 and 23)		
Financial assets at fair value through profit or loss	<b>155,530,599</b>	108,328,796
Available-for-sale financial assets	<b>42,047,775</b>	39,071,749
Loans and receivables	<b>36,683,217</b>	28,259,339
<b>Reinsurance Assets</b> (Notes 7, 11 and 22)	<b>1,001,261,549</b>	834,489,396
<b>Deferred Acquisition Costs</b> (Note 8)	<b>40,769,648</b>	27,061,560
<b>Property and Equipment - net</b> (Note 9)	<b>4,697,430</b>	3,411,210
<b>Deferred Income Tax Assets - net</b> (Note 19)	<b>14,967,405</b>	12,171,170
<b>Other Assets</b> (Note 10)	<b>86,684,176</b>	74,615,913
<b>TOTAL ASSETS</b>	<b>₱2,489,904,697</b>	₱1,897,522,227
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Insurance contract liabilities (Notes 11 and 22)	<b>1,070,591,635</b>	₱856,366,230
Insurance payables (Notes 12, 22 and 23)	<b>462,872,893</b>	482,145,479
Accounts payable and accrued expenses (Notes 13, 22 and 23)	<b>97,979,799</b>	83,634,551
Deferred reinsurance commissions (Note 8)	<b>66,075,979</b>	50,081,617
Net pension benefit obligation (Note 14)	<b>11,879,799</b>	10,176,494
<b>Total liabilities</b>	<b>1,709,400,105</b>	1,482,404,371
<b>Equity</b>		
Capital stock - ₱100 par value (Notes 22 and 25)		
Authorized - 3,000,000 shares		
Issued and outstanding - 3,000,000 shares	<b>300,000,000</b>	300,000,000
Deposit for future stock subscription (Notes 22 and 25)	<b>350,000,000</b>	-
Contributed surplus	<b>4,666,000</b>	4,666,000
Revaluation reserve on available-for-sale financial assets (Note 6)	<b>37,144,231</b>	34,168,205
Remeasurements on defined benefit plan (Note 14)	<b>(1,228,470)</b>	(1,067,388)
Retained earnings (Note 25)	<b>89,922,831</b>	77,351,039
<b>Total equity</b>	<b>780,504,592</b>	415,117,856
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱2,489,904,697</b>	₱1,897,522,227

*See accompanying Notes to Financial Statements.*



**PGA SOMPO INSURANCE CORPORATION**  
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**STATEMENTS OF INCOME**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Gross premiums earned	<b>¥1,348,084,526</b>	¥1,105,540,062
Reinsurers' share of gross premiums earned	<b>1,310,977,951</b>	1,082,005,959
<b>Net premiums earned</b> (Notes 11, 15 and 24)	<b>37,106,575</b>	23,534,103
Commission income (Note 8)	<b>141,179,055</b>	89,327,944
Investment and other income - net (Note 16)	<b>9,869,793</b>	6,188,089
Foreign currency exchange gains - net	<b>3,433,385</b>	6,290,361
<b>Other income</b>	<b>154,482,233</b>	101,806,394
<b>Total income</b>	<b>191,588,808</b>	125,340,497
Gross insurance contract benefits and claims paid	<b>97,267,895</b>	135,581,229
Reinsurers' share of gross insurance contract benefits and claims paid	<b>(88,985,785)</b>	(127,648,816)
Gross change in insurance contract liabilities	<b>158,716,621</b>	(49,486,270)
Reinsurers' share of gross change in insurance contract liabilities	<b>(154,568,352)</b>	45,949,381
<b>Net insurance contract benefits and claims</b> (Notes 11 and 17)	<b>12,430,379</b>	4,395,524
General expenses (Note 18)	<b>74,396,459</b>	68,619,641
Commission expense (Note 8)	<b>85,224,739</b>	40,780,109
Interest expense (Note 12)	<b>2,947</b>	105,255
<b>Other expenses</b>	<b>159,624,145</b>	109,505,005
<b>Total insurance contract and other expenses</b>	<b>172,054,524</b>	113,900,529
<b>INCOME BEFORE INCOME TAX</b>	<b>19,534,284</b>	11,439,968
<b>PROVISION FOR INCOME TAX</b> (Note 19)	<b>6,962,492</b>	5,424,298
<b>NET INCOME</b> (Note 21)	<b>¥12,571,792</b>	¥6,015,670

*See accompanying Notes to Financial Statements.*



**PGA SOMPO INSURANCE CORPORATION**  
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**STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>NET INCOME</b> (Note 21)	<b>¥12,571,792</b>	<b>¥6,015,670</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Changes in the fair values of available-for-sale financial assets (Note 6)	<b>2,976,026</b>	3,970,109
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement gain (loss) on defined benefit plan, net of tax (Note 14)	<b>(161,082)</b>	20,211
<b>Total other comprehensive income</b>	<b>2,814,944</b>	<b>3,990,320</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>¥15,386,736</b>	<b>¥10,005,990</b>

*See accompanying Notes to Financial Statements.*



**PGA SOMPO INSURANCE CORPORATION**

(formerly PGA Sampo Japan Insurance, Inc.)

**STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Capital Stock (Notes 22 and 25)	Deposit for future stock subscription (Notes 22 and 25)	Contributed Surplus	Revaluation Reserve on Available-for-sale Financial Assets (Note 6)	Remeasurements on Defined Benefit Plan (Note 14)	Retained Earnings (Note 25)	Total
At January 1, 2016	¥300,000,000	¥-	¥4,666,000	¥34,168,205	(¥1,067,388)	¥77,351,039	¥415,117,856
Net income for the year	-	-	-	-	-	12,571,792	12,571,792
Other comprehensive income (loss)	-	-	-	2,976,026	(161,082)	-	2,814,944
Total comprehensive income for the year	-	-	-	2,976,026	(161,082)	12,571,792	15,386,736
Deposit for future stock subscription	-	350,000,000	-	-	-	-	350,000,000
At December 31, 2016	¥300,000,000	¥350,000,000	¥4,666,000	¥37,144,231	(¥1,228,470)	¥89,922,831	¥780,504,592
At January 1, 2015	¥300,000,000	¥-	¥4,666,000	¥30,198,096	(¥1,087,599)	¥71,335,369	¥405,111,866
Net income for the year	-	-	-	-	-	6,015,670	6,015,670
Other comprehensive income	-	-	-	3,970,109	20,211	-	3,990,320
Total comprehensive income for the year	-	-	-	3,970,109	20,211	6,015,670	10,005,990
At December 31, 2015	¥300,000,000	¥-	¥4,666,000	¥34,168,205	(¥1,067,388)	¥77,351,039	¥415,117,856

See accompanying Notes to Financial Statements.





**PGA SOMPO INSURANCE CORPORATION**  
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**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>¥19,534,284</b>	¥11,439,968
Adjustments for:		
Bad debts expense (Notes 5 and 18)	–	30,740
Depreciation and amortization (Notes 9 and 18)	<b>2,507,112</b>	1,872,653
Interest income (Note 16)	<b>(10,080,242)</b>	(9,149,735)
Dividend income (Note 16)	<b>(3,710)</b>	(5,320)
Fair value losses on financial assets at FVPL (Notes 6 and 16)	<b>1,592,863</b>	1,713,478
Loss on redemption of financial assets at FVPL (Note 6 and 16)	<b>384,776</b>	270,579
Interest expense (Note 12)	<b>2,947</b>	105,255
Write-off loss on accounts receivable (Notes 6 and 18)	–	1,391,127
Operating income before working capital changes	<b>13,938,030</b>	7,668,745
Changes in assets and liabilities:		
Decrease (increase) in:		
Insurance receivables	<b>(63,892,952)</b>	(113,762,124)
Deferred acquisition costs	<b>(13,708,088)</b>	407,383
Loans and receivables	<b>(8,423,878)</b>	204,149
Reinsurance assets	<b>(166,772,153)</b>	(101,020,949)
Short-term investments	<b>19,834,578</b>	(24,806,578)
Other assets	<b>(10,460,737)</b>	532,141
Increase (decrease) in:		
Deferred reinsurance commissions	<b>15,994,362</b>	(7,833,440)
Insurance contract liabilities	<b>214,225,405</b>	101,642,795
Insurance payables	<b>(19,272,586)</b>	153,342,552
Accounts payable and accrued expenses	<b>14,345,248</b>	12,304,647
Net pension benefit obligation	<b>1,473,188</b>	(476,232)
Net cash from (used in) operations	<b>(2,719,583)</b>	28,203,089
Income tax paid, including creditable withholding taxes (Note 19)	<b>(11,297,218)</b>	(12,851,885)
Interest paid	<b>(2,947)</b>	(105,255)
Net cash from (used in) operating activities	<b>(14,019,748)</b>	15,245,949
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of financial assets at fair value through profit or loss (Note 6)	<b>62,200,000</b>	73,500,000
Interest received	<b>10,080,242</b>	9,613,692
Dividends received	<b>3,710</b>	5,320
Acquisitions of:		
Financial assets at FVPL (Note 6)	<b>(111,379,442)</b>	(84,400,645)
Property and equipment (Note 9)	<b>(3,793,332)</b>	(728,984)
Net cash used in investing activities	<b>(42,888,822)</b>	(2,010,617)

(Forward)



	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Deposit for future stock subscription (Notes 22 and 25)	<b>350,000,000</b>	–
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>₱293,091,430</b>	<b>₱13,235,332</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>347,291,787</b>	<b>334,056,455</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱640,383,217</b>	<b>₱347,291,787</b>

*See accompanying Notes to Financial Statements.*



**PGA SOMPO INSURANCE CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**

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**1. Corporate Information**

PGA Sompo Insurance Corporation (the Company) is a joint venture of two of Asia's leading nonlife insurance organizations, Prudential Guarantee and Assurance Incorporated (PGAI) (through its major shareholders) and Sompo Japan Nipponkoa Holdings, Inc. The Company is engaged in the business and operation of all kinds of insurance on sea, land and air, on properties, goods and merchandise, on transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company was registered with the Securities and Exchange Commission (SEC) on September 25, 1959. On July 6, 2009, it was approved by at least a majority of the Board of Directors (BOD) and the stockholders owning and representing at least two-thirds (2/3) of the outstanding capital stock, that the Articles of Incorporation will be amended to extend the existence of the Company for another fifty (50) years from its original expiry date. The SEC approved the Amended Articles of Incorporation on September 8, 2009.

