Pioneer Insurance & Surety Corporation

Audited Financial Statements
December 31, 2017 and 2016

And

Independent Auditors' Report

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Pioneer Insurance & Surety Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pioneer Insurance & Surety Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). 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 PFRS, 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 PSA 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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Report on the Supplementary Information Required Under Revenue Regulations No. 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 No. 15-2010 in Note 35 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Pioneer Insurance & Surety Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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April 3, 2018

PIONEER INSURANCE & SURETY CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016 As restated	January 1, 2016 As restated
ASSETS			
Cash and Cash Equivalents (Notes 4, 9, and 32)	**₱747,164,999**	₱590,516,679	₱895,679,304
Short-term Investments (Notes 5 and 32)	**251,081,655**	252,426,881	230,536,322
Insurance Receivables - net (Notes 6, 30, 31, and 32)	**1,689,432,710**	1,323,179,909	1,359,769,374
Financial Assets (Notes 7, 9, 30, 31, and 32)			
Financial assets at fair value through profit or loss	**1,162,534,990**	1,178,099,114	986,859,319
Available-for-sale financial assets	**11,134,324,879**	11,126,623,109	9,389,520,194
Loans and receivables	**307,227,826**	43,233,927	75,984,363
Accrued Income (Notes 8 and 32)	**7,144,953**	6,865,368	4,721,717
Deferred Acquisition Costs (Notes 10 and 31)	**259,115,104**	214,152,906	198,439,151
Reinsurance Assets (Notes 11, 16, 31, and 32)	**5,255,677,466**	3,859,282,179	5,174,764,960
Investment Properties (Note 12)	**1,233,717,651**	1,136,356,631	1,099,806,534
Property and Equipment - net (Notes 13 and 31)	**2,693,977,775**	2,310,694,227	2,167,691,880
Investments in Subsidiaries, Associate & Joint Venture (Note 14)	**937,072,632**	648,922,632	547,238,821
Pension Asset (Note 20)	**11,592,013**	–	–
Other Assets (Note 15)	**415,763,437**	346,723,114	296,600,489
TOTAL ASSETS	**₱26,105,828,090**	₱23,037,076,676	₱22,427,612,428
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 16 and 32)	**₱7,598,784,639**	₱5,711,726,649	₱6,885,816,560
Insurance payables (Notes 17, 30, and 32)	**1,732,254,246**	1,298,926,831	1,508,226,794
Accounts payable and other liabilities (Notes 18 and 32)	**711,270,244**	650,687,625	727,295,155
Notes payable (Notes 19 and 32)	**900,000,000**	600,000,000	500,000,000
Pension liability (Note 20)	**–**	39,952,671	49,340,805
Deferred reinsurance commissions (Note 10)	**81,742,118**	100,143,329	96,106,821
Deferred tax liabilities - net (Note 27)	**505,088,454**	453,611,200	432,412,223
Total Liabilities	**11,529,139,701**	8,855,048,305	10,199,198,358
Equity			
Capital stock - ₱100 par value			
Authorized, issued and outstanding - 3,000,000 shares	**300,000,000**	300,000,000	300,000,000
Additional paid-in capital	**72,500,000**	72,500,000	72,500,000
Revaluation surplus on property and equipment (Note 13)	**1,231,087,050**	992,209,188	928,087,017
Reserve for fluctuation in value of available-for-sale financial assets (Note 7)	**10,090,634,598**	10,094,889,138	8,462,304,752
Cumulative translation adjustments	**124,130,620**	125,380,146	126,592,429
Net remeasurement gain (loss) on defined benefit obligation (Note 20)	**20,180,212**	(12,259,010)	(13,501,096)
Retained earnings			
Appropriated for catastrophic losses	**28,928,246**	28,928,246	28,928,246
Unappropriated	**2,709,227,663**	2,580,380,663	2,323,502,722
Total Equity	**14,576,688,389**	14,182,028,371	12,228,414,070
TOTAL LIABILITIES AND EQUITY	**₱26,105,828,090**	₱23,037,076,676	₱22,427,612,428

See accompanying Notes to Financial Statements.

