

**AsianLife and General Assurance
Corporation**

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
AsianLife and General Assurance Corporation

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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



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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

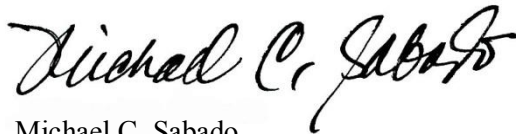


We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of AsianLife and General Assurance Corporation in a separate schedule. Revenue Regulations 15-2010 requires the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule No. 68, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.



Michael C. Sabado

Partner

CPA Certificate No. 89336

SEC Accreditation No. 0664-AR-2 (Group A),

March 26, 2014, valid until March 25, 2017

Tax Identification No. 160-302-865

BIR Accreditation No. 08-001998-73-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5908755, January 3, 2017, Makati City

February 20, 2017



ASIANLIFE AND GENERAL ASSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Cash and cash equivalents (Notes 6 and 25)	₱353,792,884	₱757,640,908
Premiums due and uncollected (Notes 7 and 25)	34,745,758	45,054,116
Accrued interest receivable (Note 25)	7,349,488	7,356,976
Financial assets (Notes 8 and 25)		
At fair value through profit or loss (FVPL)	862,299,524	586,254,411
Loans and receivables - net	185,103,287	224,415,607
Available-for-sale (AFS)	154,458,011	153,713,367
Due from related parties (Notes 24)	376,091,848	100,893,631
Segregated Fund Assets (Note 11)	24,798,773	-
Property and equipment (Note 9)	35,123,053	12,365,610
Deferred tax assets (Note 23)	20,820,684	22,768,543
Other assets (Notes 10 and 25)	30,646,642	31,571,948
	₱2,085,229,952	₱1,942,035,117
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable and other liabilities (Notes 12 and 25)	₱281,904,068	₱269,446,679
Insurance contract liabilities (Notes 11 and 25)	601,681,444	603,866,819
Due to related parties (Notes 24)	5,463,945	13,037,892
Segregated Fund Liability (Note 11)	21,798,773	-
Premium deposit fund (Notes 13 and 25)	1,669,603	1,248,167
Income tax liability	-	-
Net pension liability (Note 21)	12,649,105	17,471,979
Total Liabilities	925,166,938	905,071,536
Equity (Note 14)		
Capital stock - issued and outstanding		
Common stock	494,994,040	494,994,040
Preferred stock	5,005,960	5,005,960
Contributed surplus	39,784,362	39,784,362
Other comprehensive income loss		
Unrealized losses on AFS financial assets (Note 8)	(4,775,920)	(5,938,577)
Actuarial losses on net pension liability (Note 21)	(2,730,652)	(6,642,443)
Retained earnings	627,785,224	509,760,239
Total Equity	1,160,063,014	1,036,963,581
	₱2,085,229,952	₱1,942,035,117

See accompanying Notes to Financial Statements.



ASIANLIFE AND GENERAL ASSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
INCOME		
Gross premiums on insurance contracts	₱2,101,086,460	₱1,973,938,462
Reinsurers' share of gross premiums on insurance contracts	(7,635,913)	(11,746,601)
Net insurance premiums (Note 15)	2,093,450,547	1,962,191,861
Interest (Note 16)	64,134,572	51,625,021
Unrealized gains (losses) on financial assets at FVPL (Notes 8 and 23)	(19,799,882)	3,006,016
Others (Note 16)	46,396,471	12,587,641
	90,731,161	67,218,678
	2,184,181,708	2,029,410,539
EXPENSES		
Underwriting Expenses		
Net benefits and claims incurred on insurance contracts (Note 17)	1,350,904,617	1,295,687,207
Expenses for the acquisition of insurance contracts (Note 18)	393,190,973	336,816,402
Net change in legal policy reserves (Note 11)	32,808,239	(24,070,771)
	1,776,903,829	1,608,432,838
Other Expenses		
General and administrative (Note 19)	231,578,127	226,973,450
Interest	440,692	697,134
	232,018,819	227,670,584
	2,008,922,648	1,836,103,422
INCOME BEFORE INCOME TAX	175,259,060	193,307,117
PROVISION FOR INCOME TAX (Note 23)	57,234,075	59,416,752
NET INCOME	118,024,985	133,890,365
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>		
Changes in fair value of AFS financial assets during the year - net of income tax effect	1,162,657	(8,307,420)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Actuarial (loss) gains on pension liability - net of income tax effect (Note 21)	3,911,791	(6,041,097)
	5,074,448	(14,348,517)
TOTAL COMPREHENSIVE INCOME	₱123,099,433	₱119,541,848

See accompanying Notes to Financial Statements.



ASIANLIFE AND GENERAL ASSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock - Issued and Outstanding (Note 14)		Contributed Surplus (Note 14)	Other Comprehensive Income (Loss)		Retained Earnings (Notes 3 and 14)	Total
				Unrealized Gains on AFS Financial Assets (Note 8)	Actuarial Losses on Net Pension Liability (Notes 3 and 21)		
	Common Stock	Preferred Stock					
Balances at January 1, 2016	₱494,994,040	₱5,005,960	₱39,784,362	(₱5,938,577)	(₱6,642,443)	₱509,760,239	₱1,036,963,581
Net income	–	–	–	–	–	118,024,985	118,024,985
Other comprehensive income	–	–	–	1,162,657	3,911,791	–	5,074,448
Total comprehensive income	–	–	–	1,162,657	3,911,791	118,024,985	123,099,433
Balances at December 31, 2016	₱494,994,040	₱5,005,960	₱39,784,362	(4,775,920)	(2,730,652)	627,785,224	₱1,160,063,014
Balances at January 1, 2015	₱494,994,040	₱5,005,960	₱39,784,362	₱2,368,843	(₱601,346)	₱375,869,874	₱917,421,733
Net income	–	–	–	–	–	133,890,365	133,890,365
Other comprehensive income	–	–	–	(8,307,420)	(6,041,097)	–	(14,348,517)
Total comprehensive income	–	–	–	(8,307,420)	(6,041,097)	133,890,365	119,541,848
Balances at December 31, 2015	₱494,994,040	₱5,005,960	₱39,784,362	(₱5,938,577)	(₱6,642,443)	₱509,760,239	₱1,036,963,581

See accompanying Notes to Financial Statements.



ASIANLIFE AND GENERAL ASSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱175,259,060	₱193,307,117
Adjustments for:		
Loss on sale of financial assets at FVPL (Note 16)	7,772,348	19,778,977
Depreciation and amortization (Notes 9 and 22)	9,387,086	6,741,625
Pension Expense	765,400	–
Interest expense	440,692	697,134
Change in legal policy reserves (Note 11)	32,808,239	(24,070,771)
Provision for impairment of loans, net of recovery	1,428,378	(448,002)
Gain on sale of fixed assets	–	(490,000)
Unrealized (gain) loss on financial assets at FVPL (Note 8)	19,799,882	(3,006,016)
Interest income (Note 16)	(64,134,572)	(51,625,021)
Operating income before working capital changes	183,526,513	140,885,043
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	69,462,084	9,731,305
Other assets	25,544	6,250,179
Premiums due and uncollected	10,308,358	307,781
Increase (decrease) in:		
Insurance contract liabilities (Note 11)	(34,993,615)	22,309,299
Accounts payable and other liabilities	12,542,936	46,781,738
Premium deposit fund	421,436	(231,615)
Net pension liability	3,206,343	8,946,491
Net cash generated from operations	244,499,599	234,980,221
Interest received	65,478,669	50,643,993
Interest paid	(385,241)	(673,352)
Income taxes paid	(50,474,663)	(70,402,096)
Net cash provided by operating activities	259,118,364	214,548,766
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Disposal of fixed assets	–	490,000
Disposal of financial assets at FVPL (Note 8)	2,291,151,376	4,669,246,789
Disposal and maturities of AFS financial assets (Note 8)	12,291,076	66,915,420
Acquisitions of:		
Property and equipment (Note 9)	(32,144,529)	(4,355,625)
Financial assets at FVPL (Note 8)	(2,594,768,719)	(4,346,884,153)
AFS financial assets (Note 8)	(13,209,673)	(72,269,640)
Segregated Fund Assets (Note 11)	(24,798,773)	–
Decrease in salary loans	(31,578,141)	(56,089,408)
Increase in Fund Investment Account - Bancassurance	21,657,776	–
Contribution to retirement fund (Note 21)	(8,794,617)	(9,500,000)
Net cash provided by (used in) investing activities	(380,194,224)	247,553,383

(Forward)



	Years Ended December 31	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in amounts in due to related parties	(₱7,573,947)	₱6,433,189
Decrease in amounts in due from related parties	(275,198,217)	(100,818,105)
Net cash used in financing activities	(282,772,164)	(94,384,916)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(403,848,024)	367,717,233
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR	757,640,908	389,923,675
CASH AND CASH EQUIVALENTS		
AT END OF YEAR (Note 6)	₱353,792,884	₱757,640,908

See accompanying Notes to Financial Statements.



ASIANLIFE AND GENERAL ASSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

AsianLife and General Assurance Corporation (ALGA or the “Company”) was incorporated on October 4, 2010 as successor-in-interest of a corporate entity which also bears the same name as the Company, ALGA, with SEC No. 14341 (the “Old ALGA”), the corporate term of which expired on August 22, 2008.

The Company’s primary purpose is to carry on the business of insurance upon lives of individuals and on business of non-life insurance; to grant contract of insurance and reinsurance providing for all risks, hazards, guarantees and contingencies to which life, accidents or health insurance is applicable and to grant or effect assurance of all kinds of payment of money by way of single payment or by several payments, or by any person of immediate or referred annuities upon the death of or upon reaching a given age by any person or persons subject or not such death or age requirement or happening of any contingency or event dependent upon human life or upon a fixed or given date.

On September 25, 2013, Maybank ATR KimEng Financial Corporation (formerly ATR KimEng Financial Corporation) which owns 95.24% of the outstanding common stock and is deemed the parent company of ALGA sold all its 95.24% ownership interest over ALGA shares to its affiliate, Maybank ATR KimEng Capital Partners, Inc. (MATRKECP). MATRKECP, an investment house with trust license, is a domestic corporation owned by MaybankKimEng Holdings Limited (MAKEHL) and ATR Holdings, Inc. (ATRH). ATRH is a domestic corporation, while MAKEHL is a conglomerate whose shares are listed in the Singapore Stock Exchange. The Insurance Commission approved the sale on October 17, 2013.

On December 1, 2014, ATRH sold the Company’s preferred shares representing 50.30% voting interest of the latter to Etiqa International Holdings (Etiqa), a subsidiary of Maybank in Malaysia. MATRKECP owns 95.20% of the Company’s common shares, which represents 47.30% voting interest; the remaining 2.40% is held by a minority shareholder.

On the same date, MATRKECP and Etiqa executed a Joint Voting Agreement (JVA), which provides that Etiqa shall vote all of its shares in the Company on any and all matters requiring the resolution of the shareholders of the Company in such manner as MATRKECP. The JVA shall be effective unless terminated by mutual agreement by MATRKECP and Etiqa. The Insurance Commission approved the transfer of shares on April 10, 2015. This JVA was terminated in 2016.

The ultimate parent company of ALGA is Malayan Banking Berhad of Malaysia.

The Company has an existing Memorandum of Agreement (MOA) on Automatic Payroll Deduction System with the Department of Education (DepEd) that allows it to engage in lending operations with DepEd teachers and personnel as borrowers. The Company’s accreditation for lending has been renewed on June 26, 2012 which shall be effective for a period of five (5) years. The DepEd, however, may anytime revoke this MOA for cause.

The Company’s registered office address, which is also its principal place of business, is at 3rd Floor, Morning Star Center, Sen. Gil J. Puyat Avenue, Makati City.



2. Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets, which are both carried at fair value.

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

Statement of Compliance

The Company's financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

3. Changes in Accounting Policies

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

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
 - Amendment to PFRS 5, *Changes in Methods of Disposal*
 - Amendment to PFRS 7, *Servicing Contracts*
 - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
 - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
 - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint



venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

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

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

Application of amendments will result in additional disclosures in the 2017 financial statements of the Company.

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

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

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

These amendments are not expected to have any impact on the Company.

Effective beginning on or after January 1, 2018

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

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

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

These amendments are not expected to have any impact on the Company.



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

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

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

The Company is assessing the potential effect of the amendments on its financial statements.

- PFRS 15, *Revenue from Contracts with Customers*

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

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

As the Company has revenues that may not be insurance related, the Company is assessing the potential effect of the amendments on its financial statements.

- PFRS 9, *Financial Instruments*

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

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



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

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

The amendments are not applicable to the Company since the Company has no investment in associate or joint venture.

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

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

The amendments are not applicable to the Company since the Company has no investment property.

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

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

The Company is assessing the potential effect of the amendments on its financial statements.



Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

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

The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

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

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

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

IC issued Circular Letters

CL No. 2016-67 dated December 28, 2016 that supersedes CL No. 2015-32 provides that pursuant to Sections 219 and 220 of the Amended Insurance Code (Republic Act No. 10607) which require every insurance company other than life to maintain (a) a reserve for unearned premiums on its policies in force, and (b) the estimated amount of all its liabilities, including taxes, expenses and other obligations due or accrued including any special reserves to be actuarially computed as required by the Commissioner, in addition to its liabilities and



reserves on contracts of insurance issued by it. This valuation standard for non-life insurance policy reserves will be implemented effective January 1, 2017.

