

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Financial Position

	December 31	
	2016	2015
ASSETS		
Cash and cash equivalents - note 4	₱497,780,771	₱230,212,851
Insurance receivables (net) - note 5	164,822,758	209,994,705
Reinsurance assets (net) - note 6	33,171,693	42,457,358
Other receivables - note 7	21,069,379	76,663,245
Deferred acquisition costs (net) - note 10	50,829,675	35,877,540
Prepayments - note 11	5,447,002	12,715,234
Held-to-maturity investments (HTM) - note 8	131,399,765	98,925,835
Available-for-sale (AFS) financial assets (net) - note 9	2,509,368	2,391,014
Assets held for sale - note 12	27,190,268	3,896,093
Property and equipment (net) - note 13	19,999,128	19,571,752
Investment properties - note 14	57,377,973	56,239,867
Deferred tax assets - note 27	5,530,345	5,594,948
Other assets - note 15	8,577,934	23,312,595
TOTAL ASSETS	₱1,025,706,059	₱817,853,037
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable and accrued expenses - note 16	₱47,701,914	₱24,387,539
Insurance contract liabilities - note 17	192,555,863	134,497,584
Due to reinsurers - note 18	22,782,035	21,811,482
Retirement benefits obligation - note 19	10,684,467	9,627,303
Deferred tax liabilities - note 27	23,445,801	26,081,009
	297,170,080	216,404,917
Equity		
Capital stock - note 21	300,000,000	250,000,000
Contributed surplus	831,660	831,660
Contingency surplus - note 28	324,630,000	260,480,000
Remeasurement gain on retirement benefits obligation	2,839,395	2,839,395
Revaluation increment on land - note 14	4,879,000	4,879,000
Revaluation reserve on AFS financial assets - note 9	313,567	195,213
Retained earnings	95,042,357	82,222,852
	728,535,979	601,448,120
TOTAL LIABILITIES AND EQUITY	₱1,025,706,059	₱817,853,037

(The accompanying notes are an integral part of these financial statements.)

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Comprehensive Income

	Years Ended December 31	
	2016	2015
UNDERWRITING INCOME		
Gross premium earned	₱396,770,086	₱344,268,061
Premium ceded	(25,604,214)	(21,511,955)
Net premiums on insurance - note 22	371,165,872	322,756,106
Commission income	8,511,791	7,214,305
GROSS UNDERWRITING INCOME	379,677,663	329,970,411
NET INSURANCE BENEFITS AND CLAIMS - note 24	56,720,230	62,348,069
DIRECT UNDERWRITING COSTS - note 25	253,188,640	198,798,679
	309,908,870	261,146,748
NET UNDERWRITING INCOME	69,768,793	68,823,663
OPERATING EXPENSES - note 26	58,529,098	49,499,551
INCOME FROM OPERATIONS	11,239,695	19,324,112
INVESTMENT AND OTHER INCOME (CHARGES) - note 23	6,403,877	7,521,039
INCOME BEFORE INCOME TAX	17,643,572	26,845,151
INCOME TAX EXPENSE - note 27		
Current	7,394,672	961,695
Deferred	(2,570,605)	7,855,845
	4,824,067	8,817,540
NET INCOME	12,819,505	18,027,611
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME	₱12,819,505	₱18,027,611

(The accompanying notes are an integral part of these financial statements.)

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Changes in Equity

	Years Ended December 31	
	2016	2015
CAPITAL STOCK - note 21	₱300,000,000	₱250,000,000
CONTRIBUTED SURPLUS	831,660	831,660
CONTINGENCY SURPLUS - note 28		
Balance at beginning of year	260,480,000	100,480,000
Additional contribution during the year	64,150,000	160,000,000
Balance at end of year	324,630,000	260,480,000
REVALUATION INCREMENT IN LAND - note 14	4,879,000	4,879,000
REVALUATION RESERVE ON AFS		
FINANCIAL ASSETS - note 9		
Balance at beginning of year	195,213	117,365
Unrealized fair value gain	118,354	77,848
Balance at end year	313,567	195,213
RETAINED EARNINGS		
Balance at beginning of year	82,222,852	64,195,241
Net income for the year	12,819,505	18,027,611
Balance at end of year	95,042,357	82,222,852
REMEASUREMENT GAIN (LOSS) ON RETIREMENT		
BENEFITS OBLIGATION - note 19	2,839,395	2,839,395
TOTAL EQUITY	₱728,535,979	₱601,448,120

(The accompanying notes are an integral part of these financial statements.)

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Cash Flows

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱17,643,572	₱26,845,151
Adjustments for:		
Interest and dividend income - note 23	(6,178,981)	(6,097,288)
Depreciation and amortization - note 13	3,420,324	3,320,000
Write-off of receivables - note 26	2,968,887	-
Retirement benefit costs - note 19	1,622,032	1,140,722
Provision for catastrophic losses	107,364	187,164
Loss on disposal of properties - note 12	906,393	-
Unrealized foreign exchange gain	(110,342)	(58,164)
Fair value gain on investment properties - note 14	-	(875,000)
Operating income before working capital changes	20,379,249	24,462,585
Decrease (increase) in:		
Insurance receivables	42,203,060	(31,555,548)
Other receivables	1,334,828	(22,434,890)
Reinsurance assets	9,285,665	(5,827,784)
Deferred acquisition costs	(14,952,135)	(4,999,867)
Prepayments	7,268,232	35,507,131
Increase in:		
Accounts payable and accrued expenses	16,220,523	18,259,913
Insurance contract liabilities	57,950,915	3,536,211
Due to reinsurers	970,553	6,510,478
Cash generated from operations	140,660,890	23,458,229
Payment of retirement obligation - note 19	(564,868)	(148,309)
Interest received on cash in banks and other receivables	4,171,214	4,702,426
Income tax paid	(300,820)	(999,701)
Net cash provided by operating activities	143,966,416	27,012,645
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on cash equivalents and HTM financial assets	2,418,463	2,845,040
Additional investments in:		
HTM financial assets - note 8	(177,258,108)	(87,043,752)
Property and equipment - note 13	(3,847,700)	(944,343)
Investment properties - note 14	(21,885,106)	(2,090,975)
Proceeds from:		
Matured investments - note 8	144,491,958	61,550,938
Sale of properties - note 12	2,989,700	-
Decrease (increase) in other assets	8,291,393	(13,469,247)
Collection from advances to a related party - 30	54,140,562	-
Advances to a related party - note 30	-	(43,690,000)
Net cash used in investing activities	9,341,162	(82,842,339)

(Forwarded)

(Continued)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of capital stock - note 21	50,000,000	-
Additional contributed surplus - note 28	64,150,000	160,000,000
Net cash provided by financing activities	114,150,000	160,000,000
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	110,342	58,164
NET INCREASE IN CASH AND CASH EQUIVALENTS	267,567,920	104,228,470
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	230,212,851	125,984,381
CASH AND CASH EQUIVALENTS AT END OF YEAR - note 4	₱497,780,771	₱230,212,851

(The accompanying notes are an integral part of these financial statements.)

TRAVELLERS INSURANCE & SURETY CORPORATION

Notes to Financial Statements

As at and for the Years Ended December 31, 2016 and 2015

1. CORPORATE INFORMATION

Travellers Insurance & Surety Corporation (the Company) was registered with the Securities and Exchange Commission (SEC) on June 25, 1964. On June 25, 2014, the term for which the Company exists expired. The Company filed with Securities and Exchange Commission (SEC) an application for an amendment of its articles of incorporation extending the life of the Company to another fifty (50) years. The amended Certificate of Incorporation was issued by SEC on June 19, 2014.

The Company is engaged in the business of insurance, guaranty and reinsurance in any branches except life insurance, for a consideration. The Company is owned by a group of Filipino individuals and a domestic corporation.

The Insurance Commission (IC) granted the Company a license to transact certain class of insurance such as fire, marine, casualty and surety except customs bonds, which is renewable every year.

The registered office address of the Company is 10th Floor G.E. Antonino Building T.M. Kalaw Ermita Manila.

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on June 5, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and investment properties which are measured at fair value. The Company presents its statements of financial position in the order of liquidity. An analysis regarding recovery of assets or settlement of liability within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 33.

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

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial years, except for the following new and amended PFRSs and Philippine Interpretations which were adopted as at January 1, 2016. The adoption of the new and amended standards and interpretations did not have any significant effect on the financial statements of the Company.

Annual Improvements to PFRSs 2012-2014 Cycle

PFRS 5 (Amendment), Non-current Assets Held for Sale and Discontinued Operations - Reclassification of Asset from Held for Sale to Held for Distribution or Vice Versa. The amendment add specific guidance for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

PFRS 7 (Amendment), Financial Instruments: Disclosures - Continuing Involvement in a Transferred Asset and Offsetting Disclosures in Condensed Interim Financial Statements. The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

PAS 19 (Amendment), Employee Benefits - Discount Rate for Post-Employment Benefits. The amendments clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level.

The application of the above improvements have no impact on the disclosures and amounts recognized on the Company's financial statements.

The above improvements are effective for annual periods beginning on or after January 1, 2016 and shall be applied retrospectively.

PAS 1 (Amendment), Presentation of Financial Statements - Disclosure Initiative. This amendment gives some guidance on how to apply the concept of materiality in practice. This also provides additional guidance for line items to be presented in statement of financial position and statement of comprehensive income and also introduce new requirements regarding the use of subtotals. Further, the amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of PAS 1. Guidance and examples are also removed with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful. The amendments are effective and applicable for annual periods beginning on or after January 1, 2016. The amendment has no material impact on the disclosures and amounts recognized on the Company's financial statements.

PAS 16 (Amendment), Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation. These amendments clarify that a depreciation method that is based on revenue generated by an activity that includes the use of an asset is not appropriate. This is because such methods reflects a pattern of generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits. The amendments are effective for annual periods beginning on or after January 1, 2016. The amendments have no impact on the financial statements as the Company's depreciation method are not based on revenue.

New accounting standards and amendments to existing standards effective subsequent to January 1, 2016

Standards issued but not yet effective up to the date of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

PAS 7 (Amendment), Statement of Cash Flows - Disclosure Initiative. The amendments require to provide disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The amendments will result in added disclosures to reflect the cash and non-cash changes in liabilities arising from financing activities.

PAS 12 (Amendment), Income Taxes - Recognition of Deferred Tax Assets on Unrealized Losses. These amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments also clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The amendments will not have an impact on the Company's financial statements as the Company has no debt instruments measured at fair value.

PFRS 4 (Amendment), Insurance Contracts - Applying PFRS 9 Financial Instruments and PFRS 4 Insurance Contracts. The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4:(a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach"); and (b) an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the "deferral approach"). The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. An entity would apply the overlay approach retrospectively to designated financial assets, when it first applies PFRS 9. An entity would apply the deferral approach for annual periods beginning on or after January 1, 2018. The amendments will not have an impact on the disclosures and amounts recognized on the Company's financial statements.

PFRS 9, Financial Instruments. The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. The standard is to be effective no earlier than the annual periods beginning January 1, 2018, with earlier application permitted.