PIONEER INSURANCE & SURETY CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016, as restated
REVENUES		
Gross earned premiums	**₱7,905,830,722**	₱6,839,916,776
Reinsurers' share of gross earned premiums	**(5,650,541,244)**	(4,925,003,058)
Net earned premiums (Notes 16 and 22)	**2,255,289,478**	1,914,913,718
Investment income (Note 23)	**307,956,767**	323,511,243
Commission income (Note 10)	**257,342,364**	273,243,025
Foreign currency exchange gain - net	**–**	13,107,092
Other income	**277,124**	272,874
Total Revenue	**2,820,865,733**	2,525,047,952
BENEFITS, CLAIMS, AND EXPENSES		
Gross insurance contract benefits and claims paid (Notes 16 and 24)	**2,363,139,668**	3,847,685,405
Reinsurers' share of gross insurance contract benefits and claims paid (Notes 16 and 24)	**(1,521,905,951)**	(2,979,027,110)
Gross change in insurance contract liabilities (Note 16)	**1,764,871,252**	(1,386,754,796)
Reinsurers' share of gross change in insurance contract liabilities (Note 16)	**(1,406,540,318)**	1,430,443,609
Net insurance benefits and claims	**1,199,564,651**	912,347,108
General expenses (Note 25)	**770,200,173**	661,815,464
Commission expense (Note 10)	**700,794,502**	622,375,368
Interest expense (Notes 17 and 19)	**12,464,882**	7,371,069
Other underwriting expense	**9,501,333**	–
Foreign currency exchange loss - net	**2,886,002**	–
Provision for impairment loss (Notes 6, 7, and 11)	**–**	40,284,827
Total Benefits, Claims, and Expenses	**2,695,411,543**	2,244,193,836
INCOME BEFORE INCOME TAX	**125,454,190**	280,854,116
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 27)	**12,392,810**	(14,976,175)
NET INCOME	**₱137,847,000**	₱265,877,941

See accompanying Notes to Financial Statements.

PIONEER INSURANCE & SURETY CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016, as restated
NET INCOME	**₱137,847,000**	₱265,877,941
OTHER COMPREHENSIVE INCOME		
Items that will be recycled to profit and loss in subsequent periods:		
Fair value gains on available-for-sale financial assets (Notes 7 and 32)	**65,049,789**	1,633,784,574
Transfers to profit and loss (Note 7 and 23)	**(63,194,353)**	1,103,812
Foreign exchange adjustment	**(23,807)**	–
Tax effect	**(6,086,169)**	(2,304,000)
	(4,254,540)	1,632,584,386
Change in cumulative translation adjustments	**(1,249,526)**	(1,212,283)
	(5,504,066)	1,631,372,103
Item that will not be recycled to profit and loss in subsequent periods:		
Change in revaluation surplus on property and equipment (Note 13)	**341,254,086**	91,603,102
Remeasurement gain on defined benefit obligation (Note 20)	**46,341,746**	1,774,409
Tax effect	**(116,278,748)**	(28,013,254)
	271,317,084	65,364,257
TOTAL OTHER COMPREHENSIVE INCOME	**265,813,018**	1,696,736,360
TOTAL COMPREHENSIVE INCOME	**₱403,660,018**	₱1,962,614,301

See accompanying Notes to Financial Statements.