CL No. 2016-68 dated December 28, 2016, superseding CL No. 2015-30, provides the rules and regulations of the Amended RBC Framework to be known as "RBC2 Framework". The IC has adopted a three (3) pillar risk-based approach to solvency. The pillars are comprised of the following:

1. Pillar 1 includes the quantitative requirements in relation to the calculation of capital requirements and recognition of eligible capital;
2. Pillar 2 covers the governance and risk management requirement that consist of a supervisory review process which may include supervisory adjustment to capital; and
3. Pillar 3 comprises the disclosure requirements designed to encourage market discipline

Under RBC2 Framework, all insurance companies shall at all times hold the RBC requirement determined in accordance with the rules and guidelines plus any additional supervisory adjustment to capital that may be required by the IC. All insurance companies must satisfy the minimum statutory RBC Ratio required set at 100%.

Insurance companies that fail to meet the required minimum RBC Ratio based on their quarterly and annual submissions are required to submit a report explaining the cause of failure to meet the required minimum RBC ratio and a management plan outlining the actions and/or strategies that will be done to meet the required RBC ratio for the next quarter.

As at December 31, 2016, the Company has evaluated the impact of FRF and the new valuation standards on its financial statements and is compliant with RBC 2-QIS based on internal calculation. The final RBC 2-QIS ratio can be determined only after the accounts of the Company have been examined by IC.

Circular Letter (CL) No. 2016-69 provides implementation requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework. Starting 2017, the Quarterly Reports following the new regulatory requirements and using the prescribed templates shall be submitted within two (2) months after the end of each reporting period, and for the Annual Report for period ending 31st of December which shall be submitted on or before the 30th of April of the succeeding year. This circular shall take effect beginning January 1, 2017.

4. Summary of Significant Accounting Policies

Revenue Recognition

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all direct business arrangements and as an agent in all its ceded out businesses. The following specific recognition criteria must also be met before revenue is recognized:

Premiums Revenue - Life

Premiums arising from life insurance contracts are generally recognized as income when received and on the issue date which coincides with the effective date of the insurance policies for the first year premiums.



For the renewal business, premiums are recognized as income when still in-force and in the process of collection based on actuarial methods and assumptions. Renewal premiums from life insurance contracts are recognized as revenue payable by the policyholder. Receivables are recorded at the date when payments are due. Premiums are shown before deduction of commissions and reinsurers' share on gross premiums.

Premiums Revenue – Non Life

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

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums as part of Insurance contract liabilities and presented in the liabilities section of the company statements of financial position. The net changes in these accounts between each end of reporting periods are recognized in profit or loss.

Service and network fees

Service and network fees are recognized when earned normally upon performance of the service or use of the network in accordance with the terms of the contract.

Third party administration fee

Revenue is recognized when earned upon the performance of administration based on the contract agreement.

Interest income

For all interest-bearing financial assets measured at amortized cost, interest income is recognized using the effective interest method. The effective interest rate (EIR) exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset. The change in carrying amount is recorded as interest income for the period.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

Dividend income

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

Benefits, Claims and Expenses Recognition

Benefits and claims - Life

Benefits and claims consist of benefits and claims paid to policyholders as well as changes in the valuation of insurance contract liabilities and reserve for policyholders' dividends. These are recorded when notices of claims have been received and dividends have been incurred or when policies reach maturity. For unpaid benefits, a liability is recognized for the estimated cost of all claims made but not settled as of reporting date less reinsurance recoveries. Provision is also made for the cost of claims incurred as of reporting date but not reported (IBNR) until after the reporting date based on the Company's experience and historical data. Differences between the



provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in profit or loss in the statement of comprehensive income of subsequent years. Unpaid benefits to life policies form part of policy and contract claims payable included in “Insurance Contract Liabilities” in the statement of financial position.

Benefits and claims – Non-Life

Benefits and claims for Non-life include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Direct costs and expenses - Life

Commissions and other expenses for the acquisition of insurance contracts are expensed as incurred.

Direct costs and expenses – Non-Life

Commissions are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as “Deferred acquisition cost” in the assets section of the statement of financial position. In 2016, commissions are recognized as expense when paid.

General and administrative expenses

General and administrative expenses constitute costs of administering the business. These are recognized when incurred.

Interest expense

Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized in profit or loss in the statement of comprehensive income as it accrues and is calculated using the effective interest method. Accrued interest is credited to the liability account every policy anniversary date.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and that are subject to an insignificant risk of change in value.

Premiums Due and Uncollected

Premiums due and uncollected are recognized when due and measured on initial recognition at the fair value of the consideration to be received. The carrying value of premiums due and uncollected is reviewed for impairment whenever events or circumstances indicate the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss in the statements of comprehensive income.

Premiums due and uncollected are derecognized following the derecognition criteria for financial instruments.



Financial Instruments

Date of recognition

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

Initial recognition

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

The classification depends on the purpose for which the instruments were acquired or incurred and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments issued by the Company are classified as equity in accordance with the substance of the contractual arrangement. Any interest, dividends, realized and unrealized gains and losses from financial instruments or a component considered as a financial liability are recognized in profit or loss in the statements of comprehensive income for the year. Distributions to holders of financial instruments classified as equity are treated as owner-related and thus charged directly to equity.

Fair Value Measurement

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

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

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

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

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

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



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

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

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

For the 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.

“Day 1” profit

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

FVPL Financial Assets

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

Financial assets and financial liabilities at FVPL are recorded in the statements of financial position at fair value, with any changes in fair value recognized in profit or loss under the caption “Unrealized losses on financial assets at FVPL” in the statements of comprehensive income.

Financial assets or financial liabilities are allowed to be designated by management on initial recognition in this category when the following criteria are 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 and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance 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 bifurcated.



As of December 31, 2016 and 2015, the Company recognized all of its investment securities under Investment Management Agreement (IMA) account as FVPL financial assets.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not held for trading.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included as part of interest income in the statements of comprehensive income, losses arising from the impairment of such loans and receivables are charged to current operations.

Financial assets included under this category include cash and cash equivalents, premiums due and uncollected, loans and receivables, accrued interest receivable as well as “performance bond, reserve fund, security fund and deposits” (included under “Other assets” account in the statements of financial position) and due from related parties.

AFS Financial Assets

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

After initial measurement, AFS financial assets are subsequently measured at fair value. Interest earned on holding AFS financial assets are reported as interest income using the effective interest method. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as “Unrealized gain on AFS financial assets” (net of tax, where applicable) in other comprehensive income in the equity section of the statements of financial position. When the security is disposed of, the cumulative gains or losses previously recognized in equity is recognized in profit or loss in the statements of comprehensive income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses. Dividends earned on holding AFS financial assets are recognized in profit or loss in the statements of comprehensive income when the right of payment has been established.

As of December 31, 2016 and 2015, the Company recognized all of its non-IMA securities as AFS financial assets.

Other Financial Liabilities

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



After initial measurement, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. The amortization is included as part of interest expense for the period. This category includes the Company's accounts payable and other liabilities (except government and statutory liabilities) due to related parties, premium deposit fund, as well as "claims payable and policyholders' dividends" (included under "Insurance Contract Liabilities" account in the statements of financial position).

Offsetting of Financial Instruments

Financial assets and financial 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. This is not generally the case with master netting agreements, thus, the related assets and liabilities are presented on a gross basis in the statements of financial position.

Reinsurance

Contracts entered into by the Company with reinsurers which compensate the Company for losses on one or more contracts insured by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are classified as insurance contracts. Income from reinsurance contracts are classified within "Reinsurers' share of gross premiums on insurance contracts" in the statements of comprehensive income. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits recoverable by the Company under its reinsurance contracts are recognized as reinsurance assets. These assets consist of amounts due from reinsurers classified within "Loans and receivables" account in the statements of financial position. Due to reinsurers for reinsurance contracts are recognized as an expense upon recognition of premiums on the related insurance contract, classified within "Accounts payable and other liabilities" account. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with terms of each reinsurance contract.

The Company assesses its reinsurance assets for impairment at least annually. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in profit or loss in the statement of comprehensive income. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for financial assets.

Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts sold are recognized when due. Premiums due and uncollected are recognized when due and measured on initial recognition at the fair value of the consideration to be received. The carrying value of premiums due and uncollected is reviewed, for impairment whenever events or circumstances indicate the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss in the statement of comprehensive income. Premiums due and uncollected are derecognized following the derecognition criteria for financial instruments.



Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

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

Loans and receivables

For loans and receivables, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed accounts, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, credit and payment status and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of the loan's carrying amount over its net realizable value, based on the present value of the estimated future cash flows therefrom. The present value of the estimated future cash flows is discounted at the loan's original EIR. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

The carrying amount of an impaired loan is reduced to its net realizable value through the use of an allowance account. Any impairment loss determined is charged to profit or loss in the statement of comprehensive income. If, in a subsequent period, the amount of the allowance for impairment decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to profit or loss, to the extent that the resulting carrying value of the asset does not exceed its carrying value had no impairment loss been recognized.

AFS financial assets carried at fair value

In case of equity securities classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. Where there is objective evidence of impairment, the cumulative loss lodged under equity, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in other comprehensive income, is transferred to profit or loss. Impairment losses on equity securities are not reversed through statement of comprehensive income but directly on equity as part of other comprehensive income.



In the case of AFS debt securities, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original EIR on the reduced carrying amount of the asset and is recorded as part of interest income in profit or loss for the period. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss in the statement of comprehensive income to the extent that the resulting carrying value of the security does not exceed its carrying value had no impairment loss been recognized.

AFS financial assets carried at cost

If there is an objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the current market rate of return for a similar security.

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

Where the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. 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 pay.

Financial liability

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

Related Party Transactions

Related party relationships exist when one party has the ability to control or influence the other party, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its



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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, amortization and any impairment loss. The initial cost of property and equipment comprises its purchase price and other costs directly attributable to bringing the asset to its working condition and location for its intended use.

Depreciation and amortization is computed using the straight-line method over the estimated useful life (EUL) of the assets. Leasehold improvements are amortized over the EUL of the improvements or the term of the related lease, whichever is shorter. The EUL of the different categories of property and equipment are as follows:

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

Subsequent costs are included in the asset's carrying amount or are recognized as asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to current operations when incurred.

The asset's residual values, useful lives, and depreciation and amortization method are reviewed at each reporting date and adjusted, if appropriate, to ensure that these factors and assumptions are consistent with the expected pattern of consumption of future economic benefits embodied in the asset.

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

Impairment of Nonfinancial Assets

The Company assesses whether there is any indication that its nonfinancial assets such as its investment in a subsidiary and property and equipment may be impaired. When an indicator of impairment exists (or when an annual impairment testing for an asset is required), the Company estimates the recoverable amount of the impaired asset. The recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An impairment loss is charged to profit or loss in the period when it arises, consistent within the function of impaired assets.

For nonfinancial assets, an assessment is made at every reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have



decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying value does not exceed the carrying value that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Insurance Contract Liabilities - Life

Legal policy reserves represent the accumulated total liability for policies in-force at the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life and non-life insurance policies in-force as of reporting date. For life insurance, the reserves are calculated using actuarial methods and assumptions as approved by the Insurance Commission, subject to the liability adequacy test.

A number of life insurance contracts issued by the Company include discretionary participation feature. This feature entitles policyholders to policy dividends whose amounts and timing of payments are under the discretion of the Company. The Company's policy dividends are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under "Net benefits and claims incurred on insurance contracts" account in the statements of comprehensive income with the corresponding liability recognized under the "Insurance contract liabilities" account in the statement of financial position.

Liability adequacy test

At each reporting date, a liability adequacy test is performed for the insurance contract liabilities. In performing this test, current best estimates of future cash flows and claims handling and administration expenses, as well as investment income from the asset backing such liabilities, are used. Any deficiency is immediately charged against profit or loss (Note 11).

Long-term insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Insurance Contract Liabilities – Non-Life

For non-life insurance, insurance contract liabilities are recognized when the contract are entered into and the premiums are recognized. The reserves for non-life insurance contracts is calculated using the 24th method. The proportion of written premiums, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method.

Unit Linked Insurance Contracts

The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contracts links payment to insurance investment funds set-up by the Company with the consideration received from the policyholders. As allowed by PFRS 4, Insurance Contracts, the Company chose not to unbundle the investment portion of its unit-linked products. Premiums received from the issuance of unit-linked insurance contracts pertaining to the insurance portion are recognized as premium revenue.



The Company withdraws from the consideration received from the policyholders administrative and cost of insurance charges in accordance with the provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in fund assets are equal to the surrender value of the unit-linked policies, and are withdrawable anytime.

The investment returns on the insurance investment funds belong to policyholders and the Company does not bear the risk associated with these assets (outside of guarantees offered). Accordingly, investment income earned and expenses incurred by these funds and payments to policyholders are reflected directly in the “Segregated fund assets and Segregated fund liabilities” accounts. Such changes have no effect on the Company’s results of operations.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Product Classification

The Company issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes having to pay benefits on the occurrence of an insured event such as death, accident or disability. The Company may also transfer insurance risk on insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Insurance contracts may contain a premium and capital fund rider that entitles the policyholder to receive additional benefits based on the Company's investment performance. These contracts are recorded as financial liabilities under “Premium deposit fund” account in the statements of financial position. Local statutory regulation sets out a limitation on the accumulation of fund deposits and contributions.

Pension Cost

Defined benefit plan

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

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



Defined benefit costs comprise the following:

- (a) service cost;
- (b) net interest on the net defined benefit liability or asset; and
- (c) remeasurements of net defined benefit liability or asset.

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

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 high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

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.

Bonus plans

The Company recognizes a liability and an expense for 13th month and mid-year bonus based on a formula that takes into consideration the employee's current monthly salary. The Company recognizes a provision when contractually obligated.

Vacation and sick leave benefits

The employees earn fifteen (15) days each of vacation and sick leave after one (1) year of service with the Company which can be computed upon separation. Computation is based on the employee's monthly basic salary at the time of separation.