The adoption of the standard will result in recognition of equity securities recognized as AFS financial assets to be measured at fair value with fair value changes taken to profit or loss, unless management will take the irrevocable option to take fair value changes to other comprehensive income. Financial instruments designated as fair value hedge and/or cash flow hedge and debt securities will continue to be measured at fair value and amortized cost, respectively, as at the end of the reporting period.

PFRS 16, Leases. This new standard introduces a single lessee accounting model to be applied to all leases, whilst substantially carries forward the lessor accounting requirements in PAS 17 Leases. Lessees recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than twelve (12) months, unless the underlying asset is of low value. Whereas, lessors continue to classify leases as operating leases or finance leases, and to account for those two types of leases differently. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The adoption of the standard will not have a significant impact on the recognition of lease expenses, noncurrent assets and liabilities.

PFRS 15, Revenue from Contracts with Customers. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in that framework is that an entity should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps: (a) identify the contracts with customers; (b) identify the performance obligations in the contract; (c) determine the transaction price; (d) allocate the transaction price to the performance obligations in the contract; and (e) recognize revenue when the entity satisfies a performance obligation. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The standard will not have an impact in the measurement, recognition and disclosure of the Company's revenue.

PFRS 15 (Amendment), Clarifications to PFRS 15 Revenue from Contracts with Customers. This addresses clarifying amendments to PFRS 15 and introduced a transitional relief for entities applying the standard for the first time. The focus of these amendments is on clarifying the application of PFRS 15 when (a) identifying performance obligations by clarifying how to apply the concept of 'distinct', (b) determining whether an entity is acting as principal or an agent in a transaction by clarifying how to apply the control principle, and (c) assessing whether a license transfers to a customer over time or at a point in time by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights. The amendments also add two practical expedients to the transition requirements of PFRS 15 for completed contracts under the full retrospective transition approach and contract modifications at transition. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The standard will not have a significant impact in the measurement, recognition and disclosure of the Company's revenue.

Financial Instruments

Initial recognition, subsequent measurement and classification of financial instruments

The Company recognizes financial assets and financial liabilities in the statements of financial position when it 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 market place are recognized on the settlement date.

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments includes transaction costs, except for those financial assets and liabilities at fair value through profit or loss (FVPL) where the transaction costs are charged to expense in the period incurred.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) financial assets and AFS financial assets. The Company also classifies its financial liabilities into FVPL and other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading, unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in profit or loss under "Other Charges (Net)" as "Fair Value Change" account. Interest income on financial assets at FVPL is included in profit or loss under "Other Charges (Net)" as "Other Income" account.

Financial assets may be designated by management at initial recognition as at FVPL when any of the following criteria is met:

- 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
- The assets are part of a group of financial assets, which are managed, and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Company has no financial assets at FVPL as at December 31, 2016 and 2015.

Determination of fair value and fair value hierarchy

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

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

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

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

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

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

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

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

The Company determines the policies and procedures for both recurring fair value measurement, such as financial assets at FVPL, and for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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.

Fair value measurement disclosures of financial and non-financial assets are presented in Note 29 to the financial statements.

“Day 1” difference

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a “Day 1” difference) in the statements of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data, which is not observable, the difference between the transaction price and model value is only recognized in the statements of comprehensive 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated, taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within twelve (12) months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

As at December 31, 2016 and 2015, the Company's loans and receivables consist of cash and cash equivalents, insurance receivables (net), portion of reinsurance assets (net), other receivables, deposits and security funds presented under Other assets in the statements of financial position (see Notes 4, 5, 6, 7 and 15).

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 depending on the immediate cash requirements of the Company and are subject to an insignificant risk of change in value.

Insurance Receivables

Insurance receivables include premium-related balances due from policy holders, ceding companies and agents for insurance policy issued in the ordinary course of business, less allowance for impairment as at reporting date.

The Company refers to the statutory guideline in evaluating impairment of insurance receivables wherein premiums remaining unpaid beyond a limit set by the IC are impaired. However, in recognizing impairment in the financial statements, the Company considers also several factors such as indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, unusual default or delinquency of payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

AFS financial assets

AFS financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the three other categories. The Company designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in statements of comprehensive income under other comprehensive income as "Unrealized fair value gain (loss) on AFS financial assets", net of deferred income tax effect. When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

When the investment is disposed or determined to be impaired, the cumulative gains or losses recognized in other comprehensive income is reclassified from equity to the income statement as reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on the financial assets previously recognized in the statements of comprehensive income.

Impairment loss recognized in the statements of comprehensive income for an investment in an equity instrument classified as AFS is not reversed through the statements of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in the statements of comprehensive income.

As at December 31, 2016 and 2015, the Company's AFS financial assets consist of equity securities such as golf club share and publicly traded shares of stock (see Note 9).

HTM investments

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM investments when the Company's management has the positive intention and ability to hold the investment to maturity. Investments intended to be held for an undefined period are not included in this category. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Gains and losses are recognized in the statements of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

As at December 31, 2016 and 2015, the Company's HTM investments consist of investments in government securities and agrarian reform bonds (see Note 8).

Financial Liabilities at FVPL

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Company as at FVPL upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Company has no financial liabilities at FVPL as at December 31, 2016 and 2015.

Other financial liabilities

Other financial liabilities are initially recognized at fair value, less directly attributable transaction costs. After initial recognition, these are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the statements of comprehensive income when the liabilities are derecognized as well as through the amortization process.

As at December 31, 2016 and 2015, the Company's other financial liabilities consist of accounts payable and accrued expenses (excluding statutory payables and other liabilities), portion of insurance contract liabilities and due to reinsurers (see Notes 16, 17, and 18).

Impairment of financial assets

The Company assesses at end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the contracted parties or a group of contracted parties 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.

(a) Financial assets carried at cost

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

(b) Loans and receivables and HTM investments

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed 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 of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the statements of comprehensive income.

If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the statements of comprehensive income under "Other income" account. Any subsequent reversal of an impairment loss is recognized in the statements of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company.

(c) AFS financial assets

For AFS financial assets, the Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. 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 other comprehensive income is removed from other comprehensive income and recognized in the statements of comprehensive income.

Impairment losses on equity investments are not reversed through the statements of comprehensive income. Increases in fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost.

Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows, for the purpose of measuring impairment loss. Such accrual is recorded as “Interest income” in the statements of comprehensive income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statements of comprehensive income, the impairment loss is reversed through the statements of comprehensive income.

Derecognition of financial assets and financial liabilities

(a) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Company has transferred its rights 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.

(b) Financial liabilities

A financial liability is derecognized when the obligation under the liability was 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 statements of comprehensive income.

Offsetting of financial instruments

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

Insurance Contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines a significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 20% more than the benefits payable if the insured event did not occur. 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.

Insurance Contract Liabilities

i) General Insurance Contract Liabilities

Insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of insurance claims, particularly in respect of liability business, environmental and pollution exposures, 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 and includes provision for IBNR losses. The liability is derecognized, cancelled or has expired.

ii) Provision for Unearned Premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premiums. Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using 24th method. The change in the provision for unearned premiums is taken to the statements of comprehensive 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.

iii) Liability Adequacy Test (LAT)

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of unearned premiums net of related deferred acquisition cost asset. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the statements of comprehensive income by establishing an unexpired risk provision for losses arising from the liability adequacy tests.

Reinsurance Assets

The Company assumed and cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue 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. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

Deferred Acquisition Costs

Deferred acquisition costs consist of commission and other acquisition costs incurred during the financial period that varies with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods. Deferred acquisition costs is capitalized and amortized over the life of the contract. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract. Amortization is charged against the profit or loss. The unamortized acquisition costs are shown as Deferred acquisition costs in the Asset section of the statements of financial position.

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. The impairment loss is charged to profit or loss. Deferred acquisition costs is also considered in the liability adequacy test for each end of the reporting period.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred.

This also includes the Company's input taxes and prepaid taxes, which are stated at, cost less any impairment in value.

Prepayments that are expected to be realized for no more than twelve (12) months after the reporting period are classified as current asset; otherwise, these are classified as other noncurrent asset.

Assets Held for Sale

The Company classifies assets as held for sale when their carrying amount is to be recovered principally through a sale transaction rather than continuing use and the sale is considered highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and to complete the plan must be initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one (1) year from the date of classification. However, events or circumstances may extend the period to complete the sale beyond one (1) year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the control of the Company and there is sufficient evidence that the Company remains committed to its plan to sell the asset.

These are stated at the lower of carrying amount and fair value less cost to sale and are not subject to depreciation upon classification as held for sale. At reporting date, assessment is performed to determine if properties under this account qualify to be classified as asset held for sale.

Property and Equipment

Property and equipment are initially recognized at cost and subsequently measured at cost less accumulated depreciation and any impairment in value. The initial cost of property and equipment comprises its purchase price, including any costs directly attributable to 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 and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted to an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation of property and equipment commences once the assets are available for use. Depreciation is computed using straight-line basis over the estimated useful lives of the assets such as follows:

Category	No. of years
Condominium office unit	50
Leasehold improvement	3
Transportation equipment	10
Furniture and fixtures	5
Office machine and other equipment	5

Leasehold improvements are depreciated over the expected useful lives or over the term of the lease, if shorter.

The estimated useful lives and depreciation method are reviewed and adjusted periodically, if appropriate to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Investment Properties

Investment properties consist of various lands and a condominium unit held for capital appreciation or for earning rental. Investment properties are measured initially at cost, including transaction costs and subsequently carried at fair value. Fair value of investment properties reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are recognized in the profit or loss in the year in which they arise. Initial cost includes cost incurred initially to acquire an investment property and cost incurred subsequently to add to, replace part of, or service property. Costs of day-to-day servicing are expensed as incurred.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of comprehensive income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Impairment of Nonfinancial Assets

At the end of each reporting period, the Company assesses whether there is any indication that any of its assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income in profit or loss.

Leases

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Company is a party to operating lease as a lessee on the office space it occupies and as lessor on the land and building it leased. Payments made and revenue from such operating leases (less any incentives received and given) are charged to statements of comprehensive income.

Income Taxes

The tax expense comprises current and deferred taxes. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted by the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

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

Retirement Benefits

The Company has an unfunded retirement benefits under defined benefit plan, which defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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 asset, if any.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. The defined benefit cost comprises of the service cost, net interest on the defined benefit liability or asset and the remeasurement of net defined benefit liability or asset.

Service cost which includes current service cost, past service cost and gains or losses on non-routine settlements is recognized as expense in profit or loss. Past service cost is recognized when plan amendment or curtailment occurs. 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 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.

Remeasurement comprising actuarial gains and losses and return on plan asset is recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account "Remeasurement gain (loss) on retirement benefits obligation" is not reclassified to another equity account in subsequent periods. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

The Company's right to be reimbursed of some or all of the expenditures 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

a) Capital stock

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are shown in equity as a deduction from the proceeds, net of tax. The excess of proceeds from issuance of shares over the par value is credit to share premium.

b) Retained earnings

Retained earnings represent accumulated earnings of the Company as disclosed in the statements of comprehensive income.

c) Contributed surplus

Contributed surplus represents contributions from stockholders to the Company in compliance with the requirements of the Insurance Code.

d) Contingency surplus

Contingency surplus represents contribution of the stockholders to cover any deficiency in the Margin of Solvency as required under the Insurance Code and can be withdrawn only upon approval of the IC.