PIONEER INSURANCE & SURETY CORPORATION

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Capital Stock	Additional Paid-in Capital	Revaluation Surplus on Property and Equipment (Note 13)	Reserve for Fluctuation in Value of Available-for-Sale Financial Assets (Notes 7 and 32)	Cumulative Translation Adjustments	Net Remeasurement Loss on Defined Benefit Obligation (Note 20)	Retained Earnings: Appropriated for Catastrophic Losses	Retained Earnings: Unappropriated (Notes 2 and 21)	Total
As of December 31, 2016, as previously reported	**₱300,000,000**	**₱72,500,000**	**₱1,295,899,866**	**₱10,029,244,432**	**₱125,380,146**	**(₱12,259,010)**	**₱28,928,246**	**₱2,123,438,887**	**₱13,963,132,567**
Retrospective adjustments	–	–	(303,690,678)	65,644,706	–	–	–	456,941,776	218,895,804
As of December 31, 2016,, as restated	**300,000,000**	**72,500,000**	**992,209,188**	**10,094,889,138**	**125,380,146**	**(12,259,010)**	**28,928,246**	**2,580,380,663**	**14,182,028,371**
Net income	–	–	–	–	–	–	–	137,847,000	137,847,000
Other comprehensive income (loss)	–	–	238,877,862	(4,254,540)	(1,249,526)	32,439,222	–	–	265,813,018
Total comprehensive income (loss)	–	–	238,877,862	(4,254,540)	(1,249,526)	32,439,222	–	137,847,000	403,660,018
Cash dividends (Note 21)	–	–	–	–	–	–	–	(9,000,000)	(9,000,000)
As of December 31, 2017, as restated	**₱300,000,000**	**₱72,500,000**	**₱1,231,087,050**	**₱10,090,634,598**	**₱124,130,620**	**₱20,180,212**	**₱28,928,246**	**₱2,709,227,663**	**₱14,576,688,389**
As of January 1, 2016, as previously reported	**₱300,000,000**	**₱72,500,000**	**₱1,231,777,695**	**₱8,417,396,046**	**₱126,592,429**	**(₱13,501,096)**	**₱28,928,246**	**₱1,891,276,018**	**₱12,054,969,338**
Retrospective adjustments	–	–	(303,690,678)	44,908,706	–	–	–	432,226,704	173,444,732
As of January 1, 2016, as restated	**300,000,000**	**72,500,000**	**928,087,017**	**8,462,304,752**	**126,592,429**	**(13,501,096)**	**28,928,246**	**2,323,502,722**	**12,228,414,070**
Net income	–	–	–	–	–	–	–	265,877,941	265,877,941
Other comprehensive income (loss)	–	–	64,122,171	1,632,584,386	(1,212,283)	1,242,086	–	–	1,696,736,360
Total comprehensive income (loss)	–	–	64,122,171	1,632,584,386	(1,212,283)	1,242,086	–	265,877,941	1,962,614,301
Cash dividends (Note 21)	–	–	–	–	–	–	–	(9,000,000)	(9,000,000)
As of December 31, 2016, as restated	**₱300,000,000**	**₱72,500,000**	**₱992,209,188**	**₱10,094,889,138**	**₱125,380,146**	**(₱12,259,010)**	**₱28,928,246**	**₱2,580,380,663**	**₱14,182,028,371**

See accompanying Notes to Financial Statements.

PIONEER INSURANCE & SURETY CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱125,454,190**	₱280,854,116
Adjustments for:		
Fair value gain on investment properties (Note 23)	**(102,124,420)**	(32,964,406)
Depreciation and amortization (Notes 13 and 25)	**82,648,995**	72,784,662
Realized gain on available-for-sale financial assets (Notes 7 and 23)	**(63,194,353)**	–
Interest income (Note 23)	**(30,666,313)**	(24,869,019)
Dividend income (Note 23)	**(18,917,647)**	(18,329,022)
Unrealized foreign currency exchange gain	**(16,426,656)**	(25,706,914)
Interest on notes payable (Note 19)	**11,039,467**	4,921,125
Fair value gains on financial assets at fair value through profit or loss (Notes 7 and 23)	**(9,414,944)**	(169,306,028)
Net change in pension liabilities (Note 20)	**(5,202,938)**	(7,613,725)
Gain on disposal of investment properties (Note 23)	**(643,700)**	–
Loss on retirement of property and equipment (Note 13)	–	2,021,119
Provision for impairment loss on available-for-sale financial assets (Note 7)	–	1,103,812
Operating income (loss) before changes in working capital	**(27,448,319)**	82,895,720
Changes in working capital:		
Decrease (increase) in:		
Insurance receivables	**(370,269,251)**	50,059,701
Loans and receivables	**(263,993,899)**	32,750,436
Accrued income	**267,913**	131,327
Deferred acquisition costs	**(45,252,546)**	(16,363,408)
Reinsurance assets	**(1,397,421,835)**	1,313,185,887
Other assets	**(61,349,400)**	(19,423,451)
Increase (decrease) in:		
Insurance contract liabilities	**1,879,756,113**	(1,190,427,802)
Insurance payables	**438,280,561**	(215,967,668)
Accounts payable and other liabilities	**60,582,616**	(97,346,254)
Deferred reinsurance commissions	**(18,401,211)**	4,036,508
Net cash from (used in) operations	**194,750,742**	(56,469,004)
Income tax paid	**(66,185,775)**	(54,793,626)
Net cash from (used in) operating activities	**128,564,967**	(111,262,630)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in short-term investments	**1,345,226**	(21,890,559)
Net decrease (increase) in financial assets at fair value through profit or loss	**25,000,834**	(21,933,767)