On August 14, 2014, it was approved by at least a majority of the BOD and by the vote of the stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock that the Articles of Incorporation will be amended to change the corporate name from PGA Sompo Japan Insurance, Inc. to PGA Sompo Insurance Corporation. The SEC approved the Amended Articles of Incorporation on January 12, 2015.

The registered office address of the Company is 5th Floor, Corinthian Plaza Building, 121 Paseo de Roxas, Legaspi Village, Makati City.

In 2015, the shares of one of its venturers, Sompo Japan Insurance, Inc. were sold to Sompo Japan Nipponkoa Holdings, Inc. which makes the latter the new venturer.

The accompanying financial statements were approved and authorized for issue by the BOD of the Company on March 30, 2017.

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value.

The accompanying financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency. All amounts are rounded off to the nearest peso values, unless otherwise indicated.

Statement of Compliance

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



### Changes in Accounting Policies and Disclosures

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

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interest in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures* - Investment Entities Applying the Consolidation Exception
- Amendments to PFRS 11, *Joint Arrangements* - Accounting for Acquisitions of Interests in Joint Operations
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements* - Disclosure Initiative
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture* - Bearer Plants
- Amendments to PAS 27, *Separate Financial Statements* - Equity Method in Separate Financial Statements
- *Annual Improvements to PFRSs* (2012 - 2014 cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* - Changes in Methods of Disposal
  - PFRS 7, *Financial Instruments: Disclosures* - Servicing Contracts
  - PFRS 7, *Financial Instruments: Disclosures* - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
  - PAS 19, *Employee Benefits* - Regional Market Issue regarding Discount Rate
  - PAS 34, *Interim Financial Reporting* - Disclosure of Information 'Elsewhere in the Interim Financial Report'

### Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Disclosure of Interest in Other Entities* - Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows* - Disclosure Initiative
- Amendments to PAS 12, *Income Taxes* - Recognition of Deferred Tax Assets for Unrealized Losses

#### *Effective beginning on or after January 1, 2018*

- Amendments to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property* - Transfers of Investment Property
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*



- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions*
- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PFRS 4, *Insurance Contracts - Applying PFRS 9, Financial Instruments*, with PFRS 4

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

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

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

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

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

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*  
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.



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

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

#### *Deferred effectivity*

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

#### Use of Estimates, Assumptions and Judgments

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the end of the reporting period as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the end of the reporting period, the actual outcome may differ from these estimates, possibly significantly.

#### Product Classification

##### *Insurance contracts*

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

##### *Investment contracts*

Investment contracts mainly transfer financial risk but can also transfer insignificant 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 have expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

#### Foreign Currency Transactions and Translations

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



### Fair Value Measurement

The Company measures financial instruments, such as financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets at fair value at each reporting date. Also, fair values of financial instruments 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 the Company.

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

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

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

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

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

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

### Cash and Cash Equivalents

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

### Short-term Investments

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



### Insurance Receivables

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

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

### Financial Instruments

#### *Date of recognition*

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

#### *Initial recognition of financial instruments*

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, loans and receivables and held to maturity (HTM). The Company classifies its financial liabilities into financial liabilities at FVPL and 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 period.

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

#### *Day 1 Difference*

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

#### *Financial Assets or Financial Liabilities at FVPL*

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

Financial assets or financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or (b) the assets or liabilities are part of a group of financial assets or liabilities which are managed and their performance evaluated on a fair value basis, in





accordance with a documented risk management strategy; or (c) the financial asset or financial liabilities contains an embedded derivative that would need to be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in the statement of income. Interest earned or incurred is recorded in interest income or interest expense, respectively, while dividend income is recorded when the right to receive the payment has been established.

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

#### *Loans and Receivables*

Loans and receivables are non-derivative 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 "Cash and cash equivalents", "Short-term investments", "Insurance receivables" and "Loans and receivables".

After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and fees that are integral part of effective interest rate. The amortization is recorded as part of interest income under the statement of income caption "Investment and other income". The loss arising from impairment of such loans and receivables are recognized in the statement of income.

#### *AFS Financial Assets*

AFS financial assets are those which are designated as such or do not qualify to be classified as designated as FVPL, HTM 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 statement of income. Interest earned on holding AFS debt securities are recorded as interest income under "Investment and other income" account in the statement of income using the effective interest rate.

Dividends earned on holding AFS equity securities are recognized in the statement of income when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Revaluation reserve on available-for-sale financial assets" in the equity section of the statement of financial position. The losses arising from impairment are charged to in the statement of income. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income.

Where the Company holds more than one investment in the same security, the cost used is determined using the weighted average method.



#### *HTM Investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

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

#### *Other Financial Liabilities*

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares.

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 principally to the Company “Insurance payables” and “Accounts payable and accrued expenses” that meet the above definitions (other than liabilities covered by other accounting standards, such as net pension obligation and income tax payable).

#### Impairment of Financial Assets

The Company assesses at each end of the reporting period whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial asset 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 has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Loans and receivables*

For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether



significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

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

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

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

#### *AFS financial assets*

In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in equity - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

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

#### Offsetting Financial Instruments

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

Financial assets (or where applicable a part of a financial asset or part of a group of a similar financial assets) are derecognized when: (a) the rights to receive cash flows from the asset have



expired; (b) 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 (c) the Company has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

#### *Financial liabilities*

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

#### Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent recoverable loss balances due from insurance and reinsurance companies and the deferred reinsurance premiums. Recoverable amounts are estimated in a manner consistent with the claims provision and in accordance with the reinsurance contracts.

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

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

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

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

Reinsurance assets or liabilities are derecognized when the contractual rights have expired, are extinguished 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 also as part of the “Insurance Payables” in the liabilities section of the statement of financial position.

Deferred Acquisition Costs (DAC)

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

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

Property and Equipment

All items of property and equipment, which include owner-occupied properties, are stated at cost less accumulated depreciation and amortization and any impairment in value.

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

Depreciation is provided on a straight-line basis over the estimated useful lives of the individually significant components of property and equipment. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful life.

The estimated useful lives of the individually significant components of property and equipment follow:

	Years
Office furniture, fixtures and equipment	3-5
Leasehold improvements	3
Transportation equipment	5
Computer equipment	3

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and 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 from its use or disposal. Any gain or loss arising on derecognition of the asset, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statement of income in the year the asset is derecognized.

#### Impairment of Nonfinancial Assets

At each end of the reporting period, the Company assesses whether there is any indication that its non-financial assets (e.g., property and equipment) 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 fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed 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 is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

For nonfinancial assets excluding goodwill, an assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements 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 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 estimated useful life.

#### Creditable Withholding Taxes (CWTs)

Creditable withholding taxes pertain to the taxes paid by the Company withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost 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.

#### Value-added Tax (VAT)

The input value added tax pertains to the 12% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services.



Output VAT pertains to the 12% tax due on the sale of insurance policies and other goods or services by the Company.

#### Insurance Contracts Liabilities

##### *Provision for unearned premiums*

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as provision for unearned premiums and presented as part of “Insurance contract liabilities” in the liabilities section of the statement of financial position. 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 premiums for the last two months are considered earned the following year. The change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

##### *Claims provisions and incurred but not reported (IBNR) losses*

Provision for claims reported and claims incurred but not reported (IBNR) are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. The liability is derecognized when the contract is discharged, cancelled or has expired.

##### *Liability adequacy test*

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related DAC assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged 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.

#### Net Pension Benefit Obligation

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

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

Defined benefit costs comprise the following:

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



Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in 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. Remeasurements recognized in OCI after the initial adoption of PAS 19 (Revised) are not closed to any other equity account.

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.

#### Equity

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

Contributed surplus includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from contributed surplus.