Revenue Recognition

Revenue is recognized to the extent that the revenue can be reliably measured, it is probable that the economic benefits will flow to the Company, and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

a) Premium Revenue

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired periods of the policies at reporting date is accounted for as “Reserve for unearned premiums” and presented under “Insurance contract liabilities” of the statements of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as “Deferred reinsurance premiums” and presented under Reinsurance assets” of the statements of financial position. The net changes in these accounts between each end of reporting periods are recognized in profit or loss.

b) Reinsurance Commission Income

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. Reinsurance commissions are deferred and are subject to the same amortization method as the related premiums ceded. Unamortized reinsurance commissions are shown in the statements of financial position as deferred reinsurance commission income.

c) Interest Income

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

d) Other Income

Other income is recognized when earned.

Expense Recognition

Cost and expenses are recognized in the statements of comprehensive income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

a) Benefits and claims

Benefits and claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. General insurance claims are recorded on the basis of notifications received.

b) Direct underwriting cost

Direct underwriting cost includes commission expenses and direct costs. Commission expenses represent payments to insurance intermediaries such as agents or agencies for direct business solicited by the Company. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as “Deferred acquisition cost” in the assets section of the statements of financial position. Direct costs include processing fees and allocated portion of common expenses.

c) Operating expenses

Operating expenses, which include general and administrative expenses, are recognized as expense as they are incurred.

Functional and Presentation Currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The financial statements are presented in Philippine Peso, which is the Company’s functional currency.

Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at reporting date. All foreign exchange gains and losses are recognized in the statements of comprehensive income.

Provision and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made with 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 assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, an increase in the provision due to the passage of time is recognized as an interest expense. When the Company expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statements of comprehensive income, net of any reimbursement.

Provision are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements. These 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 disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Related Party Relationships and Transactions

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities, which are under common control with the reporting entity and its key management personnel, directors or stockholders. An entity that is a post-employment benefit plan for the employees of the Company, if any and the key management personnel of the Company are also considered to be related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely the legal form.

Events After the Reporting Date

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of any changes will be reflected in the financial statements of the Company as they become reasonably determinable.

Judgment

Distinction between Investment Property and Owner-occupied Property

In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process. Some properties comprise a portion held to earn rentals and another portion held for use in rendering of services and for administrative purposes. If those portions held to earn rentals cannot be sold separately, the entire property is classified as investment property only if insignificant portion is held for use in the rendering of services and for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment. The Company's properties were classified as property and equipment and investment properties based on the above conditions.

Classification of Financial Instruments

The Company classifies a financial instrument, or its components on initial recognition as a financial asset, financial liability or equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

Financial assets are classified as FVPL financial assets, HTM investments, loans and receivables, and AFS financial assets, as appropriate. Financial liabilities, on the other hand, are classified as FVPL financial liabilities and other financial liabilities, as appropriate.

The Company determines the classification of its financial assets and liabilities based on the above conditions.

Impairment of HTM Investments

The Company determines impairment of HTM investments based on its evaluation of the presence of objective evidence of impairment which includes observable data that comes to the attention of the Company such as, but not limited to, significant financial difficulty of the counterparty or the probability that the issuer will enter bankruptcy or other financial re-organization.

Based on management's assessment, there were no indicators of impairment on the Company's HTM investments in 2016 and 2015.

Impairment of Non-financial Assets

The Company assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

Based on management's assessment, there were no indicators of impairment on the Company's non-financial assets in 2016 and 2015.

Classification of Leases

The Company assesses at the inception of the lease whether an arrangement is finance or operating lease based on who bears substantially all the risks and benefits incidental to ownership of the leased item.

The Company has entered into contract of lease as a lessee for the office space of its head office and branches, and as a lessor on its condominium unit under investment property. The Company has determined who bears the significant risks and benefits of ownership on the properties by considering among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Company accordingly accounted for the lease agreements for office space and investment property portfolio as operating lease.

Estimates

Impairment of Loans and Receivables

The Company maintains allowance for impairment at a level considered by management as adequate to provide for potential uncollectible loans and 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 status of the debtors' membership in the Company, the member's payment behavior and known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a continuous basis.

In addition to specific impairment against individually significant loans and receivables, the Company makes a collective impairment assessment against exposures, which, although not specifically identified as requiring a specific impairment, have a greater risk of default than when originally granted. This takes into consideration the Company's historical collection experience.

As at December 31, 2016 and 2015, the carrying amount of loans and receivables, net of allowance for impairment of ₱1,705,522, amounted to ₱713,533,100 and ₱557,820,679 (excluding cash on hand, deferred reinsurance premium, and salvage recoverable), respectively (see Notes 4, 5, 6, 7 and 15).

Estimation of Useful Lives of Property and Equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives are periodically reviewed and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amount of property and equipment, net of accumulated depreciation of ₱23,095,275 and ₱19,674,951, amounted to ₱19,999,128 and ₱19,571,752 as at December 31, 2016 and 2015, respectively (see Note 13).

Estimation of Claims Payable Arising from Insurance Contracts

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies. The primary technique adopted by management in estimating the cost of notified claims is that of using past claim 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. Nonlife insurance claims provisions are not discounted for the time value of money.

The carrying value of insurance contract liabilities amounted to ₱192,555,863 and ₱134,497,584 as of December 31, 2016 and 2015, respectively (see Note 17).

Estimation of Retirement Benefits

The determination of the retirement benefit cost and obligation is dependent on management's assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 and include, among others, discount rates and salary increase rates. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. 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 retirement obligations.

Retirement benefits obligation as at December 31, 2016 and 2015 amounted to ₱10,684,467 and ₱9,627,303, respectively (see Note 19).

Recognition of Deferred Tax Asset

The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount 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 asset to be utilized.

The carrying amount of deferred tax assets as at December 31, 2016 and 2015 that are expected to be recoverable in future periods amounted to ₱5,530,345 and ₱5,594,948, respectively (see Note 27).

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2016	2015
Cash on hand	₱136,500	₱570,296
Cash in banks	472,947,838	45,086,209
Cash equivalents	24,696,433	184,556,346
	₱497,780,771	₱230,212,851

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents include deposits and placements, with maturities of thirty (30) to ninety (90) days, which can be withdrawn anytime depending on the immediate cash requirements of the Company and earn interest at effective rates ranging from 0.62% to 2.25% in 2016 and 2015.

Interest earned from cash and cash equivalents amounted to ₱2,801,012 and ₱2,835,830 in 2016 and 2015, respectively, and is included in interest income account under investment and other income (charges) in the statements of comprehensive income (see Note 23).

There is no restriction in the Company's cash and cash equivalents as at December 31, 2016 and 2015.

5. INSURANCE RECEIVABLES (NET)

This account consists of:

	2016	2015
Due from agents	₱90,471,616	₱47,925,079
Due from ceding companies	21,331,113	21,760,221
Premium receivables	54,725,551	142,014,927
	166,528,280	211,700,227
Less: allowance for impairment	(1,705,522)	(1,705,522)
	₱164,822,758	₱209,994,705

The allowance for impairment pertains to due from agents which are identified by management as doubtful as to collection.

Movements in the allowance for impairment are as follow:

	2016	2015
Balance at beginning of year	₱1,705,552	₱1,705,552
Provision	2,968,887	-
Write-off – note 26	(2,968,887)	-
Balance at end of year	₱1,705,552	₱1,705,552

The following table shows the aging information of insurance receivables:

December 31, 2016						
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Due from ceding companies	₱183,594	₱187,392	₱64,655	₱187,634	₱20,707,838	₱21,331,113
Premium receivables	985,197	1,162,404	1,374,440	4,527,014	46,676,496	54,725,551
Due from agents	-	-	193,533	537,957	89,740,126	90,471,616
	₱1,168,791	₱1,349,796	₱1,632,628	₱5,252,605	₱157,124,460	₱166,528,280

December 31, 2015						
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Due from ceding companies	₱221,746	₱311,484	₱175,385	₱72,810	₱20,978,796	₱21,760,221
Premium receivables	10,850,019	13,259,000	15,820,779	20,125,468	81,959,661	142,014,927
Due from agents	165,118	810,606	2,825,000	3,071,353	41,053,002	47,925,079
	₱11,236,883	₱14,381,090	₱18,821,164	₱23,269,631	₱143,991,459	₱211,700,227

Insurance receivables over 90 days amounting to ₱162,377,065 and ₱167,261,090 in 2016 and 2015, respectively, are considered inadmissible asset in accordance with the IC Circular Letter No. 2014-17.

Due from ceding companies amounting to ₱2,237,292 as of December 31, 2015, are considered inadmissible assets. In 2016, the Company offset these receivables from corresponding liability with the same reinsurer under “Due to reinsurer” liability account and had written-off the remaining balance under “Net insurance benefits and claims” expense account.

6. REINSURANCE ASSETS (NET)

This account consists of:

	2016	2015
Reinsurance recoverable on paid losses	₱13,795,279	₱14,785,309
Reinsurance recoverable on unpaid losses – note 17	1,699,357	6,855,226
Deferred reinsurance premium – note 17	9,791,796	14,040,234
Premium reserve withheld by reinsurer	7,885,261	6,776,589
	₱33,171,693	₱42,457,358

The following table shows the reconciliation of changes in reinsurance recoverable:

	2016	2015
Balance at beginning of year	P21,640,535	P21,512,368
Reinsurers' share from losses	(13,559,343)	(8,021,222)
Collection from reinsurers	7,413,444	8,149,389
Balance at end of year	P15,494,636	P21,640,535

The following table shows the reconciliation of changes in deferred reinsurance premiums:

	2016	2015
Balance at beginning of year	P14,040,234	P9,725,573
Reinsurers' share from losses	21,355,776	4,314,661
Collection from reinsurers	(25,604,214)	-
Balance at end of year	P9,791,796	P14,040,234

Reinsurance recoverable on paid and unpaid losses amounting to P199,180 as of December 31, 2015, are considered inadmissible assets. In 2016, the Company offset these receivables from corresponding liability with the same reinsurer under "Due to reinsurer" liability account and had written-off the remaining balance under "Net insurance benefits and claims" expense account.

7. OTHER RECEIVABLES

This account consists of:

	2016	2015
Mortgage loan receivable – note 30	P14,000,000	P8,585,387
Salary loan receivable – note 30	1,619,193	1,526,360
Advances to employees	636,223	1,180,472
Car loan receivable	415,226	581,894
Advances to related parties – note 30	401,681	60,057,036
Notarial fees receivable	318,272	-
Accrued interest receivable	90,013	208,489
Other nontrade receivables	3,588,771	4,523,607
	P21,069,379	P76,663,245

Advances to related parties include advances to officers amounting to P401,681 and P5,916,474 as at December 31, 2016 and 2015 respectively, and were deposited in a bank under the name of officers for the purpose of funding immediate cash requirement in the Company's operations (see Note 30).