(Forward)

	Years Ended December 31	
	2017	2016
Acquisitions of/additions to:		
Property and equipment (Note 13)	**(₱113,489,937)**	(₱107,900,486)
Investments in subsidiaries, an associate, and a joint venture (Note 14)	**(288,150,000)**	(101,683,811)
Available-for-sale financial assets (Note 7)	**(121,140,414)**	(76,019,358)
Investment properties (Note 12)	**(238,300)**	(9,094,857)
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 7)	**176,992,391**	1,000,000
Investment properties (Note 12)	**3,188,700**	–
Interest received	**31,387,901**	22,537,617
Dividends received	**18,757,009**	18,385,446
Net cash used in investing activities	**(266,346,590)**	(296,599,775)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of notes payable (Note 19)	**830,000,000**	400,000,000
Payment of notes payable (Note 19)	**(530,000,000)**	(300,000,000)
Payment of interest on notes payable (Note 19)	**(11,039,467)**	(4,921,125)
Payment of cash dividends (Note 21)	**(9,000,000)**	(9,000,000)
Net cash from financing activities	**279,960,533**	86,078,875
NET EFFECTS OF FOREIGN CURRENCY TRANSLATION	**14,469,410**	16,620,905
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**156,648,320**	(305,162,625)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**590,516,679**	895,679,304
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱747,164,999**	₱590,516,679

See accompanying Notes to Financial Statements.

PIONEER INSURANCE & SURETY CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Pioneer Insurance & Surety Corporation (the "Company") is a domestic corporation which was registered with the Philippine Securities and Exchange Commission (SEC) on May 13, 1954. On January 31, 2003, the Company filed with the SEC an Amended Articles of Incorporation to amend Article IV which extended the term of the Company's corporate existence. On the same date, the amendment was approved by the SEC. The Company is engaged in the business of nonlife insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events. It includes lines such as accident, fire and allied lines, motor vehicle, aviation, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with an incident to the aforementioned lines. The Company is 55.36% owned by Pioneer, Inc., a company incorporated in the Philippines.

The registered office address of the Company is Pioneer House, 108 Paseo de Roxas Street, Legaspi Village, Makati City.

The accompanying financial statements of the Company were approved and authorized for issue by the BOD on April 3, 2018.

2. Summary of Significant Accounting Policies

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

Basis of Preparation
The financial statements of the Company have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets, investment properties, and certain property and equipment that have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency. All amounts are rounded off to the nearest peso unit, unless otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective statement, or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2016 is presented in the financial statements due to retrospective application of an accounting policy.

The Company has made use of the exemption from consolidation under PFRS 10, *Consolidated Financial Statements*. These financial statements are the separate financial statements of the Company. The financial statements of the Company and its subsidiaries are included in the consolidated financial statements of Pioneer, Inc., which are in accordance with PFRS. The consolidated financial statements of Pioneer, Inc. can be obtained from Pioneer House, 108 Paseo de Roxas, Legaspi Village, Makati City, its registered office address.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to existing PFRS and PAS effective January 1, 2017. Adoption of these pronouncements did not have any significant impact to the Company's financial position and performance:

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

Restatements in 2017

The new valuation standard for nonlife policy reserves was adopted by the Company retrospectively in accordance with Insurance Commission (IC) Circular Letter (CL) No. 2016-67, *Valuation Standards for Nonlife Insurance Policy Reserves* which became effective on January 1, 2017 pursuant to IC CL No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves, and Amended Risk-Based Capital (RBC2) Framework*.