In subsequent years, the employees are compensated with fifteen (15) days each of vacation leave and sick leave annually. At each calendar year, unused vacation leave credits are forfeited and unused sick leave credits are computed. The Company recognizes a liability as a result of the unused entitlement of leave credits as at the reporting date.

Operating Leases

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



Income Tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute this amount are those that are enacted or substantively enacted as at the reporting date.

Deferred tax

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

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date.

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

Equity

Capital stock consists of common and preferred shares classified as equity. When the Company issues shares in excess of par, the excess is recognized as contributed surplus. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

Retained earnings represent accumulated earnings of the Company less dividends declared.

Foreign Currency Transactions and Translation

The functional and presentation currency of the Company is the Philippine Peso. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the Company's profit or loss.



Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of comprehensive income net of any reimbursement.

Contingencies

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

Events after the Reporting Period

Post year-end events that provide additional information about the Company's 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 the financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The Company makes judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, and disclosures of contingent assets and liabilities, if any, within the next financial year. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

Judgments

Product classification

The Company has determined that the policies it issues have significant insurance risk and therefore meets the definition of an insurance contract and are accounted for as such.

Classification of financial instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on the initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of the financial instrument, rather than its legal form, governs its classification in the statements of financial position.



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

Operating leases - Company as the lessee

The Company has entered into contracts of lease for its head office and the office spaces of its branches, which it considers as operating lease.

The Company has determined that all the significant risks and rewards of ownership of these properties are retained by the lessor. The contracts of lease are considered as operating leases by the Company since these do not transfer substantially all the risks and rewards incidental to ownership (Note 22).

Estimates and Assumptions

Life

The ultimate liability arising from claims made under insurance contracts

The ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for such claims. The primary sources of uncertainties are the frequency of claims due to contingencies covered and the timing of benefit payments.

Estimation of claims takes into account several factors such as industry average mortality experience, with adjustments to reflect Company's historical experience.

Estimate of future benefit payments and premiums arising from long-term insurance contracts

Estimates of future benefit payments depend on the expectations of future benefit payments for contingencies covered, the major ones being death and endowment benefits. The Company based these estimates on mortality and other contingency tables approved by the Insurance Commission as well as future investment earnings rate of the assets backing up these liabilities, subject to the maximum rate provided under the Insurance Code of the Philippines (Insurance Code). These are also subject to liability adequacy test.

Legal policy reserves

(i) Process used to decide on assumptions

The Company determines its legal policy reserves in accordance with the requirements of the Insurance Code. Estimates are made in two stages. At inception of the contract, the Company determines assumptions in relation to mortality, morbidity, persistency, investment returns, and administration expenses. Assumptions are also set in relation to inflation rates, tax, dividend scale and sales commission plus other incentives. Certain profit targets are also set at this stage. These assumptions are used in calculating liabilities during the life of the contracts.

A margin for risk and uncertainty is added to these assumptions. In order to minimize risk, the Company ensures that the assumptions used are best estimates, taking into account current experience at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates and taking into consideration the provision of PFRS 4, *Insurance Contracts*.



Legal policy reserves for group policies are computed as net unearned premium as of the valuation date.

Legal policy reserves on individual policies are computed per thousand of sum insured and depend on issue age and policy duration.

The following presents the comparison between assumptions made by the Company in accordance with regulatory requirements and the assumptions that would have been used in accordance with PFRS as of reporting date:

- (a) Investment Yield - This would range from 5.00% to 5.50% per annum, which is within the statutory maximum of 6.00%. The Company's actual experience for 2016 and 2015 are approximately 3.44% and 2.82%, respectively.
- (b) Mortality - This is based on 100% of the 1971 Philippine Intercompany Mortality Table and the 1980 Commissioner Standard Ordinary Mortality Table. Actual experience for 2016 and 2015 for individual insurance business were 7.24% and 40.29% while for group business were 31.18% and 33.36% of the pricing mortality, respectively. The average actual experience for individual insurance business and group business were 24.25% and 26.74%, respectively, for the 5-year period 2010-2014.
- (c) Lapsation - There is no lapsation assumption in statutory valuation. The Company's experience in 2016 and 2015 (based on figures as of December 2016 and 2015) are as follows:

	2016	2015
First year persistency	85.13%	53.55%
Second year persistency	93.06%	69.42%
Third year persistency	92.35%	80.66%

Despite the foregoing differences in assumptions, the legal policy reserves recognized by the Company as of December 31, 2016 and 2015 are deemed adequate.

The assumptions used for long-term insurance contracts are as follows:

(a) Mortality

An appropriate base table of recognized standard mortality table is chosen depending on the type of contract and subject to the approval of the Insurance Commission.

(b) Persistency

In accordance with requirements of the Insurance Code, a 100% persistency rate has been assumed for all policies which are in force and with no forfeiture option as of valuation date.

(c) Investment Returns

The interest rate ranges from 5.00% to 5.50% per annum and does not exceed the 6.00% maximum specified by the Insurance Code.

(ii) Liability adequacy test, changes in assumptions and sensitivity analysis

Legal policy reserves are conservatively calculated in accordance with the requirements of the Insurance Code. The liability adequacy test was performed using current best estimates on interest, mortality, lapsation and expenses. The net present value of future cash flows as of December 31, 2016 and 2015 computed under the requirements of PFRS 4, amounted to



₱294.1 million and ₱264.5 million, respectively. Accordingly, the recorded statutory reserves as of December 31, 2016 and 2015 of ₱373.0 million and ₱340.2 million, respectively, are adequate using best estimate assumptions. Testing under different interest rate scenarios and their impact on gross and net liabilities, equity and profit before tax are disclosed in Note 11 to the financial statements.

(iii) Source of uncertainty in the estimation of future claim payments

Although the Company has taken necessary steps to mitigate the uncertainty in the estimation of future benefit payments and premium receipts, it is still subject to the unpredictability of changes in mortality levels. The Company adopts the standard mortality table in assessing future benefit payments and premium receipts as approved by the Insurance Commission. The liability under the insurance contracts includes provisions for IBNR claims and provisions for claims in course of settlement as of reporting date. The IBNR provision is based on historical experience and is subject to a high degree of uncertainty.

Reinsurance - assumptions and methods

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under loans and receivables. Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and, thus, a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent on any reinsurance contract.

Non-Life

The ultimate liability arising from claims made under insurance contracts

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision.

The method of determining such estimates and establishing reserve are continually reviewed and updated. Changes in estimates of claims cost resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period the estimates are made.

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. Additional qualitative judgement are used to assess the extent to which past trends may not apply in the future, for example, one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. But since this is the first year of non-life business of the Company, average market experience is used.



Legal policy reserves

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums as part of Insurance contract liabilities and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims Provision and Incurred But Not Reported (IBNR) Losses

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

Liability Adequacy Test (LAT)

LAT is performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims. Any inadequacy is immediately charged to profit or loss by establishing a provision for loss arising from the liability adequacy tests.

Impairment of financial assets

(i) *AFS debt and equity securities*

The Company determines that AFS debt and equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. The Company treats 'significant' generally as 20.00% or more of the original cost of investment, and 'prolonged', greater than six (6) months. In making this judgment, the Company evaluates among other factors, the normal volatility in share price of similar equity securities.

In addition, in the case of unquoted equity securities, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

The carrying values of AFS financial assets amounted to ₱154.5 million and ₱153.7 million as of December 31, 2016 and 2015, respectively (Note 8).

(ii) *Loans and receivables*

The Company reviews its receivables on a periodic basis to assess impairment of receivables at an individual and collective level. In assessing for impairment, the Company determines whether there is any objective evidence indicating that there is a measurable decrease in the estimated future cash flows of its loans and receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of



borrowers, or industry-wide or local economic conditions that correlate with defaults on receivables. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies individually significant accounts that are to be provided with allowance.

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

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment would increase recorded expenses and decrease net income.

Loans and receivables, net of allowance for impairment losses, amounted to ₱185.1 million and ₱224.4 million as of December 31, 2016 and 2015, respectively (Note 8). The allowance for impairment on loans and receivables amounted to ₱5.4 million and ₱6.4 million as of December 31, 2016 and 2015, respectively (Note 8).

EUL of property and equipment

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

The related balances follow (Note 9):

	2016	2015
Property and equipment - cost	₱88,418,534	₱56,274,005
Accumulated depreciation	53,295,481	43,908,395
Depreciation and amortization	9,387,086	6,741,625

Impairment of nonfinancial asset

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

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

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. The recoverable amount is estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs.

As of December 31, 2016 and 2015, the carrying value of non-financial asset amounted to ₱35.1 million and ₱12.4 million, respectively (Note 9).



Recognition of deferred tax assets

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available against which all or part of the tax benefits can be utilized. However, there is no absolute assurance that sufficient taxable income will be generated in the near foreseeable future to allow all or part of the recognized deferred tax assets to be utilized.

As of December 31, 2016 and 2015, deferred tax assets amounted to ₱20.8 million and ₱22.8 million, respectively (Note 23).

Pension and other retirement benefits

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

As of December 31, 2016 and 2015, net pension liability amounted to ₱12.6 million and ₱17.5 million, respectively (Note 21).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 21.

Contingencies

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

6. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand	₱128,000	₱129,000
Cash in banks	255,284,643	112,509,303
Cash equivalents	98,380,241	645,002,605
	₱353,792,884	₱757,640,908



Cash in banks earn annual interest ranging from 0.25% to 2.0% and 0.25% to 1.25% in 2016 and 2015, respectively. Cash equivalents are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term and deposit rates.

Interest income from cash in banks and cash equivalents amounted to ₱4.9 million and ₱6.3 million in 2016 and 2015, respectively (Note 16).

7. Premiums Due and Uncollected

This account consists of due and uncollected premiums amounting ₱34.7 million and ₱45.1 million as of December 31, 2016 and 2015, respectively. These are collectible on demand. Allowance for premiums due and uncollected is nil as of December 31, 2016 and 2015.

8. Financial Assets

The Company's financial assets are summarized as follows:

	2016	2015
Financial assets at FVPL	₱862,299,524	₱586,254,411
Loans and receivables - net	185,103,287	224,415,607
AFS financial assets	154,458,011	153,713,367
	₱1,201,860,822	₱964,383,385

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

(a) *As of December 31 the financial assets at FVPL follow:*

	2016	2015
Mutual funds	₱37,936,422	₱151,118,280
Unit Investment Trust Fund	14,232	-
Debt Securities:		
Government	824,348,870	435,136,131
Private	-	-
Equity securities	-	-
	₱862,299,524	₱586,254,411

The Company recognized its investment securities under the IMA account as financial assets at FVPL.

The unrealized gains (losses) on mark-to-market valuation amounting (₱19.8) million and ₱3.0 million in 2016 and 2015, respectively, are shown under "Unrealized gains (losses) on financial assets at FVPL" account in the statements of comprehensive income.

The trading gains (losses) on sale of financial assets at FVPL amounted to ₱7.8 million and (₱19.8) million for the years ended December 31, 2016 and 2015, respectively (Note 16).

The movements in financial assets at FVPL for the year ended December 31 follows:



	2016	2015
At January 1	₱586,254,411	₱925,390,009
Additions	2,594,768,719	4,346,884,153
Disposals	(2,298,923,724)	(4,689,025,767)
Unrealized gains (losses)	(19,799,882)	3,006,016
	₱862,299,524	₱586,254,411

Interest income earned from financial assets at FVPL amounted to ₱19.1 million and ₱15.5 million in 2016 and 2015, respectively (Note 16).

(b) *Loans and receivables as of December 31 follow:*

	2016	2015
Salary loans	₱66,580,061	₱98,158,204
Due from reinsurer	35,052,332	48,978,853
Receivable from third party administration	29,000,806	22,923,633
Accounts receivable	15,254,942	21,273,981
Due from policyholders	12,414,266	13,686,358
Mortgage loans	5,378,757	7,951,916
Other receivables	6,767,036	3,204,136
	170,448,200	216,177,081
Less allowance for impairment on loans	5,380,381	6,417,716
	165,037,819	209,759,365
Policy loans	20,035,468	14,656,242
	₱185,103,287	₱224,415,607

Salary loans represent loans to DepEd teachers and private institution employees with annual interest rates of 5.70% to 15.00% in 2016 and 2015. These loans have terms ranging from six (6) to thirty-six (36) months and are collected by DepEd through salary deduction and subsequently remitted to the Company. Interest income earned from salary loans amounted to ₱11.4 million and ₱19.5 million in 2016 and 2015, respectively.

Due from reinsurer pertains to the amount of claims in excess of the retention limit that should only be covered by the Company. Retention limit is only ₱2.0 million. Any excess of this will be collectible from the reinsurer. This also includes reinsurance claims recoverable and experience refund recoverable from reinsurers.

Receivable from third party administration represents amounts due from policyholders which were initially paid by the Company for billings made by medical providers. This is normally due within fifteen (15) days from date billed to policyholders.

Accounts receivable account consists of receivable from employees, brokers, SSS and others. Due from policyholders pertains to the excess of the amount paid by the Company over the benefits of the claimant. The Company pays the entire amount incurred by the claimant during hospitalization and bills the claimant for the excess.