Other nontrade receivables consist mainly of unliquidated advances provided to the Company's branch managers for settlement of claims.

Interest earned from salary, mortgage and other loans, which have interest rates ranging from 10% to 12%, amounted to P1,186,602 and P1,847,946 in 2016 and 2015, respectively, is presented under investment and other income (charges) (see Note 23).

Reclassification

The Company reclassified cash in bank amounting to ₱401,681 as at December 31, 2016, which pertains to bank accounts under the name of officers, from cash and cash equivalents to advances to related parties. Similar account amounting to ₱5,916,474 as at December 31, 2015 was also reclassified for comparability and consistency.

8. HTM INVESTMENTS

HTM investments consist of Philippine government securities and agrarian reform bonds with details as follow:

	2016	2015
Government securities:		
Treasury bills	₱64,216,548	₱80,645,703
Treasury notes	57,358,354	9,689,258
Agrarian reform bonds	9,824,863	8,590,874
	₱131,399,765	₱98,925,835

Government securities are deposited with the Bureau of Treasury of the Philippines as securities for the benefit of the policyholders and creditors of the Company in accordance with the provisions in the Insurance Code of the Philippines. These securities bear fixed interest rates ranging from 2.13% to 10% in 2016 and 1.50% to 10% in 2015.

Interest earned from HTM investments amounted to ₱2,191,367 and ₱1,413,512 in 2016 and 2015, respectively, is presented under investment and other income (charges) (see Note 23).

The following table shows the reconciliation of HTM investments:

	2016	2015
Balance at beginning of year	₱98,925,835	₱74,095,083
Acquisitions	177,258,108	87,043,752
Maturities	(144,491,958)	(61,550,938)
	131,691,985	99,587,897
Amortization of premium	(292,220)	(662,062)
Balance at end of year	₱131,399,765	₱98,925,835

9. AFS FINANCIAL ASSETS (NET)

Movements in AFS financial assets are as follow:

	2016	2015
At acquisition cost:		
Listed shares of stock	₱1,315,801	₱1,315,801
Proprietary club share	880,000	880,000
	2,195,801	2,195,801
Revaluation reserve on AFS financial assets		
Balance at beginning of year	195,213	117,365
Increase in fair value	118,354	77,848
Balance at end of year	313,567	195,213
	₱2,509,368	₱2,391,014

This account represents listed shares of stock and proprietary golf club share, which are carried at fair value. The fair value of AFS financial assets has been determined directly by reference to the published price in an active market (i.e. stock exchange and broker's published price). As at December 31, 2016 and 2015, the Company has no intention to dispose its AFS investments.

10. DEFERRED ACQUISITION COSTS (NET)

The movement of this account follows:

	2016	2015
Balance at beginning of year	P35,877,540	P30,877,673
Cost deferred during the year	112,008,664	84,931,427
Amortization during the year	(97,056,529)	(79,931,560)
Balance at end of year	P50,829,675	P35,877,540

The carrying amounts are net of deferred reinsurance commission income of P3,313,404 and P4,693,275 for the years ended December 31, 2016 and 2015, respectively. The Company did not provide for any impairment loss because the carrying amount of the account approximates its fair value.

11. PREPAYMENTS

This account consists of:

	2016	2015
Prepaid taxes	P3,419,104	P10,957,604
Stationeries and office supplies	1,646,540	1,533,387
Prepaid rent	224,243	224,243
Input value-added tax (VAT)	157,115	-
	P5,447,002	P12,715,234

Prepaid taxes refer to advance payments of documentary stamp taxes and value added made by the Company relative the processing of motor vehicle insurance policies.

12. ASSETS HELD FOR SALE

This account consists of parcels of acquired by the Company through purchase or recovered properties from surety policies previously recorded at estimated amount as Salvage recoverable under the Other assets account. Management's intention is to sell the properties in the near future.

Movement in this account is as follows:

	2016	2015
Balance at beginning of year	P3,896,093	P-
Reclassification – notes 14 and 15	27,190,268	3,896,093
Disposal	(3,896,093)	-
Balance at end of year	P27,190,268	P3,896,093

Disposal pertains to sale of properties previously classified as Salvage recoverable with a carrying amount of ₱3,896,093 for a consideration of ₱2,989,700. Loss on disposal of properties of ₱906,393 is presented under “Investment and other income (charges)” in the statement of comprehensive income (see Note 23).

Based on IC’s recommendation in 2016, the Commission required the disposal of the above properties amounting to ₱27,190,268 until December 31, 2016; otherwise, the same shall be considered as non-admitted asset. Relative to the IC’s recommendation, management requested the Commission to give the Company at least one more year to dispose the properties. The Company is consistently looking for potential buyers for the said property.

As at June 5, 2017, the Company is still in the process of negotiating with prospective buyers. Management expects that the timing of disposal will happen within 2017 at a price that is reasonable in relation to its current recoverable amount.

Reclassification

The Company reclassified certain investment properties and salvage recoverable amounting to ₱20,747,000 and ₱6,443,268, respectively, as at December 31, 2016, which pertains to properties for disposal as recommended by IC, from the Investment properties and Other assets accounts to the Assets held for sale account. Comparative figures as at December 31, 2015 amounting to ₱3,896,093 were also reclassified for consistency.

13. PROPERTY AND EQUIPMENT (NET)

The reconciliation of this account is as follows:

December 31, 2016

	Condominium office unit	Leasehold improvement	Transportation equipment	Furniture and fixtures	Office machine and other equipment	Total
<u>Cost</u>						
Balance at beginning of year	₱14,202,121	₱4,277,303	₱2,668,727	₱5,738,310	₱12,360,242	₱39,246,703
Additions	1,078,750	-	1,553,572	300,999	914,379	3,847,700
Balance at end of year	15,280,871	4,277,303	4,222,299	6,039,309	13,274,621	43,094,403
<u>Accumulated depreciation</u>						
Balance at beginning of year	1,376,349	2,806,336	1,088,584	3,419,894	10,983,788	19,674,951
Depreciation and amortization	385,221	1,312,225	338,479	816,292	568,107	3,420,324
Balance at end of year	1,761,570	4,118,561	1,427,063	4,236,186	11,551,895	23,095,275
Carrying amount	₱13,519,301	₱158,742	₱2,795,236	₱1,803,123	₱1,722,726	₱19,999,128

December 31, 2015

	Condominium office unit	Leasehold improvement	Transportation equipment	Furniture and fixtures	Office machine and other equipment	Total
Cost						
Balance at beginning of year	₱13,718,431	₱4,277,303	₱2,668,727	₱5,689,051	₱11,948,848	₱38,302,360
Additions	483,690	-	-	49,259	411,394	944,343
Balance at end of year	14,202,121	4,277,303	2,668,727	5,738,310	12,360,242	39,246,703
Accumulated depreciation						
Balance at beginning of year	1,097,474	1,458,774	827,784	2,608,269	10,362,650	16,354,951
Depreciation and amortization	278,875	1,347,562	260,800	811,625	621,138	3,320,000
Balance at end of year	1,376,349	2,806,336	1,088,584	3,419,894	10,983,788	19,674,951
Carrying amount	₱12,825,772	₱1,470,967	₱1,580,143	₱2,318,416	₱1,376,454	₱19,571,752

Depreciation and amortization expense is recognized as follows:

	2016	2015
Direct underwriting costs – note 25	₱1,026,097	₱996,000
Operating expenses – note 26	2,394,227	2,324,000
	₱3,420,324	₱3,320,000

14. INVESTMENT PROPERTIES

The Company's investment properties consist of:

	2016	2015
Land and land improvement	₱52,389,059	₱51,250,953
Condominium unit	4,988,914	4,988,914
	₱57,377,973	₱56,239,867

The reconciliation of investment properties is as follows:

	2016	2015
Cost:		
Balance at beginning of year	₱39,528,876	₱25,652,626
Additions and improvement during the year	21,885,106	26,709,297
Transfer to salvage recoverable – note 15	-	(12,833,047)
Reclassified to assets held for sale – note 12	(20,747,000)	-
Balance at end of year	40,666,982	39,528,876
Fair value gain:		
Balance at beginning of year	16,710,991	15,835,991
Fair value gain during the year	-	875,000
Balance at end of year	16,710,991	16,710,991
	₱57,377,973	₱56,239,867

Additions and improvements

2016

- Acquisition of land with a purchase price and other incidental costs amounting to ₱20,265,756
- Site development in a land acquired in Trece Martires City which amounted to ₱1,619,350

2015

- Acquisition of land with a purchase price and other incidental costs amounting to ₱18,243,168
- Construction of a bridge which connects a property located in Trece Martires City to a nearby barangay with aggregate amount of ₱1,877,950, which comprise contract price, cost of supplies, and other incidental costs.
- A condominium unit and land were reclassified from “Salvage recoverable” to “Investment properties” account with an amount of ₱4,988,914 and ₱1,599,265, respectively, per IC’s recommendation on its assessment dated May 11, 2015 (see Note 15). The carrying amount of the land includes cost for improvements amounting to ₱91,047.

Transfers

In 2015, two properties situated in Imus, Cavite with carrying amount of ₱1,563,683 and the properties located in Balanga and Samal, Bataan and Alicia and Ilagan, Isabela with a total amount of ₱11,269,364 were reclassified to “Salvage recoverable” account per IC’s recommendation on its assessment dated May 11, 2015 (see Note 15).

In 2009, a certain land property with a carrying amount of ₱11,152,000 was transferred from property and equipment to investment property since the property will not be used anymore by the Company for administrative purposes and as such, it was decided that it would be held for capital appreciation. Existing revaluation surplus amounting to ₱4,879,000 previously recognized in other comprehensive income is not transferred to profit or loss at the date of transfer. This will be transferred directly to retained earnings upon disposal.

Revaluation

In 2015, a certain investment property was revalued at ₱2,625,000 resulting in fair value gain of ₱875,000 which was presented under “Investment and other income (charges)” in the statement of comprehensive income (see Note 23). However, management believes that the fair value of all other properties approximates their carrying amount as of December 31, 2016 and 2015. Independent firm’s appraisal and management’s assessment on fair value was arrived at using the Market Data Approach. In this approach, the value of a property is based on sales and listings of comparable properties registered within the vicinity.

If the investment properties were carried at the cost model, the carrying amount would be ₱66,097,973 and ₱44,212,867 as at December 31, 2016 and 2015, respectively.

Based on the assessment performed, management believes that there are no assets that are impaired as at reporting date.

Operating expenses arising from these investment properties amounted to ₱92,160 and ₱69,587 in 2016 and 2015, respectively. Rental income on certain investment properties amounted to ₱115,000 and ₱189,514 in 2016 and 2015, respectively.