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

#### Revenue Recognition

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

#### *Premium income*

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





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

#### *Commission income*

Commissions are recognized as revenue over the period of contracts using the 24th method except for the marine cargo where the deferred reinsurance commissions for the last two months of the year are considered earned the following year. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as “Deferred reinsurance commissions” and presented in the liabilities section of the statement of financial position.

#### *Interest income*

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

#### *Dividend income*

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

#### Benefits and Claims

Gross benefits and claims consists of benefits and claims paid to policyholders as well as changes in the gross valuation of “Insurance contract liabilities”, except for gross changes in the provision for unearned premiums which are included in net premiums earned. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect to salvage and subrogation are also considered and are offset against the related claim. General insurance claims are recorded in the basis of notifications received.

#### Other Expenses

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

#### Leases

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

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



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

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

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

### Income Tax

#### *Current tax*

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

#### *Deferred income tax*

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

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

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

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

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



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

#### Provisions

Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. 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 an interest expense.

#### Contingencies

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

#### Events after the Reporting Period

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

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### **3. Significant Accounting Judgments and Estimates**

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

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

#### Judgments

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



*Classification of financial assets*

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

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 discussed below.

*Determination of fair values of financial assets*

Fair value determinations for financial assets are based generally on listed market prices or broker or dealer price quotations. 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 use of assumptions could produce materially different estimates of fair value.

The carrying value of financial assets at FVPL amounted to ₱155,530,599 and ₱108,328,796 as of December 31, 2016 and 2015, respectively. AFS financial assets amounted to ₱42,047,775 and ₱39,071,749 as of December 31, 2016 and 2015, respectively (see Note 6).

*Valuation of insurance contract liabilities*

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

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

The carrying value of provision for claims reported and loss adjustment expenses amounted to ₱343,017,916 and ₱184,272,917 as of December 31, 2016 and 2015, respectively. Provision for IBNR claims amounted to ₱344,325 and ₱372,703 as of December 31, 2016 and 2015, respectively (see Note 11).

*Estimation of allowance for impairment losses on receivables*

The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts.



These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates.

The carrying value of insurance receivables amounted to ₱461,907,681 and ₱398,014,729 as of December 31, 2016 and 2015, respectively. The allowance for doubtful accounts for insurance receivables amounted to ₱305,773 in 2016 and ₱340,879 in 2015 (see Note 5).

The carrying value of loans and receivables amounted to ₱36,683,217 and ₱28,259,339 as of December 31, 2016 and 2015, respectively. The allowance for doubtful accounts for loans and receivables amounted to nil as of December 31, 2016 and 2015, respectively (see Note 6).

*Impairment of AFS equity financial assets*

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

As of December 31, 2016 and 2015, the carrying value of the Company's AFS equity financial assets amounted to ₱42,047,775 and ₱39,071,749, respectively (see Note 6).

No impairment loss on AFS financial assets was recognized in 2016 and 2015.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the Company's financial statements.

*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.

The carrying value of recognized deferred tax assets amounted to ₱14,967,405 and ₱12,171,170 as of December 31, 2016 and 2015, respectively. There are no unrecognized deferred tax assets as of December 31, 2016 and 2015 (see Note 19).

*Estimation of pension benefit obligation*

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



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

The carrying value of net pension benefit obligation as of December 31, 2016 and 2015 amounted to ₱11,879,799 and ₱10,176,494, respectively (see Note 14).

*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.

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**4. Cash and Cash Equivalents and Short-term Investments**

This account consists of:

	2016	2015
Cash on hand:		
Special fund	<b>₱30,000</b>	₱30,000
Petty cash fund	<b>10,000</b>	10,000
	<b>40,000</b>	40,000
Cash in banks	<b>107,664,653</b>	157,561,943
Short-term deposits	<b>532,678,564</b>	189,689,844
	<b>₱640,383,217</b>	₱347,291,787

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are placed for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing short-term deposit rates (see Note 16).

Short-term investments amounted to ₱4,972,000 and ₱24,806,578 as of December 31, 2016 and 2015, respectively. These pertain to short-term investments with maturities of more than three (3) months but less than one year from the date of acquisition.



## 5. Insurance Receivables

This account consists of:

	2016	2015
Due from policyholders	P202,324,012	P68,199,160
Due from ceding companies	243,337,958	283,714,288
Reinsurance recoverable on paid losses:		
Facultative reinsurers	11,824,734	36,695,417
Treaty reinsurers	4,726,750	9,746,743
	462,213,454	398,355,608
Less allowance for doubtful accounts	305,773	340,879
	<b>P461,907,681</b>	<b>P398,014,729</b>

The Company's insurance receivables are all due within one year.

The aging analysis of insurance receivables follows:

	2016						Total
	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	over 360 days	
Due from policyholders	P97,243,272	P54,749,856	P26,751,773	P387,587	P12,837,399	P10,354,125	P202,324,012
Due from ceding companies	173,229,907	644,315	2,601,862	34,162,883	32,380,908	318,083	243,337,958
Reinsurance recoverable on paid losses	612,606	189,686	1,576,980	32,696	6,948,225	7,191,291	16,551,484
	<b>P271,085,785</b>	<b>P55,583,857</b>	<b>P30,930,615</b>	<b>P34,583,166</b>	<b>P52,166,532</b>	<b>P17,863,499</b>	<b>P462,213,454</b>

	2015						Total
	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	over 360 days	
Due from policyholders	P44,690,141	P18,009,801	P3,030,644	P35,936	P321,144	P2,111,494	P68,199,160
Due from ceding companies	252,940,023	2,852,490	3,346,009	7,349,775	13,592,026	3,633,965	283,714,288
Reinsurance recoverable on paid losses	33,629,934	2,538,620	1,634,149	3,465,788	4,805,022	368,647	46,442,160
	<b>P331,260,098</b>	<b>P23,400,911</b>	<b>P8,010,802</b>	<b>P10,851,499</b>	<b>P18,718,192</b>	<b>P6,114,106</b>	<b>P398,355,608</b>

In 2015, the Company has recognized impairment loss of P30,740 on its insurance receivables, particularly, due from policyholders.

## 6. Financial Assets

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

	2016	2015
Financial assets at FVPL	P155,530,599	P108,328,796
AFS financial assets	42,047,775	39,071,749
Loans and receivables	36,683,217	28,259,339
	<b>P234,261,591</b>	<b>P175,659,884</b>



a) *Financial Assets at FVPL*

As of December 31, 2016 and 2015, treasury bills and notes with total face values amounting to ₱155,700,000 and ₱107,600,000, and fair values of ₱155,530,599 and ₱108,328,796, respectively, 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. These investments are included under financial assets at FVPL. The carrying amounts of these investments are equal to their fair values.

The rollforward analysis of financial assets at FVPL follows:

	2016	2015
At January 1	<b>₱108,328,796</b>	₱99,412,208
Acquisitions	<b>111,379,442</b>	84,400,645
Fair value losses (Note 16)	<b>(1,592,863)</b>	(1,713,478)
Loss on redemption (Note 16)	<b>(384,776)</b>	(270,579)
Disposals	<b>(62,200,000)</b>	(73,500,000)
At December 31	<b>₱155,530,599</b>	₱108,328,796

b) *AFS Financial Assets*

AFS financial assets consist of investments in golf club shares and quoted equity securities carried at fair value.

The rollforward analysis of AFS financial assets follows:

	2016	2015
At January 1	<b>₱39,071,749</b>	₱35,101,640
Fair value gains recognized in other comprehensive income	<b>2,976,026</b>	3,970,109
At December 31	<b>₱42,047,775</b>	₱39,071,749

The rollforward analysis of the revaluation reserve of AFS financial follows:

	2016	2015
At January 1	<b>₱34,168,205</b>	₱30,198,096
Fair value gains recognized in other comprehensive income	<b>2,976,026</b>	3,970,109
At December 31	<b>₱37,144,231</b>	₱34,168,205





c) *Loans and Receivables*

This account consists of:

	2016	2015
Long-term investments	<b>₱21,822,644</b>	₱20,655,142
Cash advances	<b>6,054,142</b>	5,304,693
Accounts receivable	<b>5,947,196</b>	865,212
Interest receivables	<b>1,838,099</b>	1,413,156
Miscellaneous deposits	<b>1,000,000</b>	-
Rental deposits	<b>21,136</b>	21,136
	<b>₱36,683,217</b>	₱28,259,339

Long-term investments are money market placements made for varying periods of more than one (1) year and earn interest at 3.0% as of December 31, 2016 and 2015 (see Note 16).

Cash advances includes car loans availed by managerial employees. Outstanding balance of the car loans amounted to ₱1,316,267 and ₱841,328 as of December 31, 2016 and 2015, respectively. These car loans will mature on 2019 and 2018 respectively.

In 2015, the Company has written-off portion of its accounts receivable amounting to ₱1,391,127.