The loans and receivables are generally short term. The noncurrent portion of the salary loans amounted to ₱46.1 million and ₱67.0 million as of December 31, 2016 and 2015, respectively. The changes in allowance for impairment on loans and receivables are as follows:

	Salary loans	Accounts Receivable	Total
At January 1, 2015	₱5,480,941	₱1,916,617	₱7,397,558
Provision (Recovery) (Note 19)	834,423	(1,282,425)	(448,002)
Write-off	(531,840)	–	(531,840)
At December 31, 2015	₱5,783,524	₱634,192	₱6,417,716
Provision (Recovery) (Note 19)	1,079,654	348,724	1,428,378
Write-off	(2,465,713)		(2,465,713)
At December 31, 2016	₱4,397,465	₱982,916	₱5,380,381

(c) As of December 31 the AFS financial assets follow:

	2016	2015
At fair value:		
Government securities	₱128,279,019	₱128,514,492
Mutual funds	25,401,376	24,463,672
Listed equity securities	327,616	285,203
At cost:		
Proprietary shares	450,000	450,000
	₱154,458,011	₱153,713,367

As of December 31, 2016 and 2015, AFS financial assets have an aggregate cost of ₱159.2 million and ₱159.7 million, respectively. The excess of the fair value AFS financial assets over the aggregate cost (net of tax) amounted to (₱4.8 million) and (₱5.9 million) as of December 31, 2016 and 2015, respectively, and are shown under the “Net unrealized gains (losses) on AFS financial assets” account in the equity section in the statements of financial position while the movements thereof are shown as part of “Other comprehensive income” in the statements of comprehensive income.

As of December 31, 2016 and 2015, government debt securities amounting ₱128.3 million and ₱128.5 million, respectively, were designated as restricted investments and maintained with the Bureau of Treasury in accordance with the provisions of the Insurance Commission as security for the benefit of the Company's policyholders and creditors.

The rollforward analysis of unrealized (losses) gains on AFS financial assets follows:

	2016	2015
As of January 1	(₱5,938,577)	₱2,368,843
Other comprehensive income:		
Changes in fair value of AFS financial assets during the year	1,162,657	(8,307,420)
As of December 31	(₱4,775,920)	(₱5,938,577)



The movements in AFS financial assets for the years ended December 31 follow:

	2016	2015
At January 1	₱153,713,367	₱157,968,140
Additions	13,209,673	72,269,640
Disposals/maturities/redemption	(13,627,686)	(68,216,993)
Change in fair value during the year	1,162,657	(8,307,420)
	₱154,458,011	₱153,713,367

Interest income earned from AFS financial assets amounted to ₱5.0 million and ₱6.9 million in 2016 and 2015, respectively (Note 16).

Mortgage loans as of December 31 consist of:

	2016	2015
Chattel mortgage (car loans)		
Director, officers and employees	₱4,724,791	₱7,297,950
Real estate mortgage (housing loans)		
Third party individuals	653,966	653,966
	₱5,378,757	₱7,951,916

Housing and car loans to officers and employees are collectible over a period of five (5) to fifteen (15) years through salary deduction. These loans bear an annual interest of 10.00%. The noncurrent portion of the mortgage loans amounted to ₱2.9 million and ₱5.3 million as of December 31, 2016 and 2015, respectively.

Other receivables consist of advances to officers, employees and agents and miscellaneous advances.

Policy loans pertain to loans issued to insurance policyholders. These loans are collateralized with the cash surrender value of the policyholders' insurance policy. The annual interest rate on policy loans in 2016 and 2015 is fixed at 10.00%. The policyholders may repay the policy loans any time during the effectivity of the policy and if unpaid upon surrender or maturity, the policy loan will be deducted from the surrender or maturity benefits.

9. Property and Equipment

This account consists of:

2016

	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost				
Balance at beginning of year	₱41,856,666	₱10,810,483	₱3,606,856	₱56,274,005
Additions	32,144,529	-	-	32,144,529
Disposals	-	-	-	-
Balance at end of year	74,001,195	10,810,483	3,606,856	88,418,534

(Forward)



	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Total
Accumulated Depreciation				
Balance at beginning of year	₱31,866,362	₱10,476,537	₱1,565,496	₱43,908,395
Depreciation/Amortization (Note 22)	8,334,526	207,164	845,396	9,387,086
Disposals	-	-	-	-
Balance at end of year	40,200,888	10,683,701	2,410,892	53,295,481
Net Book Value	₱33,800,307	₱126,782	₱1,195,964	₱35,123,053

2015

	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost				
Balance at beginning of year	₱39,092,515	₱10,810,483	₱3,346,356	₱53,249,354
Additions	2,764,151	-	1,591,474	4,355,625
Disposals	-	-	(1,330,974)	(1,330,974)
Balance at end of year	41,856,666	10,810,483	3,606,856	56,274,005
Accumulated Depreciation				
Balance at beginning of year	26,721,371	9,832,460	1,943,913	38,497,744
Depreciation/Amortization (Note 22)	5,144,991	644,077	952,557	6,741,625
Disposals	-	-	(1,330,974)	(1,330,974)
Balance at end of year	31,866,362	10,476,537	1,565,496	43,908,395
Net Book Value	₱9,990,304	₱333,946	₱2,041,360	₱12,365,610

Fully depreciated assets still in use amounted to ₱21.1 million and ₱18.9 million as of December 31, 2016 and 2015, respectively. There are no temporary idle property and equipment items.

The Company has pledged a portion of its transportation equipment under property and equipment with carrying value of ₱0.8 million and ₱0.1 million as of December 31, 2016 and 2015, respectively, as collateral to secure the bank loans of the Company with various financial institutions (Note 12).

10. Other Assets

This account consists of:

	2016	2015
Performance bond	₱13,748,268	₱14,739,918
Reserve fund	581,384	7,536,011
Prepayments	886,013	486,493
Security fund	221,082	221,082
Income Tax Credit	8,818,874	834,510
Miscellaneous	6,391,021	7,753,934
	₱30,646,642	₱31,571,948

Performance bond consists of amounts paid by the Company to hospital network providers in compliance with certain group insurance policy contracts. These bonds will be recovered upon termination of the policy contracts and after all claims and benefits accruing to the contracts have been settled.



Reserve fund consists of contingency funds which are maintained to defray claims of the insurance pools business of the Company.

Prepayments include advance payments made by the Company relative to documentary stamps.

Security fund is maintained in accordance with Chapter V Sections 378 to 385 of the Insurance Code. The amount of such fund is determined by and deposited with the Insurance Commission and its purpose is to pay valid claims against insolvent insurance companies.

Miscellaneous mainly includes creditable withholding tax, rental deposits and other deposits.

11. Insurance Contract Liabilities

This account consists of:

	2016	2015
Legal policy reserves	₱370,019,299	₱340,203,895
Claims payable	225,240,451	259,866,443
Policyholders' dividends	3,428,860	3,796,481
Revenue from Unearned Premiums and IBNR	2,992,834	-
	₱601,681,444	₱603,866,819

Life Insurance Liabilities

Insurance contract liabilities may be analyzed as follows:

2016	Gross	Reinsurance	Net
Reserves for ordinary life insurance	₱63,578,826	₱131,375	₱63,447,451
Reserves for group life policies	42,208,608		42,208,608
Reserves for accident and health policies-group	264,363,240		264,363,240
At December 31	₱370,150,674	₱131,375	₱370,019,299
2015	Gross	Reinsurance	Net
Reserves for ordinary life insurance	₱64,398,582	₱130,558	₱64,268,024
Reserves for group life policies	29,236,649	-	29,236,649
Reserves for accident and health policies-group	246,699,222	-	246,699,222
At December 31	₱340,334,453	₱130,558	₱340,203,895

The movements in legal policy reserves in 2016 and 2015 are as follow:

2016	Gross	Reinsurance	Net
At January 1	₱340,334,453	₱130,557	₱340,203,896
Net change in legal policy reserves:			
New business, reinstatement and change in policy year	1,659,588,526		1,659,588,526
Released by death and other terminations and supplementary contracts	(1,629,772,304)	816	(1,629,773,120)
	29,816,222	816	29,815,406
At December 31	₱370,150,675	₱131,373	₱370,019,302



2015	Gross	Reinsurance	Net
At January 1	₱364,383,558	₱108,892	₱364,274,666
Net change in legal policy reserves:			
New business, reinstatement and change in policy year	1,587,009,339	–	1,587,009,339
Released by death and other terminations and supplementary contracts	(1,611,058,445)	21,665	(1,611,080,110)
	(24,049,106)	21,665	(24,070,771)
At December 31	₱340,334,452	₱130,557	₱340,203,895

The movements in claims payable and IBNR in 2016 and 2015 are as follow:

	2016	2015
At January 1	₱259,866,443	₱237,587,796
Payments during the year	(1,486,264,886)	(1,152,060,969)
Provisions during the year	1,451,158,848	1,174,339,616
At December 31	₱224,760,405	₱259,866,443

Non-Life Insurance Liabilities

Short-term non-life insurance liabilities may be analyzed as follows:

	2016		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Provision for claims reported and loss adjustments expenses	₱–	₱–	₱–
Provisions for IBNR	480,045	–	480,045
Total claims reported and IBNR	480,045	–	480,045
Reserve for unearned premiums	2,992,834	–	2,992,834
Total Insurance Contract Liabilities	₱3,472,879	₱–	₱3,472,879

In 2016, the Company started to offer non-life insurance policies. There are no short-term non-life insurance liabilities as of December 31, 2015.

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

	2016		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	₱–	₱–	₱–
Claims incurred during the year	123,078	–	123,078
Increase in IBNR	356,967	–	356,967
At December 31	₱480,045	₱–	₱480,045

There are no provisions for claims reported by policy holders and IBNR as of December 31, 2015.



Reserve for unearned premiums may be analyzed as follows:

	2016		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	₱–	₱–	₱–
New policies written during the year	3,501,481	–	3,501,481
Premiums earned during the year	(508,647)	–	(508,647)
At December 31	₱2,992,834	₱–	₱2,992,834

There are no reserve for unearned premiums as of December 31, 2015.

The movements in policyholders' dividends in 2016 and 2015 are as follow:

	2016	2015
At January 1	₱3,796,481	₱3,765,828
Payments during the year	(1,479,790)	(1,133,662)
Policyholders' dividends and interest on policyholders' dividends	1,112,168	1,164,315
At December 31	₱3,428,859	₱3,796,481

Segregated Fund Assets / Segregated Fund Liabilities

In 2016, the Company started commercial issuance of unit-linked insurance contracts where the payments to policyholders are linked to investment funds set up by the Company. As of December 31, 2016, the Company has three (3) insurance investment funds (IIFs) namely: Balanced Fund, Equity Opportunity Fund and Fixed Income Fund.

As of December 31, 2016, the details of this account are as follows:

	Segregated Fund		
	Liabilities	Seed Capital	Net assets
Balanced Fund	₱12,013,916	₱1,000,000	₱13,013,916
Equity Opportunity Fund	7,075,478	1,000,000	8,075,478
Fixed Income Fund	2,709,379	1,000,000	3,709,379
	₱21,798,773	₱3,000,000	₱24,798,773

The breakdown of net assets in segregated funds follows:

	Balanced Fund	Equity Opportunity Fund	Fixed Income Fund	Total
	Cash and cash equivalents	₱995,093	₱996,052	₱1,385,394
Investment in Mutual Funds (MF) – FVPL	12,417,473	7,622,370	–	20,039,843
Acc Market Gains/(Losses) – MF – FVPL	(389,057)	(534,917)	–	(923,974)
Investment in Unit Investment Trust Fund (UITF)	–	–	2,762,530	2,762,530
Acc Market Gains/(Losses) – UITF – FVPL	–	–	(47,090)	(47,090)

(Forward)



	Balanced Fund	Equity Opportunity Fund	Fixed Income Fund	Total
Accounts Payable			(₱388,000)	(₱388,000)
Accrued Trust Fee Payable	(9,593)	(8,027)	(3,455)	(21,075)
Net assets	13,013,916	8,075,478	3,709,379	24,798,773
Less: Seed capital	1,000,000	1,000,000	1,000,000	3,000,000
Segregated fund liabilities	₱12,013,916	₱7,075,478	₱2,709,379	₱21,798,773

Sensitivities

Life Insurance Contracts

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

The assumptions that have the greatest effect on the 2016 and 2015 statements of financial position, statements of comprehensive income and statements of changes in equity are listed below:

	Change in Assumptions	Increase/ (Decrease) in Net Liabilities	Increase/ (Decrease) in Profit Before Tax	Increase/ (Decrease) in Equity
2016				
Mortality	+10.00%	₱340,547	(₱340,547)	(₱238,383)
	-10.00%	(371,539)	371,539	260,077
Discount rate	-1.00%	8,129,572	(8,129,572)	(5,690,700)
2015				
Mortality	+10.00%	₱391,819	(₱391,819)	(₱274,273)
	-10.00%	(427,830)	427,830	299,481
Discount rate	-1.00%	8,377,085	(8,377,085)	(5,863,960)

12. Accounts Payable and Other Liabilities

This account consists of:

	2016	2015
Accounts payable (Note 21)	₱127,942,552	₱127,537,525
Due to reinsurer	52,790,595	54,508,697
Accrued expenses	43,249,737	34,811,825
Due to policyholders	19,011,061	23,721,187
Taxes payable	13,453,458	9,688,188
Life insurance deposit	5,372,542	8,256,062
Bank loans payable	2,413,476	5,079,853
Miscellaneous	17,670,646	5,843,342
	₱281,904,068	₱269,446,679



Accounts payable represents billings for medical fees, dental fee, annual physical examination, third party administration and others. These are payable on demand.

Due to reinsurer pertains to portion of the reinsurance premiums of the Company to another insurer to protect them against the risk of loss that is unpaid as of cutoff period.

Accrued expenses pertain to accruals for employee benefits, commission, professional and legal fees and utilities.

Due to policyholders represent clients' deposits and health/medical claims for the medical protect plan products.

Taxes payable includes withholding tax and premium tax payable.

Life insurance deposit represents deposits paid by policyholder in advance which may be applied to pay premiums or other policyholder obligations.