15. OTHER ASSETS

This account consists of:

	2016	2015
Claims fund	₱5,086,370	₱5,625,737
Salvage recoverable	1,961,139	10,209,545
Deposit on rent, light and water	1,467,012	1,449,977
Security fund	27,166	14,657
Deposit on land	-	6,000,000
Others	36,247	12,679
	₱8,577,934	₱23,312,595

Salvage recoverable pertains to the estimated amount to be recovered by the Company from paid losses on surety policies issued. In 2015, certain properties recovered that were recorded as investment properties in previous years were reclassified back to salvage recoverable based on IC's recommendation on its assessment dated May 11, 2015 (see Note 14).

The movement in salvage recoverable is as follows:

	2016	2015
Balance at beginning of year	₱10,209,545	₱8,011,899
Additions during the year	1,562,592	165,824
Transfer from investment property – note 14	-	12,833,047
Reclassified to investment property – note 14	-	(6,497,132)
Reclassified to assets held for sale – note 12	(6,443,268)	(3,896,093)
Disposal	(2,307,583)	(408,000)
Write-off	(1,060,147)	-
	₱1,961,139	₱10,209,545

Disposal pertains to payment for damages in a lost case against claimant.

Assets included in salvage recoverable amounting to ₱1,060,147, which pertains to long outstanding bonds, were written off in 2016.

Deposit on land in 2015 pertains to 30% downpayment made by the Company for the acquisition of land situated in Paco, Manila.

Claims fund represents Company's cash held by third parties as collateral in the issuance of certain insurance policies and bail bond.

Security fund pertains to guaranty fund deposited with the IC as required under the Insurance Code.

Other assets are considered inadmissible asset per Section 2013 of the Amended Insurance Code.

16. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

	2016	2015
Accounts payable	₱12,965,074	₱8,062,128
Income tax payable	9,385,613	1,034,188
Accrued expenses	666,108	443,979
SSS, Philhealth, HDMF and EC contributions payable	328,029	289,173
Other taxes payable	24,357,090	14,558,071
	₱47,701,914	₱24,387,539

Accounts payable are usually due within thirty (30) days and do not bear any interest.

Other taxes payable consists mainly of documentary stamps payable, local taxes payable, fire service tax payable and output tax payable.

17. INSURANCE CONTRACT LIABILITIES

This account consists of:

	2016			2015		
	Insurance contract liabilities	Reinsurers' share in liabilities – note 6	Net amount	Insurance contract liabilities	Reinsurers' share in liabilities – note 6	Net amount
Provision for claims and losses	₱19,065,003	₱1,699,357	₱17,365,646	₱25,497,444	₱6,855,226	₱18,642,218
Reserve for unearned premiums	173,123,472	9,791,796	163,331,676	108,740,116	14,040,234	94,699,882
Catastrophic loss reserve	367,388	-	367,388	260,024	-	260,024
Total insurance contract liabilities	₱192,555,863	₱11,491,153	₱181,064,710	₱134,497,584	₱20,895,460	₱113,602,124

Provisions for claims reported and losses are net of expected recoveries from salvage and subrogation. The amount for salvage and subrogation claimed during the year is considered immaterial.

Movements in insurance contract liabilities and reinsurers' share in liabilities (reinsurance assets) are as follow:

	2016			2015		
	Gross amount	Reinsurance	Net amount	Gross amount	Reinsurance	Net amount
At January 1	₱25,497,444	₱6,855,226	₱18,642,218	₱24,258,807	₱9,445,007	₱14,813,800
Claims during the year – note 24	57,041,679	321,449	56,720,230	67,779,510	5,431,441	62,348,069
Claims paid – note 24	(63,474,120)	(5,477,318)	(57,996,802)	(66,540,873)	(8,021,222)	(58,519,651)
At December 31	₱19,065,003	₱1,699,357	₱17,365,646	₱25,497,444	₱6,855,226	₱18,642,218

Movement in reserve for unearned premiums is as follows:

	2016			2015		
	Gross amount	Reinsurance	Net amount	Gross amount	Reinsurance	Net amount
At January 1	₱108,740,116	₱14,040,234	₱94,699,882	₱106,629,706	₱9,725,573	₱96,904,133
New policies during the year – note 22	461,153,442	21,355,776	439,797,666	346,378,471	25,826,616	320,551,855
Premiums earned during the year – note 22	(396,770,086)	(25,604,214)	(371,165,872)	(344,268,061)	(21,511,955)	(322,756,106)
At December 31	₱173,123,472	₱9,791,796	₱163,331,676	₱108,740,116	₱14,040,234	₱94,699,882

The Company is required at the end of a particular period to estimate the sum of the individual claims that already occurred but on which the notice has not yet been received by the Company. In 2016 and 2015, the Company failed to comply with the IC requirement due to lack of standard procedure to estimate claims incurred but not yet reported. However, management believes that the amount of claims reported subsequent to December 31, 2016 is not materially different from the amount accrued. The Company will start to address this by complying with the valuation standards under Circular Letter No. 2016-67, which is effective January 1, 2017.

18. DUE TO REINSURERS

Due to reinsurers amounting to ₱22,782,035 and ₱21,811,482 as of December 31, 2016 and 2015, respectively, pertain to amount of insurance liability assumed by the Company from the reinsurers.

19. RETIREMENT BENEFITS OBLIGATION

The Company maintains an unfunded and non-contributory retirement benefit plan covering its regular employees.

The Company's latest actuarial valuation obtained from an independent actuary was in 2013. The Company used the same assumptions thereafter as the Management believes that there were no significant changes in the following years. The computation of retirement benefit costs is based on Republic Act 7641, Retirement Law.

The retirement benefits cost recognized in profit or loss is as follows:

	2016	2015
Current service cost	₱1,162,810	₱728,838
Interest cost	459,222	411,884
	₱1,622,032	₱1,140,722

The retirement benefits cost is allocated as follows:

	2016	2015
Direct underwriting costs – note 25	₱648,813	₱456,289
Operating expenses – note 26	973,219	684,433
	₱1,622,032	₱1,140,722

The movements in retirement benefits obligation recognized in the statements of financial position are as follow:

	2016	2015
Balance at beginning of year	₱9,627,303	₱8,634,890
Interest cost	459,222	411,884
Current service cost	1,162,810	728,838
Benefits paid	(564,868)	(148,309)
Balance at end of year	₱10,684,467	₱9,627,303

Remeasurement loss, net of tax, amounted to nil in 2016 and 2015.

The following actuarial assumptions were used to determine retirement benefits obligation:

	2016	2015
Discount rate	4.77%	4.77%
Salary increase rate	3%	3%

The discount rate as at December 31, 2016 and 2015 was calculated as the resulting single-weighted rate determined by computing the present value of the expected future benefit cash flows across valuation years using the zero coupon rate. The salary increase rate represents the projected increases in employee salaries.

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The Company has no plan asset as at December 31, 2016 and 2015.

Risk Arising from the Retirement Plan

The defined benefit plan is unfunded by ₱10,684,467 and ₱9,627,303 as at December 31, 2016 and 2015, respectively. While there is no minimum required funding, the amount without fund may expose the Company to cash flow risk for 10-15 years when a significant number of employees are expected to retire.

Maturity Profile of Undiscounted Benefit Payments

The maturity analysis on the Company's undiscounted benefit payments as at December 31, 2016 and 2015 is as follows:

	1 year and less	2 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	Over 21 years
Normal retirement	₱2,967,584	₱1,030,348	₱2,486,498	₱4,334,844	₱3,987,741	₱42,181,120

Discount Rate Sensitivity

The following illustrates the sensitivity to a reasonably possible change in each key assumption, with all other variable held constant, of the Company's retirement benefits obligation. A +/-1% increase or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase. The impact on the Company's retirement benefit obligation as at December 31, 2016 which affects the Company's cash flow is as follows:

	Increase (decrease)	Present value of obligation	Increase (decrease) on retirement benefits obligation
Discount rate	+0.5%	₱10,732,604	₱48,137
	-0.5%	10,636,331	(48,137)
Salary increase	+1%	10,915,672	231,204
	-1%	10,493,126	(191,342)

20. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

Terms and Conditions

The major classes of general insurance written by the Company include motor, property, casualty, marine and engineering. Risks under these policies usually cover twelve-month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policy holders) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are defined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

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

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, 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 assumption includes variation in interest and delays in settlement.

Sensitivities

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

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

The table demonstrates the effect of change in key assumptions while other assumptions remain unchanged, if these assumptions were changed in a single calendar year. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact on the claims liabilities due to changes in assumptions, these assumptions changes had to be done on an individual basis. It should also be stressed that these assumptions are nonlinear and larger or smaller impacts cannot be easily gleaned from these results.

The figures shown below demonstrate the effect of 5% upward variation in either the net premiums earned or the loss development factor used in determining the estimated ultimate liabilities.

	2016	2015
Increase on gross liabilities	₱19,838,505	₱17,213,403
Increase on net liabilities	18,558,294	16,137,806
Decrease on income before income tax	(18,558,294)	(16,137,806)

The Company's estimation of ultimate liabilities may be impacted largely by the shift in the development trends of losses. However, the Company believes that using a statistical data over 10 years minimizes the margin of error in its estimates.

21. CAPITAL STOCK

Details of this account are as follow:

	Shares		Amount	
	2016	2015	2016	2015
Common shares – ₱100 par value				
Authorized – 3,000,000 shares	3,000,000	3,000,000	₱300,000,000	₱300,000,000
Subscribed and issued:				
Balance at beginning of year	2,500,000	2,500,000	₱250,000,000	₱250,000,000
Subscribed during the year	500,000	-	50,000,000	-
Balance at end of year	3,000,000	2,500,000	₱300,000,000	₱250,000,000

22. NET PREMIUM REVENUE

Details of gross and net premiums earned on insurance contracts follow:

	2016	2015
<u>Gross premium earned – note 17</u>		
Insurance contract premium revenue		
Direct insurance	₱419,414,148	₱302,203,376
Assumed reinsurance	41,739,294	44,175,095
Total insurance contract premiums revenue	461,153,442	346,378,471
Gross change in unearned premium provision	(64,383,356)	(2,110,410)
	396,770,086	344,268,061
<u>Premiums ceded – note 17</u>		
Reinsurer's share of premium revenue		
Direct insurance	21,355,776	25,826,616
Reinsurers' share of gross change in unearned premium		
Provision	4,248,438	(4,314,661)
	25,604,214	21,511,955
Net premiums on insurance	₱371,165,872	₱322,756,106

23. INVESTMENT AND OTHER INCOME (CHARGES)

This account consists of:

	2016	2015
Interest income – notes 4, 7 and 8	₱6,178,981	₱6,097,288
Rental income	621,930	292,134
Loss on disposal of properties – note 12	(906,393)	-
Reversal of catastrophe loss	(107,364)	(187,164)
Fair value gain on investment properties – note 14	-	875,000
Other income	616,723	443,781
	₱6,403,877	₱7,521,039

Other income consists mainly of gain on foreign exchange due to translation, provision for catastrophe loss and other incidental income.