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7. **Reinsurance Assets**

This account consists of:

	2016	2015
Deferred reinsurance premiums (Note 11)	<b>₱672,325,154</b>	₱660,121,353
Reinsurance recoverable on unpaid losses (Notes 11 and 22)	<b>328,936,395</b>	174,368,043
	<b>₱1,001,261,549</b>	₱834,489,396

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8. **Deferred Acquisition Costs and Deferred Reinsurance Commissions**

*Deferred Acquisition Costs*

The rollforward analysis of this account follows:

	2016	2015
At January 1	<b>₱27,061,560</b>	₱27,468,943
Cost deferred during the year	<b>98,932,827</b>	40,372,726
Amortization during the year	<b>(85,224,739)</b>	(40,780,109)
At December 31	<b>₱40,769,648</b>	₱27,061,560



*Deferred Reinsurance Commissions*

The rollforward analysis of this account follows:

	2016	2015
At January 1	₱50,081,617	₱57,915,057
Income deferred during the year	157,173,417	81,494,504
Amortization during the year	(141,179,055)	(89,327,944)
At December 31	₱66,075,979	₱50,081,617

**9. Property and Equipment - net**

The rollforward analysis of this account as of December 31 follows:

	2016				
	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Computer Equipment	Total
<b>Cost</b>					
Balance at beginning of year	₱5,585,382	₱2,843,105	₱12,282,950	₱19,216,032	₱39,927,469
Additions	1,019,125	64,000	45,000	2,665,207	3,793,332
Balance at end of year	6,604,507	2,907,105	12,327,950	21,881,239	43,720,801
<b>Accumulated depreciation and amortization</b>					
Balance at beginning of year	5,482,946	2,843,105	9,784,440	18,405,768	36,516,259
Depreciation and amortization (Note 18)	283,773	1,778	1,235,322	986,239	2,507,112
Balance at end of year	5,766,719	2,844,883	11,019,762	19,392,007	39,023,371
<b>Net book value</b>					
December 31, 2016	₱837,788	₱62,222	₱1,308,188	₱2,489,232	₱4,697,430

  

	2015				
	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Computer Equipment	Total
<b>Cost</b>					
Balance at beginning of year	₱5,555,078	₱2,843,105	₱12,282,950	₱18,517,352	₱39,198,485
Additions	30,304	-	-	698,680	728,984
Balance at end of year	5,585,382	2,843,105	12,282,950	19,216,032	39,927,469
<b>Accumulated depreciation and amortization</b>					
Balance at beginning of year	5,134,602	2,843,105	8,548,603	18,117,296	34,643,606
Depreciation and amortization (Note 18)	348,344	-	1,235,837	288,472	1,872,653
Balance at end of year	5,482,946	2,843,105	9,784,440	18,405,768	36,516,259
<b>Net book value</b>					
December 31, 2015	₱102,436	₱-	₱2,498,510	₱810,264	₱3,411,210



## 10. Other Assets

This account consists of:

	2016	2015
Creditable withholding taxes	<b>₱61,526,545</b>	₱59,919,019
Input value added tax (VAT)	<b>14,545,692</b>	12,841,828
Documentary stamps fund	<b>10,593,249</b>	1,836,376
Security fund	<b>18,690</b>	18,690
	<b>₱86,684,176</b>	₱74,615,913

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

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

## 11. Insurance Contract Liabilities and Reinsurance Assets

Analysis of short-term insurance contract liabilities net of reinsurance assets follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2016	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2015
Provision for claims reported and loss adjustment expenses	<b>₱343,017,916</b>	<b>₱328,936,395</b>	<b>₱14,081,521</b>	₱184,272,917	₱174,368,043	₱9,904,874
Provision for IBNR claims	<b>344,325</b>	-	<b>344,325</b>	372,703	-	372,703
Total provision for claims reported and IBNR claims (Note 22)	<b>343,362,241</b>	<b>328,936,395</b>	<b>14,425,846</b>	184,645,620	174,368,043	10,277,577
Provision for unearned premiums	<b>727,229,394</b>	<b>672,325,154</b>	<b>54,904,240</b>	671,720,610	660,121,353	11,599,257
Total insurance contract liabilities	<b>₱1,070,591,635</b>	<b>₱1,001,261,549</b>	<b>₱69,330,086</b>	₱856,366,230	₱834,489,396	₱21,876,834

Provision for claims reported and IBNR claims may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2016	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2015
Balance at beginning of year	<b>₱184,645,620</b>	<b>₱174,368,043</b>	<b>₱10,277,577</b>	₱234,131,890	₱220,317,424	₱13,814,466
Claims incurred during the year	<b>256,012,895</b>	<b>243,554,137</b>	<b>12,458,758</b>	86,489,056	81,699,435	4,789,621
(Decrease)/increase in IBNR claims	<b>(28,379)</b>	-	<b>(28,379)</b>	(394,097)	-	(394,097)
Claims paid during the year (Note 17)	<b>(97,267,895)</b>	<b>(88,985,785)</b>	<b>(8,282,110)</b>	(135,581,229)	(127,648,816)	(7,932,413)
Balance at end of year	<b>₱343,362,241</b>	<b>₱328,936,395</b>	<b>₱14,425,846</b>	₱184,645,620	₱174,368,043	₱10,277,577



Provision for unearned premiums may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2016	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2015
Balance at beginning of year	₱671,720,610	₱660,121,354	₱11,599,256	₱520,591,545	₱513,151,023	₱7,440,522
New policies written during the year (Note 15)	1,403,593,310	1,323,181,750	80,411,560	1,256,669,127	1,228,976,289	27,692,838
Premiums earned during the year (Note 15)	(1,348,084,526)	(1,310,977,951)	(37,106,575)	(1,105,540,062)	(1,082,005,959)	(23,534,103)
Balance at end of year	₱727,229,394	₱672,325,153	₱54,904,241	₱671,720,610	₱660,121,353	₱11,599,257

## 12. Insurance Payables

The roll-forward analysis of insurance payables follows:

	2016			2015		
	Due to reinsurers and ceding companies	Funds held for reinsurers	Total	Due to reinsurers and ceding companies	Funds held for reinsurers	Total
At January 1	₱482,145,479	₱-	₱482,145,479	₱328,802,927	₱-	₱328,802,927
Arising during the year (Note 15)	1,323,181,750	-	1,323,181,750	1,228,976,289	4,871,948	1,233,848,238
Settled	(1,342,454,336)	-	(1,342,454,336)	(1,075,633,737)	(4,871,948)	(1,080,505,686)
At December 31	₱462,872,893	₱-	₱462,872,893	₱482,145,479	₱-	₱482,145,479

Interest expense on funds held for reinsurers amounted to ₱2,947 and ₱105,255 in 2016 and 2015, respectively.

## 13. Accounts Payable and Accrued Expenses

This account consists of:

	2016	2015
Accounts payable	₱36,124,485	₱35,083,846
Commission payable	22,921,300	14,004,448
Output VAT	18,931,367	10,665,609
Customers' deposits	11,653,552	20,867,687
Taxes payable	4,155,478	1,105,357
Accrued expenses	4,040,825	1,559,209
Others	152,792	348,395
	₱97,979,799	₱83,634,551

Accounts payable and accrued expenses are expected to be settled within twelve (12) months after the end of the reporting period.

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

Output VAT is mainly composed of VAT due from premium income and reinsurance commission earned.



Customers' deposits are advanced premium collections from policyholders which will be recognized as premium income upon the inception of the policies.

Taxes payable consists of taxes and licenses payable, documentary stamps, withholding taxes and other taxes.

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#### 14. Net Pension Benefit Obligation

The Company has a funded, noncontributory, defined benefit retirement plan covering substantially all of its employees.

The following tables summarize the components of the "Net pension benefit expense" recognized in the statement of income, under "General expenses" account (see Note 18), "Remeasurements on defined benefit plan" recognized in the statement of comprehensive income, and the unfunded status recognized in the statement of financial position for the retirement plan.

##### *Net pension benefit expense*

	2016	2015
Current service cost	<b>₱975,558</b>	₱1,007,001
Net interest cost	<b>497,630</b>	466,786
Net benefit expense	<b>₱1,473,188</b>	₱1,473,787

##### *Remeasurement effects to be recognized in OCI*

	2016	2015
Actuarial gain (loss):		
Due to experience	<b>(₱157,890)</b>	₱17,628
Due to change in demographic assumption	-	(15,925)
Due to change in financial assumption	<b>39,375</b>	123,005
	<b>(118,515)</b>	124,708
Return on assets (excluding amount included in net interest cost)	<b>(111,602)</b>	(95,814)
Total gain (loss) to be recognized in OCI	<b>(₱230,117)</b>	₱28,894

##### *Net pension benefit obligation*

	2016	2015
Present value of defined benefit obligation	<b>₱14,445,459</b>	₱12,728,941
Less fair value of plan assets	<b>2,565,660</b>	2,552,447
Net pension benefit obligation	<b>₱11,879,799</b>	₱10,176,494



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

	2016	2015
At January 1	P12,728,941	P13,218,979
Interest cost	622,445	577,669
Current service cost	975,558	1,007,001
Actuarial loss (gain) on obligation	118,515	(124,708)
Transfers	-	(1,950,000)
At December 31	<b>P14,445,459</b>	<b>P12,728,941</b>

The movements in the fair value of the plan assets follow:

	2016	2015
At January 1	P2,552,447	P2,537,378
Interest income	124,815	110,883
Return on assets (excluding amount included in net interest cost)	(111,602)	(95,814)
At December 31	<b>P2,565,660</b>	<b>P2,552,447</b>
Actual return on plan assets	<b>P13,213</b>	<b>P15,070</b>

The distribution of plan assets as of December 31, 2016 and 2015 follows:

	2016	2015
Investments in government securities	P2,048,296	P1,358,361
Accrued interest income	15,857	12,120
Savings and time deposits	504,726	1,185,154
	<b>2,568,879</b>	<b>2,555,635</b>
Less trust fund fees payable	3,219	3,188
	<b>P2,565,660</b>	<b>P2,552,447</b>

The principal actuarial assumptions used in determining pension benefit obligation are as follows:

	2016	2015
Salary increase rate	3.00%	3.00%
Discount rate	5.03%	4.89%

The Company expects to contribute P2,305,993 to its defined benefit plan in 2017.