Bank loans payable pertains to bank auto loans relative to car plan benefits given by the Company to entitled employees. The bank loans are secured by the autos and interest bearing at annual rates of 9.66% to 11.00%. Interest expense incurred for bank loans amounted to ₱0.4 million and ₱0.6 million in 2016 and 2015, respectively.

Miscellaneous includes commission payable and unearned interest.

13. Premium Deposit Fund

This account pertains to funds held for policyholders with annual interest ranging from 3.00% to 5.00%. Interest expense charged against income amounted to ₱1.7 million and ₱1.2 million in 2016 and 2015, respectively.

14. Equity

Authorized Capital stock

The authorized capital stock as at December 31, 2016 and 2015 consists of:

Common Stock			Preferred Stock		
Number of Shares	Par Value	Amount	Number of Shares	Par Value	Amount
49,499,404	₱10.00	₱494,994,040	50,059,600	₱0.10	₱5,005,960

Issued and outstanding capital stock

The movement in the number of shares and amount of capital stock issued and outstanding for the years ended December 31, 2016 and 2015 are as follow:

Common stock	Par Value	Amount	Preferred stock	Par Value	Amount
49,499,404	₱10.00	₱494,994,040	50,059,600	₱0.10	₱5,005,960

There were no movement in the contributed surplus as of December 31, 2016 and 2015.



The preferred shares have the following features:

- a) Entitled to receive cash dividends at six percent (6.00%) per annum;
- b) Voting rights;
- c) Convertible at any time into common shares at the sole option of the Company;
- d) Redeemable at any time at the sole option of the Company;
- e) Priority to receive the guaranteed dividends, including dividends in arrears, over the common stockholders;
- f) Not entitled to any participation or share in the retained earnings remaining after all cumulative dividends thereon have been paid; and
- g) In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of the Company, holders of preferred shares shall enjoy preferences in the payment, in full or pro-rata basis as the assets of the Corporation will permit, of the value of their shares plus all unpaid cumulative dividends, before any assets of the Company shall be paid or distributed to holders of common shares.

Contributed Surplus

The contributed surplus of ₱39.8 million as of December 31, 2016 and 2015 represents additional capital contribution from the Company's stockholders.

Retained Earnings

In 2016, the Company has retained surplus in excess of its paid up capital. Under Section 29 of the National Internal Revenue Code of 1997, the Improperly Accumulated Earnings Tax should not apply to Insurance companies.

In preparation for the requirement of the Insurance Commission on required net worth, the Company has retained surplus over paid up (Note 25).

15. Net Insurance Premiums

Life and Non-life Insurance Contracts

Gross earned premiums on insurance contracts and reinsurers' share of gross earned premiums on insurance contract consists of the following:

	2016	2015
Life insurance contracts premiums:		
Group health insurance	₱1,926,404,231	₱1,842,854,797
Group life insurance	133,923,509	119,849,686
Ordinary life insurance	16,916,763	37,747,043
Unit-linked	24,006,744	-
Non-Life insurance contracts premiums:		
Motor	1,253,968	-
Fire	2,250,903	-
	2,104,756,118	2,000,451,526
Reinsurers' share of life insurance contracts		
Premiums revenue:		
Group life insurance	(7,377,485)	(11,632,916)
Ordinary life insurance	(258,428)	(113,685)
	(7,635,913)	(11,746,601)
Experience refund	(3,669,658)	(26,513,064)
	₱2,093,450,547	₱1,962,191,861



16. Interest Income and Other Income

This account consists of interest arising from:

	2016	2015
Loans and receivables (Note 8)	₱35,103,733	₱22,983,017
Financial assets at FVPL (Note 8)	19,081,965	15,515,777
AFS financial assets (Note 8)	5,016,339	6,856,451
Cash and cash equivalents (Note 6)	4,932,535	6,269,776
	₱64,134,572	₱51,625,021

Other income consists of:

	2016	2015
Service and network fees	₱10,548,722	₱9,510,132
Third party administration	21,840,528	13,712,577
Trading gains (losses) on sale of financial assets at FVPL	7,772,348	(19,778,977)
Miscellaneous	6,234,873	9,143,909
	₱46,396,471	₱12,587,641

Service and network fees are membership fees paid by the policyholders for the use of accredited hospitals, clinics and doctors' network for a no cash-out arrangement in case of in-patient and out-patient availments. These membership fees cover the insured members with health cards issued by the Company.

Third party administration pertains to fees paid by the third party to the Company for handling medical and health expenses of the said third party.

Miscellaneous income pertains to the processing and handling fees with regard to the processing of loans of DepEd, gain/loss on foreign currency transactions and gain on sale of property and equipment.

17. Net Benefits and Claims Incurred on Insurance Contracts

This account consists of:

	2016	2015
Life	₱1,350,301,494	₱1,295,687,207
Non-Life	603,123	-
	₱1,350,904,617	₱1,295,687,207



Life Insurance Contracts

Gross insurance contracts benefits and claims paid.

	2016	2015
Claims	₱1,319,010,842	₱1,274,098,235
Surrenders	29,811,075	19,260,727
Maturities	450,410	1,315,137
Policyholders' dividends and interest thereon	1,029,167	1,013,108
	₱1,350,301,494	₱1,295,687,207

Non-Life Insurance Contracts

Gross insurance contracts benefits and claims paid in 2016 follows:

Insurance contract benefits and claims paid	
Direct insurance	₱123,078
Increase (decrease) in insurance contract liabilities	480,045
Net claims incurred	₱603,123

18. Expenses for the Acquisition of Insurance Contracts

This account consists of:

	2016	2015
Commissions	₱155,397,444	₱162,358,145
Salaries, wages and employees' benefits (Notes 20 and 24)	118,203,954	94,354,942
Insurance taxes	41,727,375	39,434,509
Service fees	49,369,290	36,407,362
Transfer to Segregated Funds (Note 11)	24,006,744	-
Others	4,486,166	4,261,444
	₱393,190,973	₱336,816,402

Commissions represent amounts that are given to agents and brokers. This account includes overriding expenses that are in excess of 10.00% of commission.

Insurance taxes include documentary stamp tax and premium tax.

Service fees represent amounts paid to intermediaries of group policyholders for collecting the premiums from the assured.

Others include underwriting expenses, medical fees, inspection fees and other direct cost.



19. General and Administrative Expenses

This account consists of:

	2016	2015
Salaries, wages and employees' benefits (Notes 20 and 24)	₱73,781,874	₱60,388,958
Management and professional fees (Note 24)	51,483,415	44,925,602
Indirect expenses	–	36,691,815
Occupancy (Note 22)	42,879,887	30,135,549
Taxes and licenses	21,620,233	29,833,270
Postage and communication	7,959,373	7,266,401
Office supplies	6,645,761	5,190,104
Transportation and travel	3,744,947	4,413,372
Representation and entertainment	2,826,513	2,782,685
Provision for impairment of loans and receivables (Note 8)	1,428,378	(448,002)
Insurance	11,550,776	617,669
Others	7,656,970	5,176,027
	₱231,578,127	₱226,973,450

Management and professional fees pertain to expenses incurred for management and other professional services received by the Company such as consulting fee, IMA fees, audit fees, director's fee, legal fees, temporary staff expenses and miscellaneous services.

In 2015, indirect expenses refer to country cost assessment for internal audit, compliance, risk and management office. In 2016, there was no allocation of group expenses to the company.

Taxes and licenses consist of business permits, licenses, LGU Taxes, fringe benefit tax, VAT and fines and penalties.

In 2016, the Company obtained a general executive plan for its key officers.

Others consist mainly of membership dues, prizes and awards, trainings and seminars and bank charges.

20. Salaries, Wages and Employees' Benefits

This account consists of:

	2016	2015
Salaries and wages and other benefits (Notes 18 and 19)	₱177,578,624	₱142,015,802
Pension expense (Note 21)	9,560,017	8,946,491
SSS, Medicare and Pag-ibig contributions	4,847,187	3,781,607
	₱191,985,828	₱154,743,900



Salaries, wages and employees' benefits are charged as follows:

	2016	2015
Underwriting expenses (Note 18)	₱118,203,954	₱94,354,942
General and administrative expenses (Note 19)	73,781,874	60,388,958
	₱191,985,828	₱154,743,900

21. Pension Plan

The Company has a funded, non-contributory defined benefit plan (the Plan) providing death, disability and retirement benefits for all of its employees. Under the Plan, the normal retirement age is sixty (60) and the employee should have completed at least ten (10) years of service. Normal retirement benefit consists of a lump-sum benefit equivalent to 100.00% of the employee's final monthly pay for every year of service.

The most recent actuarial valuation was carried out for the retirement plan of the Company as of December 31, 2016.

Based on the actuarial valuation as of December 31, 2016 and 2015 computed using the PUC method, the Company's pension liabilities and expenses are summarized as follows:

	2016	2015
Net pension liability	₱12,649,105	₱17,471,979
Pension expense	9,560,017	8,946,491

The amounts recognized in the statements of comprehensive income are as follow:

	2016	2015
Current service cost	₱8,658,462	₱8,504,909
Net interest cost	901,555	441,582
Pension expense	₱9,560,017	₱8,946,491

The amounts recognized in the statements of financial position are as follows:

	2016	2015
Present value of defined benefit obligation	₱130,473,783	₱122,921,910
Fair value of plan assets	(117,824,678)	(105,449,931)
Net pension liability	₱12,649,105	₱17,471,979

Changes in the present value of the defined benefit obligation are as follows:

	2016	2015
At January 1	₱122,921,910	₱107,831,972
Current service cost	8,658,462	8,504,909
Interest cost on benefit obligation	6,342,771	5,068,103
Benefits paid from retirement fund	-	(1,041,339)
Actuarial losses		
Experience adjustments	(7,021,110)	4,814,522
Changes in demographic assumptions	-	192,645
Changes in financial assumptions	(428,250)	(2,448,902)
At December 31	₱130,473,783	₱122,921,910



Changes in fair value of the plan assets are as follow:

	2016	2015
At January 1	P105,449,931	P98,436,623
Contributions	8,794,617	9,500,000
Expected return on plan assets	5,441,216	4,626,521
Benefits paid	-	(1,041,339)
Remeasurement gains (losses)	(1,861,086)	(6,071,874)
At December 31	P117,824,678	P105,449,931

The movements in the net pension liability recognized in the statements of financial position are as follows:

	2016	2015
At January 1	P17,471,979	P9,395,349
Pension expense	9,560,017	8,946,491
Contributions	(8,794,617)	(9,500,000)
Amount to be recognized in OCI	(5,588,274)	8,630,139
At December 31	P12,649,105	P17,471,979

Remeasurement losses (gains) recognized in OCI:

	2016	2015
Remeasurement on plan assets	P1,861,087	P6,071,874
Actuarial losses (gains) from benefit obligation	(7,449,360)	2,558,265
	(5,588,273)	8,630,139
Deferred taxes on remeasurement on plan assets (Note 23)	1,676,482	(2,589,042)
	(P3,911,791)	P6,041,097

Movement of cumulative remeasurement effect recognized in OCI:

	2016	2015
At January 1	P9,489,205	P859,066
Remeasurement on plan assets	1,861,086	6,071,874
Actuarial losses (gains) from benefit obligation	(7,449,360)	2,558,265
At December 31	P3,900,931	P9,489,205

Plan assets consist of:

	2016		2015	
	Amount	%	Amount	%
Cash and cash equivalents	P13,625,677	11.56%	P18,559,205	17.60%
Government securities	98,425,803	83.54	80,741,092	76.70
Loans and receivables	5,941,439	5.04	6,860,237	6.50
Accounts payable	(168,241)	(0.14)	(710,603)	(0.80)
	P117,824,678	100.00%	P105,449,931	100.00%

The expected return on plan assets is determined by considering the expected return available on the assets underlying the current investment policy. Expected yields on fixed income investments are based on gross redemption yields as of reporting dates.



The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

Net unrealized gains on investments in government securities amounted to ₱1.6 million and ₱0.3 million in 2016 and 2015, respectively.

Actual return on plan assets amounted to (₱0.2) million and ₱1.4 million in 2016 and 2015, respectively.

Actual contributions to the plan assets amounted to ₱8.8 million and ₱9.5 million, respectively. The Company expects to contribute ₱9.9 million to the Plan in 2017.

Amounts for the current and previous periods are as follows:

	2016	2015	2014	2013	2012
Benefit obligation	₱130,473,783	₱122,921,910	₱107,831,972	₱115,550,945	₱125,040,111
Plan assets	(117,824,678)	(105,449,931)	(98,436,623)	(92,851,170)	(69,315,212)
Deficit	₱12,649,105	₱17,471,979	₱9,395,349	₱22,699,775	₱55,724,899
Experience gains (losses) adjustments on:					
Plan liabilities	₱1,861,086	₱6,071,874	(₱2,095,850)	₱29,787,465	(₱35,707,755)
Plan assets	(7,449,360)	2,558,265	(1,958,560)	4,772,142	1,751,198
	(₱5,588,274)	₱8,630,139	(₱4,054,410)	₱34,559,607	(₱33,956,557)

The principal actuarial assumptions used are as follows:

	2016	2015
Discount rate	5.16%	5.16%
Expected return on plan assets	6.00	6.00
Salary increase rate	7.00	7.00
Average remaining working lives	20 years	20 years

The sensitivity analysis that follows has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of the end of reporting period, assuming all other assumptions were held constant.

		PVO
Discount rate	+0.50%	(₱1,995,779)
	-0.50	2,679,177
Salary increase rate	+0.50	2,570,797
	-0.50	(1,948,535)

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. It is the policy of the Trustee that immediate and near-term retirement liabilities of the Company's Retirement Fund are adequately covered by its assets. As such, due considerations are given that portfolio maturities are matched in accordance with due benefit payments. The Retirement Fund's expected benefits payments are determined through the latest actuarial reports.