24. NET INSURANCE BENEFITS AND CLAIMS

Gross insurance contracts benefits and claims incurred consist of the following:

	2016	2015
Insurance contracts benefits and claims		
Direct insurance	₱48,393,455	₱59,632,929
Assumed reinsurance	8,336,334	8,016,386
Loss adjustment	311,890	130,195
Total insurance contract benefits and claims – note 17	57,041,679	67,779,510
Total reinsurers' share of insurance contract benefits and claims incurred – note 17	(321,449)	(5,431,441)
Net insurance benefits and claims	₱56,720,230	₱62,348,069

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

	2016	2015
Direct insurance	₱54,825,896	₱58,445,180
Assumed	8,336,334	7,965,498
Loss adjustment	311,890	130,195
Total insurance contract benefits and claims paid – note 17	₱63,474,120	₱66,540,873

Reinsurers' share of gross insurance contracts benefits and claims paid consist of direct insurance amounting to ₱5,477,318 and ₱8,021,222 in 2016 and 2015, respectively (see Note 17).

25. DIRECT UNDERWRITING COSTS

This account consists of:

	2016	2015
Processing fee	₱90,353,255	₱70,692,534
Commission direct	85,511,068	66,767,851
Underwriting expenses	17,426,535	13,134,474
Commission on reinsurance	14,234,619	11,723,108
Salaries, wages and allowances	9,259,812	8,247,663
Transportation and travel	5,950,673	4,289,067
Stationeries and office supplies	5,250,907	3,249,744
Employee benefits	4,451,229	3,672,936
Rent, light and water – note 31	4,432,299	3,789,883
Representation and entertainment	2,791,506	3,438,730
Postage, freight and communications	2,644,034	2,160,135
Training expenses	2,308,668	1,032,703
Advertising and promotions	2,028,671	1,176,314
Meetings and conferences	1,479,860	977,813
Depreciation and amortization – note 13	1,026,097	996,000
Taxes and licenses	933,079	1,230,459
Dues and fees	833,851	553,247
Retirement benefits cost – note 19	648,813	456,289
SSS, HDMF, PhilHealth and other contributions	605,983	605,684
Electronic data processing	414,248	306,616
Other underwriting expenses	603,433	297,429
	₱253,188,640	₱198,798,679

Other underwriting expenses consist of donation and contributions and other miscellaneous expenses.

26. OPERATING EXPENSES

This account consists of:

	2016	2015
Salaries and bonuses	₱17,196,794	₱15,317,089
Professional fees	4,249,023	7,952,915
Taxes and licenses	4,062,867	3,739,062
Transportation and travel	3,967,115	2,867,078
Provision for doubtful accounts – note 5	2,968,887	-
Employee benefits	2,967,486	2,456,814
Repairs and maintenance	2,480,299	710,320
Depreciation and amortization – note 13	2,394,227	2,324,000
Rent, light and water – note 31	2,273,085	2,020,340
Printing and office supplies	2,250,389	1,392,747
Dues and fees	1,945,652	1,290,909
Representation and entertainment	1,861,004	2,292,487
Advertising and promotion	1,352,447	784,209
Per diem and board meetings	1,215,476	1,181,880
Management fees – note 30	1,200,000	1,200,000
Communications	1,133,157	930,558
SSS, HDMF, PhilHealth and other contributions	1,064,175	1,014,615
Retirement benefits cost – note 19	973,219	684,433
Training	897,815	-
Interest and bank charges	763,219	637,515
Insurance	228,567	84,209
Electronic data processing expenses	177,535	131,407
Notarial fees and documentary stamps	92,160	69,587
Books, subscriptions and periodicals	59,525	57,904
Miscellaneous	754,975	359,473
	₱58,529,098	₱49,499,551

27. INCOME TAXES

A reconciliation of tax on pretax income computed at the applicable statutory rate to tax expense reported in the statements of comprehensive income follows:

	2016	2015
Income before income tax	₱17,643,572	₱26,845,151
Accounting income at 30%	5,293,071	8,053,545
Tax effect of:		
Interest income subjected to final tax	(1,853,694)	(1,829,187)
Adjustment on tax rate of investment property	-	(210,000)
Non-deductible interest expense	191,708	159,975
Other non-deductible expenses	1,192,982	2,643,207
Reported income tax expense	₱4,824,067	₱8,817,540

The Company's deferred tax assets consist of:

	2016	2015
Retirement benefits obligation	₱3,205,340	₱2,888,191
Deferred reinsurance commissions	994,021	1,407,983
Excess of MCIT over normal income tax	709,111	709,111
Provision for impairment losses	511,656	511,656
Provision for catastrophe loss	110,217	78,007
	₱5,530,345	₱5,594,948

The Company's deferred tax liabilities consist of:

	2016	2015
Deferred acquisition cost	₱16,242,923	₱12,171,245
Deferred reinsurance premium	2,937,539	4,212,070
Revaluation of land under investment property	3,862,834	3,862,834
Unrealized foreign exchange gain	33,102	17,449
Excess of unearned premium per tax basis over books	369,403	5,817,411
	₱23,445,801	₱26,081,009

28. MANAGEMENT OF CAPITAL, INSURANCE AND FINANCIAL RISK

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing group-wide policies on market, credit, liquidity, insurance and operational risk.

The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

Capital Management Framework

The Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly the anticipated impact on the realistic financial position and revenue account of each business unit, are reported to the Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

Section 200 of the Amended Insurance Code provides that an insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital and net worth requirements as prescribed by the Commissioner.

Risk Based Capital Requirement

On October 5, 2006, the IC approved the guidelines on the adoption in the Philippines of the Risk Based Capital (RBC) framework for all registered non-life insurance companies. This requires every insurance company to annually maintain a minimum RBC ratio of 100% and should not fail with the trend test, which shall occur in the event that:

- The RBC ratio is less than 125% but is not below 100%
- The RBC ratio has decreased over the past year, and
- The difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%.

If the Company will not be able to maintain the required minimum ratio, they may be subjected to regulatory intervention depending on the level of its RBC ratio.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall consist of the Company's paid-up capital, retained earnings and unimpaired surplus. Revaluation and fluctuation reserve shall form part of the net worth only to the extent authorized by the IC.

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

	2016	2015
Net worth	₱618,134,381	₱386,993,203
RBC requirement	223,468,254	178,540,865
RBC ratio	277%	217%

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

As at December 31, 2016 and 2015, the Company is in compliance with the required RBC ratio by the IC.

Fixed Capitalization Requirement

On January 13, 2015, the IC issued Circular Letter no. 2015-02-A presenting the minimum capitalization requirements for all new and existing insurance companies. The circular is in line with the Amended Insurance Code.

On August 15, 2013, the Amended Insurance Code (Republic Act No. 10607) was approved which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis such as follow:

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

The minimum net worth shall remain unimpaired at all times.

The Company made an additional contribution of ₱64,150,000 and ₱160,000,000 in 2016 and 2015, respectively, to meet the capital requirements of the IC.

The Company's net worth amounting to ₱729 million and ₱601 million in 2016 and 2015, respectively, is in compliance with the minimum requirements for those periods.

Unimpaired Capital Requirement

IC CL No. 2015-02-A says that all domestic life and non-life insurance companies duly licensed by the Insurance Commission must have a net worth of at least ₱250 million by December 31, 2013 and the minimum net worth of these companies shall remain unimpaired at all times.

As at December 31, 2016, the Company's net worth is pending review by IC. As at December 31, 2015, the actual net worth based on IC's evaluation amounting to ₱211 million was impaired by ₱39 million. However, such deficiency was covered after considering the subsequent collections of premium receivable beyond 90 days.

Under Sections 203 and 213 of the Amended Insurance Code (RA10607) and IC's circular letter no. 2014-17, the following assets are considered non-admitted assets in determination of the financial condition of the insurance company:

- a. Goodwill, trade names, and other like intangible assets.
- b. Prepaid or deferred charges for expenses and commissions paid by such insurance company.
- c. Advances to officers (other than policy loans), which are not adequately secured and which are not previously authorized by the Commissioner, as well as advances to employees, agents, and other persons on mere personal security.
- d. Shares of stock of such insurance company, owned by it, or any equity therein as well as loans secured thereby, or any proportionate interest in such shares of stock through the ownership by such insurance company of an interest in another corporation or business unit.
- e. Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies.
- f. Items of bank credits representing checks, drafts or notes returned unpaid after the date of statement.
- g. The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such insurance company exceeds the aggregate value thereof as determined in accordance with the provisions of this Code and/or the rules of the Commissioner.

All non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement submitted by an insurance company to the Commissioner, or in any insurance examiner's report to him, shall also be reported, to the extent of the value disallowed as deductions from the gross assets of such insurance company, except where the Commissioner permits a reserve to be carried among the liabilities of such insurance company in lieu of any such deduction. Also, any investment made in violation of the applicable provisions of this title shall be considered non-admitted assets.

In addition, premiums due from the following entities are considered non-admitted assets when the following conditions in IC's circular letter no. 2014-17 are not met:

- a. The Government of the Philippines, its political subdivisions or instrumentalities, including government owned or controlled corporations, whether as insured, general agent, insurance broker, mortgagee or trustee, provided that in case any of said entities assumes the role of a trustee, the insurance company concerned shall present proof that such premiums are held by such entity as trustee of the said company.
- b. Premiums Receivable Account (direct agents, general agents and insurance brokers) covering policies within 90 days from inception as of the cut-off date, provided that these receivables are supported by an aging schedule showing details per policy; and copies of policies and other pertinent documents are made available to the examiners for verification, otherwise, unverified accounts will be disallowed.
- c. Marine Hull Premiums covered by Deferred Premiums Clause "1" attached to the policy and payable in four quarterly installments provided that the installments to be considered as admitted assets are only the installments due within 90 days as of cut-off date including all installments not yet due as of the cut-off date and provided further that these receivables are supported by an aging schedule showing details per policy and copies of policies and other pertinent documents shall be made available to the examiners for verification, otherwise, those accounts not verified will be disallowed.

Financial Reporting Framework

On June 10, 2015, IC issued Circular No. 2015-29 that clarifies the rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all the other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies. It includes the manual of accounts, which enumerates certain admitted assets not specifically listed in Section 202, which discusses the nature, types and recognition and measurement of each account in the financial statements. This circular will be fully implemented starting June 30, 2016, with transition cut-off date of January 1, 2016.

On December 28, 2016, IC issued Circular No. 2016-65 which superseded the previous circular, indicating that insurance companies are required to comply with the financial reporting framework starting January 1, 2017.

Valuation Standards for Policy Reserves

Under sections 219 and 220 of the Insurance Code, as amended, these sections require every insurance company other than life to maintain a reserve for unearned premiums and other special reserves, IC issued Circular No. 2015-32 which provides the new set of Valuation standards for Non-Life Insurance Policy Reserves. The Circular sets out the valuation method to be used by insurance companies in determining the level of reserves that they should maintain. Premium reserve will be aligned with the current practice under PFRS. Claims reserve specifically on IBNR will now be actuarially computed and an actuarial report must be submitted to IC following the report format provided in the said Circular. The actuarial report must include the certification of the Actuary and Chief Executive Officer (CEO) or responsible officer and must be duly notarized.