#### *Sensitivity analysis*

The sensitivity analysis in the next page 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 all other assumptions were held constant.



		2016	2015
	Change in variables	Increase (Decrease)	Increase (Decrease)
<b>Discount rate</b>	+5%	(₱114,788)	(₱106,164)
	-5%	146,459	119,597
<b>Salary increase rate</b>	+1%	320,165	268,268
	-1%	(206,191)	(190,501)

*Maturity profile*

Shown below is the maturity analysis of the undiscounted benefits payments as of December 31, 2016:

Less than one (1) year	₱4,850,257
More than one (1) year to five (5) years	1,268,117
More than five (5) years to 10 years	10,055,832
More than 10 years to 15 years	7,127,901
More than 15 years to 20 years	7,019,463
More than 20 years	42,354,992
	₱72,676,562

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

**15. Net Premiums Earned**

Net premiums earned on insurance contracts are as follows:

	2016	2015
Gross premiums on insurance contracts:		
Direct insurance	₱691,294,620	₱524,979,194
Assumed reinsurance	712,298,690	731,689,933
Total gross premiums on insurance contracts (Note 11)	1,403,593,310	1,256,669,127
Gross change in provision for unearned premiums (Note 11)	(55,508,784)	(151,129,065)
<b>Total gross premiums earned on insurance contracts</b>	<b>1,348,084,526</b>	<b>1,105,540,062</b>
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	617,880,511	502,085,744
Assumed reinsurance	705,301,239	726,890,545
Total reinsurers' share of gross premiums on insurance contracts (Note 11)	1,323,181,750	1,228,976,289
Reinsurers' share of change in provision for unearned premiums (Note 11)	(12,203,799)	(146,970,330)
<b>Total reinsurers' share of gross premiums earned on insurance contracts</b>	<b>1,310,977,951</b>	<b>1,082,005,959</b>
<b>Net premiums earned</b>	<b>₱37,106,575</b>	<b>₱23,534,103</b>



**16. Investment and Other Income - net**

Investments and other income consist of the following:

	2016	2015
Interest income:		
Financial assets at FVPL	<b>₱5,105,634</b>	₱4,830,438
Cash and cash equivalents and short-term and long-term investments	<b>4,974,608</b>	4,319,297
Dividend income	<b>3,710</b>	5,320
Fair value losses on financial assets at FVPL (Note 6)	<b>(1,592,863)</b>	(1,713,478)
Loss on redemption of financial assets at FVPL (Note 6)	<b>(384,776)</b>	(270,579)
Others	<b>1,763,480</b>	(982,909)
	<b>₱9,869,793</b>	₱6,188,089

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

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

	2016	2015
Insurance contract benefits and claims paid:		
Direct insurance	<b>₱73,952,846</b>	₱120,580,855
Assumed reinsurance	<b>23,315,049</b>	15,000,374
<b>Total insurance contract benefits and claims paid (Note 11)</b>	<b>₱97,267,895</b>	₱135,581,229

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

	2016	2015
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	<b>₱65,362,369</b>	₱112,863,058
Assumed reinsurance	<b>23,623,416</b>	14,785,758
<b>Total reinsurers' share of insurance contract benefits and claims paid (Note 11)</b>	<b>₱88,985,785</b>	₱127,648,816

Gross change in insurance contract liabilities:

	2016	2015
Change in provision for claims reported:		
Direct insurance	<b>(₱26,403,775)</b>	(₱19,596,652)
Assumed reinsurance	<b>185,148,776</b>	(29,495,521)
Change in provision for IBNR claims	<b>(28,379)</b>	(394,097)
<b>Total gross change in insurance contract liabilities (Note 11)</b>	<b>₱158,716,622</b>	(₱49,486,270)





Reinsurers' share of gross change in insurance contract liabilities:

	2016	2015
Reinsurers' share of gross change in outstanding claims provisions:		
Direct insurance	(₱126,881,703)	₱3,041,717
Assumed reinsurance	(27,686,649)	42,907,664
<b>Total reinsurers' share of gross change in insurance contract liabilities (Note 11)</b>	<b>(₱154,568,352)</b>	<b>₱45,949,381</b>

## 18. General Expenses

This account consists of:

	2016	2015
Salaries and benefits (Notes 14 and 24)	₱31,683,729	₱25,630,771
Professional fees	7,366,634	5,507,213
Rent (Note 24)	5,547,216	5,840,721
Communication, light and water	4,604,894	3,875,362
Entertainment, amusement and recreation	4,563,724	4,015,421
Service fees	3,725,004	3,690,006
Advertising	1,235,168	66,552
Transportation	2,924,741	2,888,580
Maintenance and repairs	2,591,283	1,004,319
Depreciation and amortization (Note 9)	2,507,112	1,872,653
Taxes, licenses and fees	2,066,535	8,036,152
Net pension benefit expense (Note 14)	1,473,188	1,473,787
Stationery and supplies	1,157,969	924,873
Insurance	1,093,201	1,040,657
SSS, HDMF and other contributions	933,351	662,995
Trainings and seminars	116,600	67,190
Write-off loss on accounts receivable (Note 6)	-	1,391,127
Bad debts expense (Note 5)	-	30,740
Others	806,110	600,522
	<b>₱74,396,459</b>	<b>₱68,619,641</b>

## 19. Income Tax

The provision for income tax consists of:

	2016	2015
Current	₱7,490,625	₱905,693
Final	2,199,067	1,695,288
Deferred	(2,727,200)	2,823,317
	<b>₱6,962,492</b>	<b>₱5,424,298</b>

The current provision for income tax pertains to RCIT and MCIT in 2016 and 2015, respectively.



The components of net deferred tax assets follow:

	2016	2015
Deferred tax assets:		
Deferred reinsurance commissions	<b>₱19,822,793</b>	₱15,024,485
Net pension benefit obligation - Profit or Loss	<b>3,037,453</b>	2,595,498
NOLCO	-	2,342,095
Excess MCIT	-	2,005,341
Unrealized impairment loss on AFS financial assets	<b>150,000</b>	150,000
Provision for IBNR claims	<b>103,298</b>	111,811
Allowance for doubtful accounts	<b>91,732</b>	102,264
	<b>23,205,276</b>	22,331,494
Deferred tax assets through OCI		
Remeasurements on pension	<b>526,487</b>	457,450
Total deferred tax assets	<b>23,731,763</b>	22,788,944
Deferred tax liabilities:		
Deferred acquisition costs	<b>12,230,894</b>	8,118,468
Unrealized foreign currency exchange gains	<b>3,494,921</b>	2,375,434
Difference in provision for unearned premiums per books over tax basis - net	<b>(6,961,457)</b>	123,872
Total deferred tax liabilities	<b>8,764,358</b>	10,617,774
Net deferred tax assets	<b>₱14,967,405</b>	₱12,171,170

Movements in net deferred tax assets comprise of:

	2016	2015
At beginning of the year	<b>₱12,171,170</b>	₱15,003,151
Amounts credited to (charged against) statements of income	<b>2,727,200</b>	(2,823,317)
Amount charged against statements of comprehensive income	<b>69,035</b>	(8,664)
At end of the year	<b>₱14,967,405</b>	₱12,171,170

NOLCO in 2015 amounting to ₱7,806,984 was applied against taxable income in 2016.

Excess MCIT incurred in 2013 to 2015 totaling to ₱2,005,341 was applied against tax due in 2016.



The reconciliation of provision for income tax computed at the statutory corporate income tax rate to provision for income tax shown in the statements of income follows:

	<b>2016</b>	2015
Income at statutory income tax rate	<b>30.00%</b>	30.00%
Tax effects of:		
Interest income subjected to final tax	<b>(4.22)</b>	(9.18)
Dividend income	<b>(0.01)</b>	(0.01)
Nondeductible expenses	<b>6.83</b>	21.40
Loss on redemption of financial assets at FVPL	<b>0.59</b>	0.71
Fair value losses on financial assets at FVPL	<b>2.45</b>	4.49
<b>Provision for income tax</b>	<b>35.64%</b>	47.41%

## 20. Contingencies

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position and results of operation.