22. Occupancy Expenses

This account consists of:

	2016	2015
Rent	₱15,344,080	₱13,026,877
Light and water	6,479,002	6,868,699
Depreciation and amortization (Note 9)	9,387,086	6,741,625
Repairs and maintenance	11,545,980	3,417,708
Others	123,739	80,640
	₱42,879,887	₱30,135,549

The Company leases its office space and branch offices for varying periods and rental rates.

In September 2016, the Company renewed the October 2016 cancellable lease contract for its branch office located in Pampanga which will expire in September 2017.

In July 2016, the Company entered into a cancellable lease contracts for its branch office located in Lipa City, Batangas and Pasig City which will expire in June 2017.

The lease contract on a portion of the head office will expire in June 2019 and is renewable for another five (5) years subject to the agreement of both parties. The rental rate and maintenance charges are subject to an annual increase of 7.50% beginning on the 3rd year of the five (5)-year lease contract.

In December 2015, the Company entered into a cancellable lease contract for its branch office located in La Union. The contract of lease will expire in November 2018.

In March 2015, the Company entered into a cancellable lease contract for its branch office located in Mindoro. The contract will expire in February 2017.

In March 2015, the Company entered into a cancellable lease contract for its branch office located in Iloilo City. The contract will expire in February 2017.

In May 2014, the Company renewed the May 2011 non - cancellable lease contract for its branch office located in Cebu which will expire in April 2017.

Rental deposits amounting ₱3.1 million and ₱2.9 million as of December 31, 2016 and 2015 is included under the "Other assets" account in the statement of financial position (Note 10).

The future minimum rental payments under these operating lease contracts are as follow:

	2016	2015
Within one (1) year	₱16,210,456	₱9,200,105
More than one (1) year up to three (3) years	27,493,492	2,155,880
	₱43,703,948	₱11,355,985



23. Income Taxes

Provision for income tax consists of:

	2016	2015
Current	₱50,396,484	₱53,683,445
Deferred	271,377	(284,190)
Final	6,566,214	6,017,497
	₱57,234,075	₱59,416,752

Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The details of the Company's deferred tax assets as at December 31, 2016 and 2015 are as follows:

	2016	2015
Accrued expenses	₱11,527,627	₱10,579,797
Unamortized contribution of past service cost	2,451,436	3,240,264
Pension liability	3,794,731	5,241,594
Allowance for impairment losses	1,614,114	1,925,315
Net unrealized gains on AFS financial assets	1,432,776	1,781,573
	₱20,820,684	₱22,768,543

The movements of the Company's net deferred tax assets are as follow:

	2016	2015
At January 1	₱22,768,543	₱19,895,312
Benefit from (Provision for)	(3,624,341)	284,189
Tax effect of actuarial losses on pension liability	1,676,482	2,589,042
At December 31	₱20,820,684	₱22,768,543

Deferred tax liability is nil as of December 31, 2016 and 2015.

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

	2016	2015
At statutory tax rate	₱52,577,718	₱57,992,135
Additions to (reduction in) income tax resulting from:		
Nondeductible expenses	8,872,911	3,883,931
Tax-exempt income/non-taxable income	(2,433,304)	5,782,799
Unrealized losses on financial assets at FVPL	5,939,965	(901,805)
Income subjected to final tax	(7,723,215)	(7,340,308)
At effective tax rate	₱57,234,075	₱59,416,752



24. Related Party Transactions

The following are the Company's outstanding related party transactions:

- a. The Company has an IMA with ATRAM Trust Corporation formerly ATR KimEng Asset Management, Inc. (ATRKE AMI) which monitors and manages a portion of the Company's investments. The IMA provides that the Company retains legal title to the invested funds and properties and will be charged IMA fees based on the market value of the portfolio. In 2016 and 2015, IMA fees amounted to ₱4.1 million and ₱4.5 million, respectively (Note 19).
- b. Loans to officers consist of housing and car loans (Note 8). The loans have interest at 8.40%-10.00% per annum. Total loans outstanding amounted to ₱5.3 million and ₱8.0 million as of December 31, 2016 and 2015, respectively. The related interest income on the salary loans amounted to ₱11.4 million and ₱19.5 million for the years ended December 31, 2016 and 2015, respectively.
- c. In 2016 and 2015, directors' remuneration included in management and professional fees under "General and administrative expenses" amounted to ₱0.4 million and ₱0.5 million, respectively (Note 19).
- d. Details of key management compensation follows:

	2016	2015
Salaries and other short-term benefits	₱46,108,140	₱37,720,219
Post-employment benefits	5,574,474	4,560,374
Fringe benefit	2,713,858	2,764,277
Social security cost	164,143	129,219
	₱54,560,615	₱45,174,089

Key management includes officers with positions of Vice President and up.

- e. Outstanding balances with related parties as of December 31 are as follow:

2016

	Relationship	Nature of Transaction	Amount/ Volume	Outstanding Receivable (Payable) Balance	Terms	Conditions
ATRKE AMI	Entity under common control	Common expenses	₱27,234	₱—	Interest free, collectible on demand	Unsecured, unimpaired
Maybank ATR KE Securities	Entity under common control	Common expenses / Premium refund	(3,536,656)	(3,536,656)	Interest free, payable on demand	Unsecured
Maybank ATR KE Capital	Parent company	Common expenses	(2,571,174)	(1,927,289)	Interest free, payable on demand	Unsecured
Maybank ATR KE Capital	Parent company	Short term loan	500,000,000	376,091,848	5.00% annual interest	Secured
			₱493,919,404	₱370,627,903		



2015

	Relationship	Nature of Transaction	Amount/ Volume	Outstanding Receivable (Payable) Balance	Terms	Conditions
ATRKE AMI	Entity under common control	Common expenses	₱27,234	₱27,234	Interest free, collectible on demand	Unsecured, unimpaired
Maybank ATR KE Securities	Entity under common control	Common expenses / Premium refund	(1,048,580)	(3,536,656)	Interest free, payable on demand	Unsecured
Maybank ATR KE Capital	Parent company	Common expenses	(40,152,408)	(9,501,236)	Interest free, payable on demand	Unsecured
Maybank ATR KE Capital	Parent company	Short term loan	100,000,000	100,866,397	3 mo. 5.00% annual interest	Secured
			₱58,826,246	₱87,855,739		

Due from ATRKE AMI pertains to non-interest bearing advances which are due and payable on demand.

Due to Maybank ATR KE Securities represents premium refund for resigned employees covered by the group hospitalization plan and charges for common expenses. These are settled within one year.

Due to Maybank ATR KE Capital represents operational advances and common expenses which are due and payable on demand. These are settled within one year.

The due from Maybank ATRKE Capital represents a 5.00% per annum ₱500.0 million short term loan issued on March 1, 2016 with maturity date on February 28, 2021. This is collateralized by Maybank ATRKE Capital's receivable from Rockwell Primaries Development Corporation and ATR Holdings, Inc. arising from the sale of ATR KimEng Land. Interest income earned in 2016 amounted to ₱20.8 million.

The due from Maybank ATRKE Capital represents a 5.00% per annum ₱100 million short term loan issued on November 4, 2015 with maturity date on February 2, 2016. This is collateralized by ATR KE Capital's receivable from Rockwell Primaries Development Corporation and ATR Holdings, Inc. arising from the sale of ATR KimEng Land. Interest income earned in 2015 amounted to ₱0.8 million.

- f. The Company has bank deposits with Maybank Philippines Inc. as of December 31, 2016 and 2015 amounting ₱137.1 million and ₱34.6 million, respectively. Interest income earned in 2016 and 2015 amounted to ₱1.6 million and ₱3.4 million, respectively (Note 16).
- g. The Company maintains its retirement fund with ATRAM Trust Corporation formerly ATR KimEng Asset Management, Inc. (ATRKE AMI) as of December 31, 2016 and 2015 amounting ₱117.8 million and ₱105.5 million, respectively (Note 21).

Terms and conditions of transactions with related parties

The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2016 and 2015. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.



25. Management of Capital, Insurance Risk and Financial Risk

The Company's activities expose it to a variety of risks such as capital, financial and insurance risks. The overall objective of risk management is to focus on the unpredictability of financial markets and insurance contingencies to minimize potential adverse effects on the financial position of the Company.

The Company has established a risk management functions with clear cut responsibilities and with the mandate to develop company-wide policies on market, credit, liquidity, insurance and operational risk management. It also supports the effective implementation of risk management policies at the individual business unit and process levels.

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

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close monitoring 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 liquidity and solvency positions to meet maturing liabilities arising from claims and acceptable levels of risk.

The operations of the Company are subject to the regulatory requirements of the Insurance Commission. The Insurance Commission does not only prescribe approval and monitoring of activities but also imposes certain restrictive provisions [e.g., margin of solvency (MOS), fixed capitalization requirements and risk-based capital (RBC) requirements]. Such restrictive provisions minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Capital Management

The Company's capital includes the common and preferred stock and contributed surplus.

The Company has established the following capital management objectives in managing the risks that affect its capital position:

- To maintain the required level of capitalization thereby providing a degree of security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To retain financial flexibility by maintaining strong liquidity and access to a range of credit facilities;
- To align the profile of assets and liabilities taking account into the risks inherent in the business;
- To maintain healthy capital and liquidity ratios in order to support its business objectives and maximize shareholders value;



The Company manages its capital through its compliance with the statutory requirements on MOS, minimum paid-up capital and minimum net worth. The Company is also complying with the statutory regulations on RBC to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

The Company's policy to address the situations where the capital level maintained is lower than minimum is to require the shareholders to add more capital. The Company currently holds capital and net worth in excess of the minimum regulatory requirement.

To ensure compliance with these externally-imposed capital requirements, it is the Company's policy to monitor the MOS, paid-up capital, networth and related requirements on a quarterly basis as part of Company's internal financial reporting process.

MOS

Under the Insurance Code, a life insurance company doing business in the Philippines shall maintain at all times a MOS equal to ₱0.5 million or ₱2 for every thousands of the total amount of its insurance inforce for traditional plans as of the preceding calendar year on all policies, except term insurance, whichever is higher.

The MOS shall be the excess of the value of its admitted assets (as defined under the Insurance Code), exclusive of paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2016 and 2015, the Company's MOS based on its internal calculation amounted to ₱0.5 million, therefore, the Company has an excess MOS of ₱609.3 million and ₱488.8 million, respectively. The final amount of the MOS can be determined only after the accounts of the Company have been examined by the Insurance Commission specifically for the determination of admitted and non-admitted assets as defined under the Insurance Code. Non-admitted assets will decrease the MOS.

If an insurance company failed to meet the minimum required MOS and net worth, the IC is authorized to suspend or revoke the certificate of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its certificate of authority is restored by the Insurance Commission. Also dividend declaration is not allowed.

The estimated amounts of non-admitted assets as defined under the Insurance Code that are still subject to examination by the IC, which are included in the accompanying statement of financial position at December 31, 2016 and 2015, are as follow:

	2016	2015
Property and equipment	₱2,240,229	₱3,126,458
Other assets	886,013	486,493
	₱3,126,242	₱3,612,951

As of December 31, 2016 and 2015, the Company is compliant with the MOS requirement based on its internal computation.



Fixed capitalization requirements

On August 15, 2013, a new Insurance Code of the Philippines was issued. One of the more important provisions, pertain to the new capitalization requirement of insurance Companies operating in the Philippines. Under the new Insurance Code, the required net worth which is defined as the sum of paid-up capital, retained earnings, unimpaired surplus, and revalued assets is set as follow:

Required Net Worth	Compliance Date
₱250.0 million	June 30, 2013
550.0 million	December 31, 2016
900.0 million	December 31, 2019
1.3 billion	December 31, 2022

As of December 31, 2016 and 2015, the Company’s estimated statutory net worth amounted to ₱1.1 billion and ₱1.0 billion, respectively.

RBC requirements

Insurance Memorandum Circular (IMC) No. 6-2006 (Circular) provides for the RBC framework for the life insurance industry which establishes the required amounts of capital to be maintained by the insurance companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain an RBC ratio of at least 100.00% and not to fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to regulatory intervention which could be at various levels depending on the degree of the violation.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include an insurance company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the Insurance Commission. RBC requirement on the other hand is computed based on the formula as defined in the IMC and includes asset default risk, insurance pricing risk, interest rate risk and general business risk.

The following table shows how the RBC ratio at December 31, 2016 and 2015 was determined by the Company based on its internal calculations:

	2016	2015
Net worth	₱1,109,264,849	₱980,040,414
RBC requirement	564,810,696	606,145,396
RBC ratio	196.00%	162.00%

The final amount of the RBC ratio can be determined only after the accounts of the Company have been examined by the Insurance Commission specifically for the determination of admitted and non-admitted assets as defined under the Insurance Code.

Unimpaired capital requirement

IMC 22-2008 provided that for purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement of financial position should show that the net worth or stockholders' equity is at least equal to the actual paid-up capital.

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



Insurance Risk

Nature of risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

Life Insurance Contracts

Insurance risk includes premium/benefits risk, actuarial reserve risk and reinsurance risk. Premium/benefits risk is the risk of having to pay, from a premium that may be fixed for a specific term, benefits that can be affected by uncontrollable event when they become due. Adequacy of the actuarial reserves is monitored by an in-house actuary on a regular basis in accordance with local regulations. Reinsurance risk arises from underwriting direct business or reinsurance business in relation to reinsurers and brokers.

Monitoring and controlling

The Company regularly assesses the reserving methodology in accordance with local regulations. Underwriting guidelines and limits for insurance and reinsurance contracts have been well established to clearly regulate responsibility and accountability.