On December 28, 2016, IC issued Circular No. 2016-67 which superseded the previous circular, indicating that insurance companies are required to comply with the valuation standards starting January 1, 2017.

Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the IC, such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise).

Financial Risk

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

The risk that the Company primarily faces due to the nature of its investments and liabilities is the interest rate risk.

Market Risk

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

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

The Company's market risk includes equity price risk for the AFS financial assets, which are stated at fair value.

Equity Price Risk

The Company's equity price risk arises from its investments carried at fair value classified as AFS financial assets. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investment. The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the equity price had been 10% higher/lower, the revaluation reserve would increase/decrease by ₱250,937 and ₱239,101 in 2016 and 2015, respectively as a result of the change in the fair value of the Company's AFS financial assets.

Interest Rate Risk

As at December 31, 2016 and 2015, the Company is exposed to changes in market interest rates through its cash in banks, cash equivalents, HTM investments and other receivables (salary/mortgage/car loan), which are subject to variable interest rates (see Notes 4, 7 and 8). However for financial assets with short-term maturity, the risk is assessed by management as insignificant due to its relatively short term nature and/or low interest rates.

The following table sets out the Company's financial instruments exposed to interest rate risk by maturity:

December 31, 2016				
	Interest rate	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	0.62% to 2.25%	₱497,644,271	₱-	₱497,644,271
Other receivables	10% to 12%	-	16,034,419	16,034,419
HTM investments	2.13% to 10%	82,884,526	48,515,239	131,399,765
		₱580,528,797	₱64,549,658	₱645,078,455

December 31, 2015				
	Interest rate	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	0.62% to 2.25%	₱229,642,555	₱-	₱229,642,555
Other receivables	10% to 12%	-	10,693,641	10,693,641
HTM investments	1.50% to 10%	90,671,794	8,254,041	98,925,835
		₱320,314,349	₱18,947,682	₱339,262,031

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Credit risk exposure

The table below shows the gross maximum exposure to credit risk of the Company as at December 31.

	2016	2015
Loans and receivables:		
Cash and cash equivalents*	₱497,644,271	₱229,642,555
Insurance receivables		
Due from ceding companies	21,331,113	21,760,221
Premium receivables	54,725,551	142,014,927
Due from agents	88,766,094	46,219,557
Other receivables**	17,480,608	72,139,638
Reinsurance assets:		
Reinsurance recoverable on paid losses	13,795,279	14,785,309
Reinsurance recoverable on unpaid losses	1,699,357	6,855,226
Premium withheld by reinsurers	7,885,261	6,776,589
Other assets***	6,616,795	13,103,050
Held-to-maturity investments	131,399,765	98,925,835
	₱841,344,094	₱652,222,907

*Excluding cash on hand amounting to ₱136,500 in 2016 and ₱570,296 in 2015.

**Excluding other nontrade receivables amounting to ₱3,588,771 in 2016 and ₱4,523,607 in 2015.

***Excluding salvage recoverable amounting to ₱8,404,407 in 2016 and ₱14,105,638 in 2015.

The Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Although, such arrangements do not generally result in offset of assets and liabilities in the statements of financial position, as transactions are usually settled on gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may however change substantially within a short period following the reporting date because the exposure is affected by transactions subject to the arrangement.

Reinsurance is placed with high-rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs assessment of credit worthiness of reinsurers to update reinsurance purchase strategy.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commission due to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts. The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed on the expiry of which the policy is either paid up or terminated.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as at December 31, 2016 and 2015, except for a significant portion of cash and equivalents that is deposited to a single counterparty.

Concentrations of risk exist when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic conditions. Management believes that the concentrations described above do not represent excessive risk for the Company, since the single counterparty, which is a rural bank, is one of the top rural banks in the country.

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

	Neither past due nor impaired			Past due but not impaired	Impaired financial assets	Total
	High	Medium	Low			
December 31, 2016						
Loans and receivables						
Cash and cash equivalents	₱497,644,271	₱-	₱-	₱-	₱-	₱497,644,271
Insurance receivables:						
Due from ceding companies	435,641	-	-	20,895,472	-	21,331,113
Premium receivables	3,522,041	-	-	51,203,510	-	54,725,551
Due from agents	193,533	-	-	88,572,561	1,705,522	90,471,616
Other receivables	14,474,119	-	-	3,006,489	-	17,480,608
Reinsurance assets:						
Reinsurance recoverable on paid losses	492,022	-	-	13,303,257	-	13,795,279
Reinsurance recoverable on unpaid losses	-	-	-	1,699,357	-	1,699,357
Premium reserve withheld by Reinsurers	7,885,261	-	-	-	-	7,885,261
Other assets	6,616,795	-	-	-	-	6,616,795
Held-to-maturity investments	131,399,765	-	-	-	-	131,399,765
	₱662,663,448	₱-	₱-	₱178,680,646	₱1,705,522	₱843,049,616
December 31, 2015						
	Neither past due nor impaired					
	High	Medium	Low	Past due but not impaired	Impaired financial assets	Total
Loans and receivables						
Cash and cash equivalents	₱229,642,555	₱-	₱-	₱-	₱-	₱229,642,555
Insurance receivables:						
Due from ceding companies	708,615	-	-	21,051,606	-	21,760,221
Premium receivables	39,929,798	-	-	102,085,129	-	142,014,927
Due from agents	3,800,724	-	-	42,418,833	1,705,522	47,925,079
Other receivables	6,176,268	-	-	65,963,370	-	72,139,638
Reinsurance assets:						
Reinsurance recoverable on paid losses	795,818	-	-	13,989,491	-	14,785,309
Reinsurance recoverable on unpaid losses	5,936,802	-	-	918,424	-	6,855,226
Premium reserve withheld by Reinsurers	6,776,589	-	-	-	-	6,776,589
Other assets	13,103,050	-	-	-	-	13,103,050
Held-to-maturity investments	98,925,835	-	-	-	-	98,925,835
	₱405,796,054	₱-	₱-	₱246,426,853	₱1,705,522	₱653,928,429

High Credit Quality

This pertains to assets of the Company that are highly convertible to cash based on the Company's experience and those that are classified by the IC as readily admitted assets.

Moderate Credit Quality

For receivables, this covers accounts of paying insured and or remittance of agents, but paid and or remitted normally beyond the credit term. This also includes receivables from insured and or agent with delayed payment and or remittance, although paid and or remitted but was only made after a demand letter was sent.

Low Credit Quality

For receivables, this covers accounts of slow paying insured and or remittance of agents, and those whose payments and or remittances are received upon sending a second demand letter as at financial reporting date.

Aging analysis of financial assets

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

December 31, 2016						
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Insurance receivables:						
Due from ceding companies	₱187,634	₱302,668	₱209,122	₱23,607	₱20,172,441	₱20,895,472
Premium receivables	4,527,014	13,122,388	12,300,012	11,377,663	9,876,433	51,203,510
Due from agents	537,957	897,984	5,630,935	174,527	81,331,158	88,572,561
Other receivables	283,837	128,614	550,461	258,649	1,784,928	3,006,489
Reinsurance assets:						
Reinsurance recoverable on paid losses	77,348	-	-	202,310	13,023,599	13,303,257
Reinsurance recoverable on unpaid losses	-	-	-	-	1,699,357	1,699,357
	₱5,613,790	₱14,451,654	₱18,690,530	₱12,036,756	₱127,887,916	₱178,680,646

December 31, 2015						
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Insurance receivables:						
Due from ceding companies	₱72,810	₱1,684,315	₱138,888	₱159,989	₱18,995,604	₱21,051,606
Premium receivables	20,125,468	19,267,189	21,724,260	22,859,270	18,108,942	102,085,129
Due from agents	3,071,353	2,353,451	3,072,418	4,432,545	29,489,066	42,418,833
Other receivables	60,966	1,638,950	23,529,418	30,014	40,704,022	65,963,370
Reinsurance assets:						
Reinsurance recoverable on paid losses	54,560	3,021,667	-	2,249,654	8,663,610	13,989,491
Reinsurance recoverable on unpaid losses	-	-	-	-	918,424	918,424
	₱23,385,157	₱27,965,572	₱48,464,984	₱29,731,472	₱116,879,668	₱246,426,853

As at December 31, 2016 and 2015, insurance receivables of ₱1,705,522 are impaired and for which full provision has been recognized. The impaired receivables relate to a number of third parties, which are in unexpectedly difficult economic situations.

Liquidity Risk

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

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

The Company manages liquidity through a liquidity risk policy, which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specifies the sources of funding and the events that would trigger the plan; concentration of funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

As at December 31, the Company's financial liabilities have contractual maturities such as follow:

December 31, 2016				
	Less than 1 year	1-5 years	More than 5 years	Total
Insurance contract liabilities				
claims and losses *	₱19,605,003	₱-	₱-	₱19,605,003
Due to reinsurers	22,782,035	-	-	22,782,035
Accounts payable and accrued expenses**				
Accounts payable	12,965,074	-	-	12,965,074
Accrued expenses	666,108	-	-	666,108
	₱56,018,220	₱-	₱-	₱56,018,220

December 31, 2015				
	Less than 1 year	1-5 years	More than 5 years	Total
Insurance contract liabilities				
claims and losses *	₱25,497,444	₱-	₱-	₱25,497,444
Due to reinsurers	21,811,482	-	-	21,811,482
Accounts payable and accrued Expenses**				
Accounts payable	8,062,128	-	-	8,062,128
Accrued expenses	443,979	-	-	443,979
	₱55,815,033	₱-	₱-	₱55,815,033

*excludes reserves for unearned premium

**excludes statutory payables

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting date.

Insurance Risk

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

The Company determines its concentration of insurance risk based on individual type of contract. The Company principally issued the following types of general insurance contracts: motor, household insurance, commercial and business interruption.

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

<u>December 31, 2016</u>	Gross claim liabilities	Reinsurers' share of claims liabilities	Net claim liabilities
Fire	₱2,447,209	₱1,516,763	₱930,446
Motor car	6,052,365	-	6,052,365
Marine	1,118,426	4,086	1,114,340
Others	9,447,003	178,508	9,268,495
Total – note 17	₱19,065,003	₱1,699,357	₱17,365,646

<u>December 31, 2015</u>	Gross claim liabilities	Reinsurers' share of claims liabilities	Net claim liabilities
Fire	₱1,597,209	₱971,761	₱625,448
Motor car	6,142,443	129,898	6,012,545
Accident	14,786	-	14,786
Marine	4,661,426	4,029,567	631,859
Others	13,081,580	1,724,000	11,357,580
Total – note 17	₱25,497,444	₱6,855,226	₱18,642,218

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

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts and geographical areas, as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

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

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

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

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

Financial Assets and Financial Liabilities

The table below summarizes the maturity profile of the Company's financial assets, insurance liabilities and financial liabilities based on contractual undiscounted payments.