## 21. Reconciliation of Net Income under PFRS to Statutory Net Income (Loss)

The reconciliation of net income under PFRS to statutory net income (loss) follows:

	<b>2016</b>	2015
Net income under PFRS	<b>₱12,571,792</b>	₱6,015,670
Add (deduct):		
Difference in change in reserve for unearned premiums - net	<b>23,617,764</b>	(1,647,651)
Deferred reinsurance commissions - net	<b>2,286,274</b>	(7,426,059)
Provision for IBNR	<b>(505,497)</b>	(394,098)
Tax effects of PFRS reconciling items	<b>(7,619,562)</b>	2,840,343
<b>Statutory net income (loss)</b>	<b>₱30,350,771</b>	(₱611,795)

## 22. Management of Capital, Insurance and Financial Risks

### Governance Framework

The Company, pursuant to Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code of the Philippines submitted to the Insurance Commission the general disclosure requirement with respect to its operations. It includes capitalization, shareholders of record, board composition and size including qualifications, mission and responsibilities of the board, management accountability, internal control and operational risk management. It likewise declares its public accountability and transparency in financial reporting in compliance with the good governance requirements.



Regulatory Framework

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

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

Capital Management Framework

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

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

*Minimum Statutory Networth*

On August 15, 2013, the President of the Philippines approved Republic Act No. 10607, otherwise known as the “New Insurance Code” which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

<u>Networth</u>	<u>Compliance Date</u>
₱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:

<u>Minimum Networth</u>	<u>Compliance Date</u>
₱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 ₱1,105,945,737 and ₱416,185,230, respectively. In compliance with the minimum net worth requirement, the BOD of PGA Sompo Insurance Corporation approved the infusion of additional cash amounting to ₱350,000,000 on November 8, 2016.

On November 28, 2016 and December 14, 2016, the Company received cash capital from Sompo Holdings (Asia) Pte Ltd and Robert Coyiuto, Jr. amounting to ₱140,000,000 and ₱210,000,000, respectively.

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

*Risk-based Capital Requirements*

The Amended Code provides that the Commissioner may require the adoption of the risk-based capital approach and other internationally accepted forms of capital framework. Together with the insurance industry, the IC is currently in the process of adopting a new RBC approach that would be more tailored to the Philippine insurance industry. Pending the adoption of the new RBC approach, the provisions of IMC No. 7-2006 shall still be used for purposes of the December 31, 2016 and 2015 financial reporting.

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

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

The following table shows how the RBC ratio as of December 31, 2016 and 2015 was determined by the Company:

	<b>2016</b>	2015
Net worth	<b>₱1,105,945,737</b>	₱416,185,230
RBC requirement	<b>594,870,625</b>	297,729,760
RBC Ratio	<b>186%</b>	140%

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 insurance contract is the possibility of occurrence of insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments will exceed the carrying amount of insurance contract liabilities. This is influenced by the frequency of claims, severity of claims and actual benefits paid that are greater than originally estimated.

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



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

Although the Company has reinsurance agreements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The business of the Company mainly comprises of short-term nonlife insurance contracts.

The Company principally issues the following types of general insurance contracts: fire, engineering, marine, motor car, personal accident, general accident and bonds.

The table below sets out the concentration of the claims provisions as of December 31, 2016 and 2015 by type of contract (see Note 11).

	<b>Gross</b>	<b>Reinsurers' Share</b>	<b>Net 2016</b>	<b>Gross</b>	<b>Reinsurers' Share</b>	<b>Net 2015</b>
Property	<b>₱289,491,262</b>	<b>₱285,760,867</b>	<b>₱3,730,395</b>	₱100,522,921	₱98,628,115	₱1,894,806
Marine	<b>16,262,972</b>	<b>15,384,346</b>	<b>878,626</b>	25,516,005	23,748,845	1,767,160
General Accident	<b>30,253,107</b>	<b>27,319,056</b>	<b>2,934,051</b>	55,107,374	51,831,522	3,275,852
Motor	<b>5,827,526</b>	<b>353,315</b>	<b>5,474,211</b>	3,458,977	130,664	3,328,313
Personal Accident	<b>149,431</b>	<b>118,811</b>	<b>30,620</b>	40,343	28,897	11,446
Medical	<b>1,335,980</b>	-	<b>1,335,980</b>	-	-	-
Casualty	<b>41,963</b>	-	<b>41,963</b>	-	-	-
	<b>₱343,362,241</b>	<b>₱328,936,395</b>	<b>₱14,425,846</b>	₱184,645,620	₱174,368,043	₱10,277,577

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

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

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

#### *Assumptions*

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.



Other key assumptions include delays in settlement and changes in foreign currency exchange rates.

*Sensitivities*

In insurance, as a rule, there may be claims filed in the current year that would attach policies issued in the previous years. This in effect makes claims provisions highly sensitive as represented by the table below. Other unpredictable circumstances, like legislative uncertainties, make it impossible to quantify claims. Also, due to delays arising between occurrence of claims and their subsequent reporting to and settlement by the Company, the outstanding claim provisions cannot be ascertained with confidence at the reporting date. As a result, the final liabilities will change as a result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent year's financial statements.

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

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

2016				
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	25% Increase	₱25,314,357	₱3,107,595	(₱3,107,595)
Average number of claims	10% Increase	10,125,743	1,243,038	(1,243,038)
2015				
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	25% Increase	₱33,895,308	₱1,098,881	(₱1,098,881)
Average number of claims	10% Increase	13,558,123	439,552	(439,552)





*Claims Development Table*

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR claims for each successive accident year at each reporting date, together with cumulative payments to date (see Note 11).

Accident year	2007 and prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
<b>Estimate of ultimate claims costs:</b>											
At the end of accident year	₱275,873,308	₱78,120,530	₱330,447,511	₱560,353,419	₱106,500,448	₱188,839,808	₱199,101,904	₱113,943,504	₱71,441,553	₱283,120,944	₱283,120,944
One year later	361,341,468	149,685,968	453,241,737	936,409,875	183,087,250	335,518,056	272,812,278	106,927,612	77,883,222		77,883,222
Two years later	417,457,221	151,439,569	513,219,330	936,443,223	189,739,012	397,181,911	252,577,638	99,911,720			99,911,720
Three years later	443,282,452	152,699,865	529,435,210	936,443,224	189,296,357	670,013,028	232,342,999				232,342,999
Four years later	447,213,760	154,071,973	534,702,347	936,444,654	189,285,745	670,029,466					670,029,466
Five years later	447,214,177	154,076,500	534,167,443	936,452,500	189,269,133						189,269,133
Six years later	447,348,243	154,081,027	534,128,157	936,460,346							936,460,346
Seven years later	447,373,931	154,080,914	534,088,872								534,088,872
Eight years later	447,059,476	154,080,801									154,080,801
Nine years later	447,066,278										447,066,278
Current estimate of cumulative claims	447,066,278	154,080,801	534,088,872	936,460,346	189,269,133	670,029,466	232,342,999	99,911,720	77,883,222	283,120,944	3,624,253,781
Cumulative payments to date	447,066,278	154,080,801	533,591,633	936,458,917	189,188,542	668,339,275	214,124,536	88,113,807	41,352,528	8,575,223	3,280,891,540
Liability recognized in the statement of financial position	₱-	₱	₱497,239	₱1,430	₱80,591	₱1,690,191	₱18,218,463	₱11,797,913	₱36,530,694	₱274,545,721	₱343,362,241

Accident year	Net Insurance Contract Liabilities										
	2007 and prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
<b>Estimate of ultimate claims costs:</b>											
At the end of accident year	₱71,696,687	₱660,883	₱4,908,139	₱3,723,444	₱4,327,116	₱4,849,821	₱20,520,072	₱113,658,947	₱4,059,626	₱12,191,187	₱12,191,187
One year later	90,896,108	4,733,800	5,021,128	10,501,912	6,268,439	533,789	94,230,447	113,809,732	5,489,125		5,489,125
Two years later	94,104,470	4,735,343	5,166,514	10,502,833	10,867,800	62,197,645	94,153,327	113,960,517			113,960,517
Three years later	44,497,537	4,243,582	5,348,938	10,502,833	10,425,145	335,061,691	94,076,207				94,076,207
Four years later	45,241,622	4,285,786	5,768,414	10,504,264	10,430,912	335,111,058					335,111,058
Five years later	45,298,251	4,285,793	5,233,510	10,504,855	10,430,680						10,430,680
Six years later	45,306,568	4,290,320	5,235,429	10,505,447							10,505,447
Seven years later	45,332,256	4,290,440	5,237,348								5,237,348
Eight years later	45,333,971	4,290,559									4,290,559
Nine years later	21,802,903										21,802,903
Current estimate of cumulative claims	21,802,903	4,290,559	5,237,348	10,505,447	10,430,680	335,111,058	94,076,207	113,960,517	5,489,125	12,191,187	613,095,031
Cumulative payments to date	21,802,903	4,290,559	5,216,457	10,505,387	10,427,295	335,040,047	93,310,786	113,464,845	3,954,343	656,563	598,669,185
Liability recognized in the statement of financial position	₱-	₱-	₱20,891	₱60	₱3,385	₱71,011	₱765,421	₱495,672	₱1,534,782	₱11,534,624	₱14,425,846



The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and development. As claims develop and the ultimate costs of claims become more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

#### Financial Risk

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

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

#### *Credit Risk*

Credit risk is a risk due to uncertainty in a counterparty's ability to meet its obligation.