The main underwriting strategy of the Company in managing insurance risk is the use of reinsurance. The Company maintains surplus-type reinsurance treaties for both individual and group life business. The retention limit of the Company for its individual business is ₱2.0 million for the basic life and ₱2.0 million for riders or supplementary covers. For group business, the retention limit is ₱2.0 million per life. In addition, the Company may arrange facultative reinsurance for risks beyond the scope of its automatic treaties.

Frequency and severity of claims

The frequency and severity of claims is dependent on the type of contracts as follows:

- a. For contracts where death is the insured risk, the most significant factor would be epidemics that result in earlier or more claims than expected;
- b. For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted;
- c. For contracts with discretionary participating feature, the participating nature of these insurance contracts results in a portion of the insurance risk being shared with the insured party; and
- d. For medical insurance contracts where illness incurred by the insured is the considered risk, the most significant factor would be epidemics and communicable diseases, that may result in earlier or more claims than expected.

The Company manages these risks through its underwriting strategy and reinsurance program. However, the risk is also dependent on the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely.



The following represents the Company's concentration of insurance risk as of December 31, 2016 and 2015:

	2016		2015	
	Exposure, Net of Reinsurance	Concentration (%)	Exposure, Net of Reinsurance	Concentration (%)
Group	₱69,628,206	99.67%	₱58,857,630	99.59%
Ordinary life	231,616	0.33%	242,823	0.41%
	₱69,859,822	100.00%	₱59,099,453	100.00%

Summary of claims analysis

	2016	2015
Mortality Ratio		
Aggregate individual	15.87%	7.24%
Aggregate group	30.19%	31.18%

Classification by attained age (Based on 2016 Data of Inforce Policies)

The table below presents the concentration of risk across the 14 age brackets. For individual insurance, exposure is concentrated on age brackets 50-54 to 55-59. For group insurance, exposure is concentrated on age brackets 30-34 to 35-39.

Attained Age	Individual			
	Gross Reinsurance		Net of reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
<20	₱9,235	3.50%	₱9,235	3.99%
20 – 24	4,167	1.58	4,167	1.80
25 – 29	4,000	1.52	4,000	1.73
30 – 34	2,908	1.10	2,908	1.26
35 – 39	5,403	2.05	5,403	2.33
40 – 44	17,755	6.74	17,755	7.67
45 – 49	29,082	11.03	28,582	12.34
50 – 54	70,718	26.83	49,218	21.25
55 – 59	45,937	17.43	45,937	19.83
60 – 64	37,329	14.16	30,329	13.09
65 – 69	23,734	9.00	20,734	8.95
70 – 74	8,336	3.16	8,336	3.60
75 – 79	3,239	1.23	3,239	1.40
80 +	1,774	0.67	1,774	0.77
Total	₱263,617	100.00%	₱231,617	100%

Attained Age	Group			
	Gross Reinsurance		Net of reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
<20	₱613,865	0.74%	₱613,865	0.88%
20 – 24	5,814,473	7.02	5,806,255	8.34
25 – 29	14,086,763	17.01	13,809,224	19.83
30 – 34	18,042,420	21.78	16,563,552	23.79
35 – 39	15,625,517	18.87	12,953,762	18.60
40 – 44	12,074,508	14.58	8,724,407	12.53

(Forward)



Attained Age	Group			
	Gross Reinsurance		Net of reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
45 – 49	₱8,089,178	9.77	₱5,345,336	7.68
50 – 54	4,624,899	5.58	3,114,512	4.47
55 – 59	2,729,475	3.30	1,893,504	2.72
60 – 64	1,030,457	1.24	731,256	1.05
65 – 69	86,479	0.10	69,529	0.10
70 – 74	2,655	0.01	2,655	0.01
75 – 79	165	–	165	–
80 +	190	–	180	–
Total	₱82,821,044	100%	₱69,628,202	100%

Classification by attained age (Based on 2015 Data of Inforce Policies)

The table below presents the concentration of risk across the 14 age brackets. For individual insurance, exposure is concentrated on age brackets 45-49 to 50-54. For group insurance, exposure is concentrated on age brackets 30-34 to 35-39.

Attained Age	Individual			
	Gross Reinsurance		Net of reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
<20	₱3,700	1.35%	₱3,700	1.53%
20 – 24	4,867	1.78	4,867	2.01
25 – 29	4,047	1.48	4,047	1.67
30 – 34	2,556	0.93	2,556	1.06
35 – 39	9,155	3.34	9,155	3.79
40 – 44	21,822	7.97	21,822	9.02
45 – 49	52,680	19.24	38,680	16.00
50 – 54	58,603	21.40	50,603	20.93
55 – 59	44,617	16.29	44,617	18.45
60 – 64	37,983	13.87	30,983	12.81
65 – 69	22,322	8.15	19,322	7.99
70 – 74	7,690	2.81	7,690	3.18
75 – 79	1,827	0.67	1,827	0.76
80 +	1,954	0.71	1,954	0.81
Total	₱273,823	100.00%	₱241,823	100.00%

Attained Age	Group			
	Gross Reinsurance		Net of reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
<20	₱592,826	0.85%	₱590,747	1.00%
20 – 24	4,426,312	6.33	4,420,687	7.51
25 – 29	11,664,935	16.69	11,434,482	19.43
30 – 34	15,083,995	21.58	14,017,921	23.82
35 – 39	12,734,274	18.22	10,734,764	18.24
40 – 44	10,102,378	14.45	7,384,712	12.55
45 – 49	6,692,435	9.58	4,466,718	7.59

(Forward)



Attained Age	Group			
	Gross Reinsurance		Net of reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
50 – 54	₱4,471,326	6.40	₱2,846,401	4.83
55 – 59	2,750,033	3.93	2,019,165	3.43
60 – 64	1,235,872	1.77	838,609	1.42
65 – 69	124,539	0.18	92,902	0.16
70 – 74	7,815	0.01	4,815	0.01
75 – 79	525	0.00	525	0.00
80 +	4,180	0.01	4,180	0.01
Total	₱69,891,445	100.00%	₱58,856,628	100.00%

Non-life Insurance Contracts

The Company principally issues the following types of general insurance such as fire and motor. Risk under general insurance policies usually cover a twelve-month duration.

For general insurance contracts, the significant risks arise from climate changes and natural disasters. These risks vary significantly in relation to the location of risk insured, type of risk insured and by industry. Undue concentration by amount can have a further impact on the severity of benefit payments on a portfolio basis.

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

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit the exposure to catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by management.

The following tables set out the concentration of the claims liabilities by type of contract:

	2016		
	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	₱996,566	₱-	₱996,566
Motor Car	1,996,268		1,996,268
	₱2,992,834	₱-	₱2,992,834

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience or in case of first year non-life business, average industry experience is used. This includes assumptions in respect of average claims costs, claim handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to



assess the extent to which past trends may not apply in the future, for example once off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions includes variation in interest rate, delays in settlement and changes in foreign currency rates.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of the certain assumptions such as legislative change, uncertainty in the estimation process, etc., is not possible to quantify.

Claims Development Table

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

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

Fire	
Accident year	2016
Estimate of ultimate claims costs:	
At the end of accident year	₱320,000
One year later	-
Two years later	-
Three years later	-
Four years later	-
Current estimate of cumulative claims	320,000
Cumulative payments to date	-
Gross insurance liabilities included in the statements of financial position	₱320,000
Motor Car	
Accident year	2016
Estimate of ultimate claims costs:	
At the end of accident year	₱283,123
One year later	-
Two years later	-
Three years later	-
Four years later	-
Current estimate of cumulative claims	283,123
Cumulative payments to date	123,078
Gross insurance liabilities included in the statements of financial position	₱160,045



Source of Uncertainty in the Estimation of Future Claim Payment

Estimation of future payments and premium receipts is subject to unpredictability of changes in mortality and morbidity levels. The Company adopts standard industry data in assessing future benefit payments and premium receipts as approved by the Insurance Commission. Adjustments are made, if necessary, according to the experience of the Company.

For individual life insurance, no adjustment is made by the Company to the standard mortality table. For group life, accident and health insurance, the mortality table is adjusted to reflect the Company's actual and projected experiences which are given weights or credibility depending on the amount and length of exposure under consideration. The Company currently monitors its actual experience on individual business on a per policy basis and on an aggregate basis, and reports the same to management.

The liability for these contracts comprises the incurred IBNR provision, a provision for reported claims not yet paid and a provision for unexpired risk at reporting dates. The IBNR provision is based on historical experience and is subject to a degree of uncertainty.

Financial Instruments

Due to the short term nature of cash and cash equivalents, premiums due and uncollected, due from policyholders, receivable from third party administration, other receivables, accrued interest receivable, performance bond, reserve and security funds, deposits, claims payable, policyholders' dividends due to related parties, premium deposit fund and cash dividends payable, their carrying values approximate their fair values at reporting dates.

The fair values of salary loans, mortgage loans, accounts receivable and accounts payable and other liabilities are determined by computing the present value of the expected future cash flows of the loans using the predetermined market rate for similar instrument as of reporting date as discount rate.

The fair values of financial instruments classified as financial assets at FVPL and AFS financial assets that are actively traded in an organized exchange or active markets are determined by reference to quoted market or broker bid prices at the close of business as of reporting dates. For shares in an open-ended investment company, fair value is established by reference to published Net Asset Value (NAV) per share.

The table below presents the Company's financial instruments carried at fair value by valuation method as of December 31, 2016 and 2015.

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
Financial assets measured at fair value:				
AFS financial assets	₱128,606,635	₱25,401,376	₱450,000	₱154,458,011
Financial assets at FVPL	824,189,922	38,109,602	–	862,299,524
Asset for which fair values are disclosed:				
Salary loans	–	–	72,818,438	72,818,438
Accounts receivable	–	–	15,165,724	15,165,724
Mortgage loans	–	–	5,258,725	5,258,725
	₱952,796,557	₱63,510,978	₱93,692,887	₱1,110,000,422



	December 31, 2015			Total
	Level 1	Level 2	Level 3	
Financial assets measured at fair value:				
AFS financial assets	₱128,799,695	₱24,463,672	₱450,000	₱153,713,367
Financial assets at FVPL	459,018,604	127,235,807	–	586,254,411
Asset for which fair values are disclosed:				
Salary loans	–	–	107,542,481	107,542,481
Accounts receivable	–	–	21,009,922	21,009,922
Mortgage loans	–	–	7,862,599	7,862,599
	₱587,818,299	₱151,699,479	₱136,865,002	₱876,382,780

For the years ended December 31, 2016 and 2015, there were no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

Financial Risks

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The relevant financial risks faced by the Company in its day-to-day operations are market risk, credit risk and liquidity risk.

The BOD has overall responsibility for the oversight and management of the risk management process of the Company. The Risk Management Committee of the Etiqa International Holdings Sdn. Bhd is responsible for reviewing the design effectiveness of and strict compliance to specific risk management process and procedures. The Risk Management Committee directly reports to the ALGA Board.

Credit Risk

The Company has a significant exposure to credit risk, defined as the risk of financial loss resulting from the failure of counterparty to meet its contractual obligations to the Company. In particular, the Company is exposed to credit risk in the following accounts:

- Amounts due from Department of Education (DepEd) teachers and private institution employees;
- Amounts due from related parties and employees;
- Reinsurers' share in insurance liabilities;
- Obligations of companies issuing Mutual Fund shares and equity securities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance policyholders;
- Amounts due from insurance intermediaries; and
- Amounts due from banks.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty. Such counterparty limits are subject to an annual or more frequent review. Limits are approved regularly as the need arises at the BOD level. A Credit Committee, which reports to the Executive Committee (ExCom), has been established by the BOD to monitor the credit management and exposure of the Company.

The Company fully complies with the guidelines issued by the DepEd in granting loans to teachers which are monitored by DepEd on a regular basis. Any violation shall result to the revocation of the Company's license to extend loans to public school teachers. The Company's credit evaluation policies are anchored on the DepEd guidelines on net take home pay of the teachers and authenticity of documents submitted by the borrowers.



The Excom has also created a special committee (DepEd Committee), tasked to monitor the DepEd loans business. The DepEd Committee meets on a monthly basis to discuss developments and status of past due accounts, action plans for collecting unpaid accounts and other pertinent issues relative to the loans operations. The DepEd Committee, in turn, reports to the Excom the status of the loans business on a regular basis.

Loans to policyholders granted against the cash surrender value of policies carry substantially minimal credit risk.