	2016			2015		
	Due within one year	Due beyond one year	Total	Due within one year	Due beyond one year	Total
Financial Assets						
Loans and receivables						
Cash and cash equivalents*	₱497,644,271	₱-	₱497,644,271	₱229,642,555	₱-	₱229,642,555
Insurance receivables						
Due from ceding						
Companies	21,331,113	-	21,331,113	21,760,221	-	21,760,221
Premiums receivables	54,725,551	-	54,725,551	142,014,927	-	142,014,927
Due from agents	88,766,094	-	88,766,094	46,219,557	-	46,219,557
Other receivables**	1,446,189	16,034,419	17,480,608	61,445,997	10,693,641	72,139,638
Reinsurance assets						
Reinsurance recoverable on paid losses	13,795,279	-	13,795,279	14,785,309	-	14,785,309
Reinsurance recoverable on unpaid losses	1,699,357	-	1,699,357	6,855,226	-	6,855,226
Premium reserve withheld by reinsurers	7,885,261	-	7,885,261	6,776,589	-	6,776,589
Other assets***	5,149,783	1,467,012	6,616,795	11,653,074	1,449,976	13,103,050
HTM investments	82,884,526	48,515,239	131,399,765	90,671,794	8,254,041	98,925,835
AFS financial assets	-	2,509,368	2,509,368	-	2,391,014	2,391,014
	₱775,327,424	₱68,526,038	₱843,853,462	₱631,825,249	₱22,788,672	₱654,613,921
Financial Liabilities						
Other liabilities						
Insurance contract liabilities						
Claims and losses	₱19,605,003	₱-	₱19,605,003	₱25,497,444	-	₱25,497,444
Due to reinsurers	22,782,035	-	22,782,035	21,811,482	-	21,811,482
Accounts payable and accrued expenses						
Accounts payable	12,965,074	-	12,965,074	8,062,128	-	8,062,128
Accrued expenses	666,108	-	666,108	443,979	-	443,979
	₱56,018,220	₱-	₱56,018,220	₱55,815,033	₱-	₱55,815,033

*Excluding cash on hand amounting to ₱136,500 in 2016 and ₱570,296 in 2015.

**Excluding other nontrade receivables amounting to ₱3,588,771 in 2016 and ₱4,523,607 in 2015.

***Excluding salvage recoverable amounting to ₱8,404,407 in 2016 and ₱14,105,638 in 2015.

29. FAIR VALUE INFORMATION

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 follow:

- 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; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Financial asset measured at fair value

The fair value of AFS financial assets at December 31 is determined as follows:

	2016	2015	Fair value hierarchy
AFS financial assets	₱2,509,368	₱2,391,014	Level 1

Fair value of AFS financial assets is based on net asset value per share as published by Philippine Stock Exchange and club share broker.

Financial assets and liabilities not measured at fair value

The following gives information about how the fair values of the Company's financial assets and liabilities, which are not measured at fair value but the fair values, are disclosed at the end of each reporting period are determined.

Cash and cash equivalents, insurance receivables, short-term other receivables, reinsurance assets, other assets (current), insurance contract liabilities, due to reinsurers, accounts payable and accrued expenses.

Due to the short-term nature of these financial instruments, their fair value approximates the carrying amount as at reporting date. The carrying amount and fair value of the categories of noncurrent financial assets and liabilities presented in the statements of financial position are shown below:

	2016		2015	
	Carrying values	Fair values	Carrying values	Fair values
FINANCIAL ASSETS				
Loans and receivables				
Mortgage loan	₱14,000,000	₱17,468,121	₱8,585,387	₱11,117,248
Salary loan	1,619,193	2,020,304	1,526,360	1,976,489
Car loan	415,226	518,087	581,894	753,497
	16,034,419	20,006,512	10,693,641	13,847,234
Deposits	1,467,012	1,416,322	1,449,977	1,415,484
HTM investments	131,399,765	132,630,034	98,925,835	100,370,660
	₱148,901,196	₱154,052,868	₱111,069,453	₱115,633,378

Salary, mortgage and car loan receivables

Fair values are estimated using the discounted cash flow technique that makes use of Philippine Dealing Exchange rates of similar instruments in 2016 and 2015.

Deposit to service providers

Fair values are estimated using the discounted cash flow technique that makes use of risk-free interest rate of 3.46% and 1.71% in 2016 and 2015, respectively.

HTM investments

Fair values are based on quoted rates ranging from 3.7% to 7% and 2.8 to 7% in 2016 and 2015, respectively.

The aforementioned fair values of financial assets and liability are measured using level 2 of the fair value hierarchy.

Investment property measured at fair value

The fair value of the investment property was determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

The fair value of the land properties and condominium unit under investment properties amounting to ₱57,377,973 and ₱56,239,867 as at December 31, 2016 and 2015, respectively, which equals its carrying value, was determined based on market data approach and is based on sales and listings of comparable properties registered within the vicinity. In estimating the fair value of the land, the appraisal gave due consideration to the highest and best use of the property.

The fair values of the investment properties are measured using level 2 of the fair value hierarchy.

There were no transfers between levels 1 and 2 nor changes in level 3 instruments in 2016 and 2015.

30. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company has related party transactions with stockholders and officers.

The details of transactions are as follow:

a) Advances

Related party/relationship	Amount of transaction		Outstanding balance - note 7		Terms and conditions
	2016	2015	2016	2015	
Toptraders Import and Export Corporation (TIEC) – Stockholder	₱-	₱39,500,000	₱-	₱47,118,762	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term and no impairment
Individual Stockholder	-	4,190,000	-	7,021,800	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term and no impairment
Officers	-	-	401,681	5,916,474	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term and no impairment
	₱-	₱43,690,000	₱401,681	₱60,057,036	

The Company granted cash advances to TIEC and an individual stockholder as financial support. Outstanding balances arising from the transaction are included in the “Other receivables” account in the statements of financial position.

Advances to officers pertain to bank accounts under the name of the officers for the purpose of funding immediate cash requirement in the Company’s operations. Outstanding balances are included in the “Other receivables” account in the statements of financial position.

b) Loans to stockholders and officers who are individuals

Related party/relationship	Amount of transaction		Outstanding balance - note 7		Terms and conditions
	2016	2015	2016	2015	
1) Salary loans to stockholders and officers	₱-	₱-	₱633,000	₱633,000	Unsecured and unguaranteed, payable thru salary deduction at 12% per annum, with maximum term of 2 years and no impairment
2) Mortgage loans to stockholders and officers	14,000,000	-	14,000,000	8,585,387	Payable in cash at 12% per annum, with terms ranging from 2 to 5 years and no impairment

The Company granted salary loans and mortgage to its stockholders and officers as financial assistance. Outstanding balances arising from the transaction are included in the “Other receivables” account in the statements of financial position.

c) Management fee

Related party/relationship	Amount of transaction		Outstanding balance		Terms and conditions
	2016	2015	2016	2015	
TIEC – stockholder	₱1,200,000	₱1,200,000	₱1,200,000	₱1,200,000	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term

The Company pays management fee to TIEC in connection with the services rendered such as payroll, human resource and internal audit services amounting to ₱100,000 from August 2011 to present. The total management fee expense incurred by the Company is presented under “Operating expenses” in the statements of comprehensive income.

Compensation of Key Management Personnel

The compensation of the Company’s key management personnel consists of short term benefits amounting to ₱9,183,689 and ₱8,463,873 in 2016 and 2015, respectively and is included as part of salaries and wages under operating expenses.

31. LEASE COMMITMENTS

The following are the significant commitments involving the Company:

Operating lease agreements represents contracts entered into by the Company's head office and branch offices are as follow:

- a. The Company entered into a contract of lease with G.E. Antonino, Inc. for the use of office space. The leased premise is located at 10th floor "Suite B", G.E. Antonino building, T.M. Kalaw St., Ermita, Manila. Lease term is for a period of three years, which commenced on January 1, 2014 and will end on December 31, 2016, renewable thereafter as may be agreed upon by the parties. The Company shall pay a rental fee of ₱209,038 inclusive of VAT every first five days of each calendar month with an escalation rate of three percent (3%) at every year.
- b. Lease of office space of the branches have terms of one to three years, renewable before the expiration of the contract.

Total rent expense for the years ended December 31, 2016 and 2015, presented under direct underwriting cost and operating expenses, amounted to ₱5,398,036 and ₱4,513,975, respectively.

Future minimum rentals payable under non-cancelable operating leases are as follow:

	2016	2015
Not later than one year	₱2,903,851	₱2,765,573
Later than one year and not later than five years	6,250,540	-
	₱9,154,391	₱2,765,573

32. CONTINGENCIES

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

33. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

December 31, 2016	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	P497,780,771	P-	P497,780,771
Insurance receivables (net)	4,151,214	160,671,544	164,822,758
Reinsurance assets (net)	23,379,898	9,791,795	33,171,693
Other receivables	5,034,960	16,034,419	21,069,379
Deferred acquisition costs (net)	50,829,675	-	50,829,675
Prepayments	5,447,002	-	5,447,002
HTM investments	82,884,526	48,515,239	131,399,765
AFS financial assets (net)	-	2,509,368	2,509,368
Assets held for sale	27,190,268	-	27,190,268
Property and equipment (net)	-	19,999,128	19,999,128
Investment properties	-	57,377,973	57,377,973
Deferred tax assets	-	5,530,345	5,530,345
Other assets	5,149,783	3,428,151	8,577,934
Total assets	P701,848,097	P323,857,962	P1,025,706,059
Liabilities			
Accounts payable and accrued expenses	P13,631,182	P34,070,732	P47,701,914
Insurance contract liabilities	19,605,003	172,950,860	192,555,863
Due to reinsurers	22,782,035	-	22,782,035
Retirement benefits obligation	-	10,684,467	10,684,467
Deferred tax liabilities	-	23,445,801	23,445,801
Total liabilities	P56,018,220	P241,151,860	P297,170,080
December 31, 2015	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	P230,212,851	P-	P230,212,851
Insurance receivables (net)	209,994,705	-	209,994,705
Reinsurance assets (net)	28,417,124	14,040,234	42,457,358
Other receivables	65,969,604	10,693,641	76,663,245
Deferred acquisition costs (net)	35,877,540	-	35,877,540
Prepayments	12,715,234	-	12,715,234
HTM investments	90,671,794	8,254,041	98,925,835
AFS financial assets (net)	-	2,391,014	2,391,014
Assets held for sale	3,896,093	-	3,896,093
Property and equipment (net)	-	19,571,752	19,571,752
Investment properties	-	56,239,867	56,239,867
Deferred tax assets	-	5,594,948	5,594,948
Other assets	11,653,074	11,659,521	23,312,595
Total assets	P689,408,019	P128,445,018	P817,853,037

<u>December 31, 2015</u>	Less than 12 months	Over 12 months	Total
Liabilities			
Accounts payable and accrued expenses	₱8,506,107	₱15,881,432	₱24,387,539
Insurance contract liabilities	25,497,444	109,000,140	134,497,584
Due to reinsurers	21,811,482	-	21,811,482
Retirement benefits obligation	-	9,627,303	9,627,303
Deferred tax liabilities	-	26,081,009	26,081,009
Total liabilities	₱55,815,033	₱160,589,884	₱216,404,917

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