Prior to extending credit, the Company manages its credit risk by assessing credit quality of its counterparty.

Another method by which the Company manages its credit risk exposure is through credit analysis. This is a process of assessing the credit quality of a counterparty, which is a process that entails judgment.

The credit policy group reviews all information about the counterparty which may include its statements of financial position, statements of income and other market information. The nature of the obligation is likewise considered. Based upon this analysis, the credit analyst assigns the counterparty a credit rating to determine whether or not credit may be provided.

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

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

	2016	2015
Cash and cash equivalents (excluding cash on hand)	<b>₱640,303,217</b>	₱347,211,787
Short-term investments	<b>4,972,000</b>	24,806,578
Insurance receivables - net	<b>461,907,681</b>	398,014,729
Financial assets at FVPL	<b>155,530,599</b>	108,328,796
AFS financial assets	<b>42,047,775</b>	39,071,749
Loans and receivables - net	<b>36,683,217</b>	28,259,339
Reinsurance recoverable on unpaid losses	<b>328,936,395</b>	174,368,043
<b>Total</b>	<b>₱1,670,380,884</b>	₱1,120,061,021



The table below provides information regarding the credit quality of the Company by classifying assets according to the Company's credit ratings of counterparties as of December 31, 2016 and 2015.

**2016**

	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Medium grade	Low grade			
Cash and cash equivalents	₱640,343,217	₱-	₱-	₱-	₱-	₱640,343,217
Short-term investments	4,972,000	-	-	-	-	4,972,000
Insurance receivables	357,294,484	-	-	104,613,197	305,773	462,213,454
Financial assets at FVPL	155,530,599	-	-	-	-	155,530,599
AFS financial assets	42,047,775	-	-	-	-	42,047,775
Loans and receivables	36,683,217	-	-	-	-	36,683,217
Reinsurance recoverable on unpaid losses	328,936,395	-	-	-	-	328,936,395
	<b>₱1,565,807,687</b>	<b>₱-</b>	<b>₱-</b>	<b>₱104,613,197</b>	<b>₱305,773</b>	<b>₱1,670,726,657</b>

**2015**

	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Medium grade	Low grade			
Cash and cash equivalents	₱347,291,787	₱-	₱-	₱-	₱-	₱347,291,787
Short-term investments	24,806,578	-	-	-	-	24,806,578
Insurance receivables	362,671,812	-	-	35,342,917	340,879	398,355,608
Financial assets at FVPL	108,328,796	-	-	-	-	108,328,796
AFS financial assets	39,071,749	-	-	-	-	39,071,749
Loans and receivables	28,259,339	-	-	-	-	28,259,339
Reinsurance recoverable on unpaid losses	174,368,043	-	-	-	-	174,368,043
	<b>₱1,084,798,104</b>	<b>₱-</b>	<b>₱-</b>	<b>₱35,342,917</b>	<b>₱340,879</b>	<b>₱1,120,481,900</b>

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

*Cash and cash equivalents, short-term investments, financial assets at FVPL and AFS financial assets* - Based on the nature of counterparty. High grade pertains to cash, cash equivalents deposited or invested in local banks belonging to the top 10 rankings, short-term investments, financial assets FVPL and AFS financial assets with counterparties having a strong capacity to meet its obligation.

*Insurance receivables, loans and receivables* - High grade pertains to receivables from counterparties with strong capacity to meet its obligation and has no default in payment history; medium grade pertains to receivables from counter parties with average capacity to meet its obligation; and low grade pertains to receivables from counterparties with high probability of default.

The aging analysis of financial assets that are impaired and past due but not impaired follows:

	2016			
	Past due but not impaired		Impaired	Total
	91 to 120 days	121 days beyond		
Due from policyholders	₱387,587	₱23,191,524	₱305,773	₱23,884,884
Due from ceding companies	34,162,883	32,698,991	-	66,861,874
Reinsurance recoverable on paid losses	32,696	14,139,516	-	14,172,212
	<b>₱34,583,166</b>	<b>₱70,030,031</b>	<b>₱305,773</b>	<b>₱104,918,970</b>



	2015			
	Past due but not impaired		Impaired	Total
	91 to 120 days	121 days beyond		
Due from policyholders	₱35,936	₱2,091,758	₱340,879	₱2,468,573
Due from ceding companies	7,349,775	17,225,991	–	24,575,766
Reinsurance recoverable on paid losses	3,465,788	5,173,669	–	8,639,457
	<b>₱10,851,499</b>	<b>₱24,491,418</b>	<b>₱340,879</b>	<b>₱35,683,796</b>

*Liquidity Risk*

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either: the inability to sell financial assets quickly at their fair values; counterparty failing on repayment of a contractual obligation; insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The Company monitors its cash position on a daily basis by preparing a cash report wherein the disbursements and collections are monitored. This report helps the Company in determining periods where it has excess cash or cash short fall.

The table below analyzes financial assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates as of December 31, 2016 and 2015.

	2016				
	Up to a year	1-5 years	Over 5 years	No term	Total
Cash and cash equivalents	₱640,303,217	₱–	₱–	₱–	₱640,303,217
Short-term investments	4,972,000	–	–	–	4,972,000
Insurance receivables	444,349,955	17,863,499	–	–	462,213,454
Financial assets at FVPL	7,182,284	125,731,805	31,391,657	–	164,305,746
AFS financial assets	–	–	–	42,047,775	42,047,775
Loans and receivables	8,806,431	27,876,786	–	–	36,683,217
Reinsurance recoverable on unpaid losses	328,936,395	–	–	–	328,936,395
<b>Total financial assets</b>	<b>₱1,434,550,282</b>	<b>₱171,472,090</b>	<b>₱31,391,657</b>	<b>₱42,047,775</b>	<b>₱1,679,461,804</b>
Insurance payables	₱462,872,893	₱–	₱–	₱–	₱462,872,893
Accounts payable and accrued expenses	63,239,402	–	–	–	63,239,402
Provision for claims reported and IBNR claims	343,362,241	–	–	–	343,362,241
<b>Total financial liabilities</b>	<b>₱869,474,536</b>	<b>₱–</b>	<b>₱–</b>	<b>₱–</b>	<b>₱869,474,536</b>



	2015				Total
	Up to a year	1-5 years	Over 5 years	No term	
Cash and cash equivalents	₱347,251,787	₱-	₱-	₱-	347,251,787
Short-term investments	24,806,578	-	-	-	24,806,578
Insurance receivables	391,900,623	6,114,106	-	-	398,014,729
Financial assets at FVPL	62,584,776	45,744,020	-	-	108,328,796
AFS financial assets	-	-	-	39,071,749	39,071,749
Loans and receivables	2,299,503	25,959,836	-	-	28,259,339
Reinsurance recoverable on unpaid losses	174,368,043	-	-	-	174,368,043
<b>Total financial assets</b>	<b>₱1,003,211,310</b>	<b>₱77,817,962</b>	<b>₱-</b>	<b>₱39,071,749</b>	<b>1,120,101,021</b>
Insurance payables	₱482,145,479	₱-	₱-	₱-	₱482,145,479
Accounts payable and accrued expenses	50,995,898	-	-	-	50,995,898
Provision for claims reported and IBNR claims	184,645,620	-	-	-	184,645,620
<b>Total financial liabilities</b>	<b>₱717,786,997</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱717,786,997</b>

*Market Risk*

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

The Company manages market risk exposures by setting up limits structures and by promulgating specific investment guidelines and strategies. The Company also invests in financial institutions with acceptable ratings from domestic and international credit rating agencies or at least within the top 15 ranking in case of banks. The Company also ensures that its investments comply with the guidelines and requirements set out by the IC.

*a. Currency risk*

The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arises primarily with respect to US Dollar and Japanese Yen transactions and balances.

The table below summarizes the Company's exposure to foreign currency exchange rate risks as of December 31, 2016 and 2015 by categorizing assets and liabilities by major currencies.

	2016		2015	
	U.S. Dollar	Japanese Yen	U.S. Dollar	Japanese Yen
Cash and cash equivalents	\$1,003,318	¥4,662,892	\$2,004,405	¥899,186
Insurance receivables	13,853,174	8,886,470	25,438,822	3,092,690
Insurance payables	(2,731,670)	(5,965,484)	(3,006,102)	(12,613)
Insurance contract liabilities	(1,236,694)	(1,333,580)	(3,020,801)	(4,875,534)
	\$10,888,128	¥6,250,298	\$21,416,324	(¥871,045)
<b>Philippine peso equivalent</b>	<b>₱541,357,724</b>	<b>₱2,657,002</b>	<b>₱1,007,852,207</b>	<b>(₱341,450)</b>

The table in the next page demonstrates the sensitivity to a reasonably possible change in the US Dollar and Japanese Yen exchange rates, with all other variables held constant, of the Company's profit before tax.