A significant credit exposure arises with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs. Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

In respect of investments securities, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer. The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

The table below shows the maximum exposure to credit risk as of December 31, 2016 and 2015:

	2016	2015
Cash and cash equivalents (excluding cash on hand)	₱353,664,884	₱757,511,908
Financial assets at FVPL	862,299,524	586,254,411
Loans and receivables	185,103,287	224,415,607
AFS financial assets	154,458,011	153,713,367
Premiums due and uncollected	34,745,758	45,054,116
Performance bond	13,748,268	14,739,918
Reserve fund	581,384	7,536,011
Accrued interest receivable	7,349,488	7,356,976
Deposits	3,308,517	3,083,927
Security fund	221,082	221,082
	₱1,615,480,203	₱1,799,887,323



The table below provides information regarding the credit risk exposure of the Company as of December 31, 2016 and 2015 by classifying assets according to the Company's credit grading of counterparties:

2016	Neither Past Due nor Impaired			Past Due	Total
	Investment High-Grade	Non-Investment Grade Satisfactory	Total Financial Assets Neither Past Due nor Impaired		
Loans and receivables:					
Cash and cash equivalents (excluding cash on hand)	₱353,664,884	₱-	₱353,664,884	₱-	₱353,664,884
Premiums due and uncollected	34,745,758	-	34,745,758	-	34,745,758
Salary loans	-	59,220,091	59,220,091	7,359,970	66,580,061
Mortgage loans	5,378,757	-	5,378,757	-	5,378,757
Policy loans	20,035,468	-	20,035,468	-	20,035,468
Accounts receivable	14,272,026	-	14,272,026	982,916	15,254,942
Due from policyholders	-	12,414,266	12,414,266	-	12,414,266
Receivable from third party administration	-	29,000,806	29,000,806	-	29,000,806
Other receivables	-	6,767,036	6,767,036	-	6,767,036
Accrued interest receivable	7,349,488	-	7,349,488	-	7,349,488
Performance bond	13,748,268	-	13,748,268	-	13,748,268
Reserve fund	581,384	-	581,384	-	581,384
Security fund	221,082	-	221,082	-	221,082
Deposits	3,308,517	-	3,308,517	-	3,308,517
AFS financial assets:					
Government securities	128,279,019	-	128,279,019	-	128,279,019
Mutual fund	25,401,376	-	25,401,376	-	25,401,376
Equity shares	777,616	-	777,616	-	777,616
Financial assets at FVPL					
Government securities	824,348,870	-	824,348,870	-	824,348,870
Private securities	-	-	-	-	-
Mutual fund	37,950,654	-	37,950,654	-	37,950,654
Equity Shares	-	-	-	-	-
	₱1,470,063,167	₱107,402,199	₱1,577,465,366	₱8,342,886	₱1,585,808,252

2015	Neither Past Due nor Impaired			Past Due	Total
	Investment High-Grade	Non-Investment Grade Satisfactory	Total Financial Assets Neither Past Due nor Impaired		
Loans and receivables:					
Cash and cash equivalents (excluding cash on hand)	₱757,511,908	₱-	₱757,511,908	₱-	₱757,511,908
Premiums due and uncollected	45,054,116	-	45,054,116	-	45,054,116
Salary loans	-	84,509,777	84,509,777	13,648,427	98,158,204
Mortgage loans	7,951,916	-	7,951,916	-	7,951,916
Policy loans	14,656,242	-	14,656,242	-	14,656,242
Accounts receivable	20,639,790	-	20,639,790	634,191	21,273,981
Due from policyholders	-	13,686,358	13,686,358	-	13,686,358
Receivable from third party administration	-	22,923,633	22,923,633	-	22,923,633
Other receivables	-	3,204,136	3,204,136	-	3,204,136
Accrued interest receivable	7,356,976	-	7,356,976	-	7,356,976
Performance bond	14,739,918	-	14,739,918	-	14,739,918
Reserve fund	7,536,011	-	7,536,011	-	7,536,011
Security fund	221,082	-	221,082	-	221,082
Deposits	3,083,927	-	3,083,927	-	3,083,927
AFS financial assets:					
Government securities	128,514,492	-	128,514,492	-	128,514,492
Mutual fund	24,463,672	-	24,463,672	-	24,463,672
Equity shares	735,203	-	735,203	-	735,203
Financial assets at FVPL					
Government securities	435,136,131	-	435,136,131	-	435,136,131
Private securities	-	-	-	-	-
Mutual fund	151,118,280	-	151,118,280	-	151,118,280
Equity Shares	-	-	-	-	-
	₱1,618,719,664	₱124,323,904	₱1,743,043,568	₱14,282,618	₱1,757,326,186



The Company uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment High Grade - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through the public markets and/or credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

Non-investment Grade - Satisfactory - This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations, for individuals into business or for corporate entities. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

The table below shows the aging analysis of salary loans and other receivables that are past due as of December 31, 2016 and 2015:

2016	Past due but are not Impaired			Past Due and Impaired	Total
	<30 to 90 Days	90 to 180 Days	Total Financial Assets Neither Past Due nor Impaired		
Salary loans	₱2,104,217	₱858,288	₱2,962,505	₱4,397,465	₱7,359,970
Accounts and other receivables	-	-	-	982,916	982,916
	₱2,104,217	₱858,288	₱2,962,505	₱5,380,381	₱8,342,886

2015	Past due but are not Impaired			Past Due and Impaired	Total
	<30 to 90 Days	90 to 180 Days	Total Financial Assets Neither Past Due nor Impaired		
Salary loans	₱4,034,964	₱3,829,939	₱7,864,903	₱5,783,524	₱13,648,427
Accounts and other receivables	-	-	-	634,192	634,192
	₱4,034,964	₱3,829,939	₱7,864,903	₱6,417,716	₱14,282,619

The Company has concentration of credit risk in the DepEd salary loan business as of December 31, 2016 and 2015.

Liquidity Risk

The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company maintains minimum proportion of sufficient funds available to meet such calls to cover maturities, claims and surrenders at unexpected levels of demand.

The BOD has formed an Asset and Liability Committee (ALCO) which meets on a quarterly basis to ensure the adequacy of reserves and liquid assets and complies with the regulatory reserve and liquidity requirements. Cash forecasts are prepared and reviewed monthly by the ALCO, DepEd Committee and Investment Committee to ensure that the operational funding requirements are adequately met.



The table below summarizes the maturity profile of the Company's liabilities at December 31, 2015 and 2014 based on contractual undiscounted payments except for the legal policy reserves of the life insurance contracts (included in the "Insurance contract liabilities" account) which shows the maturity analysis based on the estimated timing of the net cash outflows using the recognized insurance liability amounts:

2016

	On Demand	Up to a Year	1 -2 Years	2 -3 Years	Over 3 Years	Total
Insurance contract liabilities:						
Legal policy reserves	₱-	₱310,579,883	₱2,495,134	₱1,356,072	₱58,581,044	₱373,012,133
Claims payable		225,240,451				225,240,451
Policyholders' dividends	3,428,860	-	-	-	-	3,428,860
Premium deposit fund	1,669,603	-	-	-	-	1,669,603
Accounts payable and other liabilities:						
Accounts payable	-	127,942,552	-	-	-	127,942,552
Life insurance deposits	-	5,372,542	-	-	-	5,372,542
Accrued expenses	-	43,249,737	-	-	-	43,249,737
Due to policyholders	-	19,011,061	-	-	-	19,011,061
Bank loans payable	-	1,423,342	990,134	-	-	2,413,476
Due to reinsurer	-	52,790,595	-	-	-	52,790,595
Others	-	17,670,646	-	-	-	17,670,646
	₱5,098,463	₱803,280,809	₱3,485,268	₱1,356,072	₱58,581,044	₱871,801,656

2015

	On Demand	Up to a Year	1 -2 Years	2 -3 Years	Over 3 Years	Total
Insurance contract liabilities:						
Legal policy reserves	₱-	₱268,677,802	₱9,058,800	₱1,373,601	₱61,093,692	₱340,203,895
Claims payable		259,866,443	-	-	-	259,866,443
Policyholders' dividends	3,796,481	-	-	-	-	3,796,481
Premium deposit fund	1,248,167	-	-	-	-	1,248,167
Accounts payable and other liabilities:						
Accounts payable	-	127,537,525	-	-	-	127,537,525
Life insurance deposits	-	8,256,062	-	-	-	8,256,062
Accrued expenses	-	34,811,825	-	-	-	34,811,825
Due to policyholders	-	13,022,183	-	-	-	13,022,183
Bank loans payable	-	2,861,932	1,325,618	892,303	-	5,079,853
Due to reinsurer	-	54,508,697	-	-	-	54,508,697
Others	-	5,843,342	-	-	-	5,843,342
	₱5,044,648	₱775,385,811	₱10,384,418	₱2,265,904	₱61,093,692	₱854,174,473

Market Risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of adverse changes in market prices. Market risk relevant to the Company comprises market rate (fair value interest rate risk) and market price (equity price risk) risks.

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of adverse changes in market interest rates. Fixed rate securities and receivables, in particular, are exposed to such risk.

The Company's investment policy is to maintain an adequate yield to match the interest necessary to support future policy liabilities. Management's focus is to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.



The Company has an Investment Committee which approves all investment undertaking of the Company and meets on a monthly basis. The Company adopts an investment strategy to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer and/or industry concentrations.

The following table shows the information relating to the Company's financial instruments as of December 31, 2016 and 2015 that are exposed to fair value interest rate risk presented by maturity profile:

2016	Range of Interest Rate	On Demand	Less than 1 Year	1 -2 Years	2 -3 Years	More than 3 Years	Total
Cash and cash equivalents (excluding cash on hand)	0.25%-2.0%	₱255,284,643	₱98,380,241	₱-	₱-	₱-	₱353,664,884
AFS financial assets		-					
Government securities	3.10%-6.63%	-	6,132,611	31,443,753	9,995,961	80,706,694	128,279,019
Financial assets at FVPL							
Government	2.13%-8.0%	824,348,870					824,348,870
Loans and receivables							
Salary loans	5.70%-8.40%	-	16,809,278	14,769,050	35,001,733	-	66,580,061
Mortgage loans	8.40%-15.00%	653,966	1,824,019	1,591,159	886,535	423,078	5,378,757
Policy loans	10.00%	20,035,468	-	-	-	-	20,035,468
		₱1,100,322,947	₱123,146,149	₱47,803,962	₱45,884,229	₱81,129,772	₱1,398,286,059
Policyholders' dividends	4.00%-6.00%	₱3,428,859	₱-	₱-	₱-	₱-	₱3,428,859
Premium deposit fund	3.00%-5.00%	1,669,603	-	-	-	-	1,669,603
		₱5,098,462	₱-	₱-	₱-	₱-	₱5,098,462

2015	Range of Interest Rate	On Demand	Less than 1 Year	1 -2 Years	2 -3 Years	More than 3 Years	Total
Cash and cash equivalents (excluding cash on hand)	0.25%-1.50%	₱112,509,303	₱645,002,605	₱-	₱-	₱-	₱757,511,908
AFS financial assets							
Government securities	3.75%-9.15%	-	12,273,154	6,221,737	41,442,815	68,576,786	128,514,492
Financial assets at FVPL							
Government	2.13%-9.13%	435,136,131	-	-	-	-	435,136,131
Loans and receivables							
Salary loans	5.70%-15.00%	-	31,143,510	36,111,106	30,903,588	-	98,158,204
Mortgage loans	10.00%	653,966	1,987,789	1,878,379	1,707,146	1,724,636	7,951,916
Policy loans	10.00%	-	14,656,242	-	-	-	14,656,242
		₱548,299,400	₱705,063,300	₱44,211,222	₱74,053,549	₱70,301,422	₱1,441,928,893
Policyholders' dividends	4.00%-6.00%	₱3,796,481	₱-	₱-	₱-	₱-	₱3,796,481
Premium deposit fund	3.00%-5.00%	1,248,167	-	-	-	-	1,248,167
		₱5,044,648	₱-	₱-	₱-	₱-	₱5,044,648

The sensitivity analysis below is presented for reasonably possible movements in interest rates with all other variables held constant, showing the impact on equity and profit before tax (that reflects adjustments due to changes in fair value of AFS financial assets):

	Change in Interest Rate	Impact on Profit Before Tax	Impact on Equity
December 31, 2016	+1.00%	₱160,783	₱112,548
	-1.00%	(149,787)	(104,851)
December 31, 2015	+1.00%	₱196,692	₱137,684
	-1.00%	(157,057)	(109,940)

In 2016 and 2015, the Company determined the reasonably possible change in interest rate using the historical percentage changes in weighted average yield rates of outstanding securities for the past three years.



Equity Price Risk

The Company's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities and investment in mutual funds classified as AFS financial assets. Such securities are subject to price risk due to possible adverse changes in market values of instruments arising from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Company invests in equity securities for various reasons, including reducing its overall exposure to interest rate risk.

The Company has an IMA with ATR KE AMI which monitors and manages a portion of the Company's investments. The Investment Committee of the Company oversees its investment undertaking (Note 24).

The analysis below is performed for reasonably possible movements in PSE index with all other variables held constant, showing the impact on equity (that reflects adjustments due to changes in fair value of AFS financial assets):

	Change in PSE Index	Impact on Equity
December 31, 2016	+13.67%	₱78,949
	-13.67%	(78,949)
December 31, 2015	+20.21%	₱108,140
	-20.21%	(108,140)

In 2016 and 2015, the Company determined the reasonably possible change in PSE index using the specific adjusted data for each equity security the Company holds as of the reporting dates. The adjusted data is the forecasted measure of the volatility of security or a portfolio in comparison to the market as a whole.

The analysis below is performed for reasonably possible movements in NAV per share with all other variables held constant, showing the impact on equity (that reflects adjustments due to changes in fair value of AFS financial assets):

	Change in NAV per Share	Impact on Equity
December 31, 2016	+4.34%	₱1,101,799
	-4.34%	(1,101,799)
December 31, 2015	+3.79%	₱927,909
	-3.79%	(927,909)

In 2016 and 2015, the Company determined the reasonably possible change in NAV per share using the historical NAV year-end values for the past three years.

Foreign Currency Risk

The Company's foreign exchange risk arises primarily from any transaction denominated in a foreign currency such as the US Dollar. In 2016 and 2015, the Company's transactions are primarily denominated in Philippine Peso, thus, reducing the Company's exposure to currency risk to an insignificant amount.



26. Contingencies

The Company has contingent liabilities arising from tax assessments. The estimate of the probable costs for the resolution of these claims has been developed in consultation with counsel handling the Company's defense and is based on an analysis of potential results. Provisions for probable losses arising from contingencies was recognized in the Company's financial statements amounting to ₱8.0 million and ₱18.0 million ,in 2016 and 2015, respectively.

Currently, the Company does not believe that these proceedings will have a material adverse effect on the financial statements. 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 the outcome of these lawsuits, claims and assessments.

27. Approval of the Financial Statements

The accompanying financial statements of the Company were authorized for issue by BOD on February 20, 2017.