**2016**

	<b>Change in rate</b>	<b>Impact on income before tax Increase (decrease)</b>
<b>US Dollar</b>	<b>+1.16%</b>	<b>₱576,613</b>
<b>Japanese Yen</b>	<b>+2.25%</b>	<b>44,626</b>
<b>US Dollar</b>	<b>-1.16%</b>	<b>(₱576,613)</b>
<b>Japanese Yen</b>	<b>-2.25%</b>	<b>(44,626)</b>

**2015**

	<b>Change in rate</b>	<b>Impact on income before tax Increase (decrease)</b>
<b>US Dollar</b>	<b>+4.36%</b>	<b>₱43,936,332</b>
<b>Japanese Yen</b>	<b>+9.09%</b>	<b>(31,026)</b>
<b>US Dollar</b>	<b>-4.36%</b>	<b>(43,936,332)</b>
<b>Japanese Yen</b>	<b>-9.09%</b>	<b>31,026</b>

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

*b. Fair value interest rate risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in interest rates. The Company's FVPL financial assets bear fixed interest rates and therefore the Company is exposed to fair value interest rate risk but not to cash flow interest rate risk.

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.

	<b>2016</b>				
	<b>Interest Rates</b>	<b>Up to a year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Cash and cash equivalents</b>	<b>0.25% to 2.00%</b>	<b>₱640,343,217</b>	<b>₱-</b>	<b>₱-</b>	<b>₱640,343,217</b>
<b>Short-term investment</b>	<b>2.00%</b>	<b>4,972,000</b>	<b>-</b>	<b>-</b>	<b>4,972,000</b>
<b>Financial assets at FVPL</b>	<b>0.00% to 3.87%</b>	<b>7,182,284</b>	<b>125,731,805</b>	<b>31,391,657</b>	<b>164,305,746</b>
	<b>2015</b>				
	<b>Interest Rates</b>	<b>Up to a year</b>	<b>1-5 years</b>	<b>Over 5 year</b>	<b>Total</b>
Cash and cash equivalents	0.75% to 2.00%	₱347,291,787	₱-	₱-	₱347,291,787
Short-term investment	1.50% to 1.625%	24,806,578	-	-	24,806,578
Financial assets at FVPL	0.00% to 9.13%	62,584,776	45,744,020	-	108,328,796

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

<b><u>December 31, 2016</u></b>	<b>Change in variables</b>	<b>Impact on income before tax Increase (decrease)</b>
		<b>+100 basis points</b>
	<b>-100 basis points</b>	<b>2,815,645</b>



December 31, 2015

+100 basis points	(₱1,279,104)
-100 basis points	1,117,3699

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

c. *Price risk*

The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result changes in market prices, principally AFS equity securities. As of December 31, 2016 and 2015, the Company's AFS equity securities pertain to investment in club shares and quoted equity securities.

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 changes in fair value of available-for-sale financial assets).

	<u>2016</u>	
	<u>Change in variables</u>	<u>Impact on equity Increase (decrease)</u>
PSEi	+4%	₱1,957
	-4%	1,957
	<u>2015</u>	
	<u>Change in variables</u>	<u>Impact on equity Increase (decrease)</u>
PSEi	+13%	₱9,463
	-13%	(9,463)

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**23. Fair Value of Financial Assets and Liabilities**

Fair values of financial assets and liabilities are estimated as follows:

*Cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, insurance payables and accounts payable and accrued expenses* - Due to the short-term nature of the instruments, the fair values approximate the carrying amounts as of the reporting date.

*Financial assets at FVPL and AFS financial assets* - Fair values are generally based on quoted market prices.

*Fair value hierarchy*

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or 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.



	2016			Total
	Level 1	Level 2	Level 3	
<b>AFS Financial Assets</b>				
<b>Listed equity securities</b>				
Common shares	₱47,775	₱-	₱-	₱47,775
Club shares	42,000,000	-	-	42,000,000
<b>Financial assets at FVPL</b>				
<b>Government debt securities</b>				
Local currency	155,530,599	-	-	155,530,599
	<b>₱197,578,374</b>	<b>₱-</b>	<b>₱-</b>	<b>₱197,578,374</b>

	2015			Total
	Level 1	Level 2	Level 3	
<b>AFS Financial Assets</b>				
<b>Listed equity securities</b>				
Common shares	₱71,749	₱-	₱-	₱71,749
Club shares	39,000,000	-	-	39,000,000
<b>Financial assets at FVPL</b>				
<b>Government debt securities</b>				
Local currency	108,328,796	-	-	108,328,796
	<b>₱147,400,545</b>	<b>₱-</b>	<b>₱-</b>	<b>₱147,400,545</b>

There were no financial instruments classified under Levels 2 and 3 categories. There were also no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 24. Related Party Transactions

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

Significant transactions with related parties include the following:

- a. The Company enters into several reinsurance transactions with its related parties in the normal course of business.

Transactions during the year and outstanding balances as of yearend are as follows:

	2016			Terms	Conditions
	Amount	Outstanding balance			
<b>PGAI (Common control)</b>					
Sublease agreement	₱6,516,327	₱-	(1)	On demand; Non-interest bearing	Unsecured; no impairment
Premiums assumed (net of RI commission expense)	204,643,077	220,156,300		On demand; Non-interest bearing	Unsecured; no impairment
Premiums ceded (net of RI commission earned)	43,085,665	24,500,385		-	-
Losses incurred (assumed business)	196,427,887	221,642,310		-	-

(Forward)





2016				
	Amount	Outstanding balance	Terms	Conditions
Losses recoverable (ceded business)	₱89,816,983	₱80,159,195	On demand;	Unsecured;
Service agreement	1,742,273	-	Non-interest bearing (2) On demand;	no impairment Unsecured;
			Non-interest bearing	no impairment
<b>Sompo Japan NipponKoa Holdings (Venturer)</b>				
Cost allocation with 10% mark-up	₱3,700,350	₱1,677,799	(3) On demand;	Unsecured;
			Non-interest bearing	no impairment
<b>Tenet Sompo Insurance PTE LTD. (Common control)</b>				
Premiums ceded (net of RI Commission earned)	233,897	8,454,202		
2015				
	Amount	Outstanding balance	Terms	Conditions
PGAI (Common control)				
Sublease agreement	₱5,634,007	₱-	(1) On demand;	Unsecured;
Premiums assumed (net of RI commission expense)	262,536,149	259,061,058	Non-interest bearing On demand;	no impairment Unsecured;
Premiums ceded (net of RI commission earned)	46,350,464	18,234,923	Non-interest bearing	no impairment
Losses incurred (assumed business)	2,968,012	14,435,814		-
Losses recoverable (ceded business)	127,697,991	88,335,396	On demand;	Unsecured;
			Non-interest bearing (2) On demand;	no impairment Unsecured;
Service agreement	2,061,684	-	Non-interest bearing	no impairment
Sompo Japan NipponKoa Holdings (Venturer)				
Cost allocation with 10% mark-up	₱2,476,048	₱760,514	(3) On demand;	Unsecured;
			Non-interest bearing	no impairment
Tenet Sompo Insurance PTE LTD. (Common control)				
Premiums ceded (net of RI Commission earned)	18,856,652	3,383,336		-

- (1) Sublease agreement with PGAI is renewable at each calendar year. This includes payment for office and parking space rent, association dues and utilities.
- (2) Service agreement with PGAI pertains to salaries of PGAI employees who are seconded to the Company.
- (3) The Company bills Sompo Japan Insurance, Inc. for its share in the expenses with 10% mark-up quarterly.

b. Key management personnel of the Company include executive and non-executive directors and senior management. The salaries of key management personnel amounted to ₱16,098,051 and ₱12,933,967 in 2016 and 2015, respectively.

## 25. Equity

The Company's capital stock consists of:

	2016		2015	
	Shares	Amount	Shares	Amount
Authorized - ₱100 par value	3,000,000	₱300,000,000	3,000,000	₱300,000,000
Issued and outstanding:				
Beginning	3,000,000	₱300,000,000	3,000,000	₱300,000,000
Issuances during the year	-	-	-	-
Ending	3,000,000	₱300,000,000	3,000,000	₱300,000,000



The roll forward of retained earnings follows:

	<b>2016</b>	2015
At January 1	<b>₱77,351,039</b>	₱71,335,369
Net Income	<b>12,571,792</b>	6,015,670
At December 31	<b>₱89,922,831</b>	₱77,351,039

On December 31, 2016 the minimum networth per IC Circular Letter (CL) No. 2015-02-A is ₱550,000,000. The Company's major stockholders Sompo Holdings (Asia) Pte Ltd. and Robert Coyiuto Jr. infused cash capital amounting to ₱140,000,000 and ₱210,000,000 last November 28, 2016 and December 14, 2016, respectively, to comply with the above requirement.

The amount was booked for the meantime as Deposit for Future Stock Subscription under the equity section pending SEC approval on the Company's application to increase its authorized capital stock. The application was filed and received by SEC last December 23, 2016.

As of March 30, 2017, the Company is still waiting for SEC's approval of its application for increase in authorized capital stock.