The adoption of CL No. 2016-67 introduced changes in the valuation method for incurred but not reported (IBNR) claims and valuation of unearned premiums reserves (UPR) for marine cargo business.

Restatements on IBNR claims

The adoption of IC CL No. 2016-67 introduced changes in the valuation method for IBNR claims. Under the new valuation standards, claims liabilities for both direct and assumed treaty and reinsurance businesses shall be calculated as the sum of outstanding claims reserves, claims handling expense and IBNR claims, with computed Margin for Adverse Deviation (MfAD). IBNR claims shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, expected loss ratio approach and Bornhuetter-Ferguson method. Provision for claims handling expense covering the estimated expenses of settling all outstanding claims, both reported and unreported, as of valuation date shall also be computed. These valuations are to be performed by an actuarial expert duly accredited by the IC.

Prior to the adoption of the new valuation standards, the primary technique adopted by management in estimating the cost of IBNR claims is that of using past settlement trends to predict future claims settlement trends. At the each reporting date, prior year claims estimates are assessed for adequacy and any changes made are charged to provision.

Restatements on UPR on marine cargo business

IC CL No. 2016-67 requires valuation of premiums liability equivalent to the higher between the UPR and unexpired risk reserves (URR). In conjunction with IC CL No. 2016-69, however, companies shall be allowed to set up as premium liabilities for 2017 the UPR instead of the higher between the UPR and URR. In 2017, the Company elected to set up premium liabilities equal to the calculated UPR in accordance with IC CL No. 2016-67.

IC CL No. 2016-67 has prescribed the use of 24th method for computing the UPR for all lines of business, including marine cargo business. Prior to the adoption of IC CL No. 2016-67, the Company values UPR for marine cargo business equal to the last two months of premiums written.

The net effects of all transition adjustments are charged to retained earnings on the transition date. As a result of the aforementioned changes in the valuation method on IBNR claims and UPR for marine cargo business, the Company restated its 2016 and 2015 financial statements as fully described below:

Statement of Financial Position as at December 31, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
Deferred acquisition costs	₱216,049,980	(₱1,897,074)	₱214,152,906
Reinsurance assets	3,442,007,818	417,274,361	3,859,282,179
Insurance contract liabilities	5,347,965,572	363,761,077	5,711,726,649
Deferred reinsurance commissions	100,246,631	(103,302)	100,143,329
Deferred tax liabilities - net*	547,848,931	(94,237,731)	453,611,200
Unappropriated retained earnings*	2,123,438,887	456,941,776	2,580,380,663

**Refer to Note 13 for the other related adjustments.*

Statement of Financial Position as at January 1, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as Restated
Deferred acquisition costs	₱199,514,697	(₱1,075,546)	₱198,439,151
Reinsurance assets	4,777,433,254	397,330,706	5,174,764,960
Insurance contract liabilities	6,511,839,982	373,976,578	6,885,816,560
Deferred reinsurance commissions	96,123,659	(16,838)	96,106,821
Deferred tax liabilities - net*	533,661,982	(101,249,756)	432,412,226
Unappropriated retained earnings*	1,891,276,018	432,226,704	2,323,502,722

**Refer to Note 13 for the other related adjustments.*

Statement of Income for the year ended December 31, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as Restated
Gross premiums earned	₱6,836,176,135	₱3,740,641	₱6,839,916,776
Reinsurers' share of gross earned premiums	4,924,074,070	928,988	4,925,003,058
Commissions income	273,156,560	86,465	273,243,025
Gross change in insurance contract liabilities	1,380,279,931	6,474,865	1,386,754,796
Reinsurers' share of gross change in insurance contract liabilities	1,451,315,253	(20,871,644)	1,430,443,609
Commission expense	621,553,839	821,529	622,375,368
Provision for income taxes	10,268,150	4,708,025	14,976,175

Impact on the Statement of Comprehensive Income for the year ended December 31, 2016
The above restatements have no impact on the statement of comprehensive income for the year ended December 31, 2016.

Impact on the Statement of Cash Flows for the year ended December 31, 2016
Prior period adjustments in relation to the above restatements did not have significant impact on the statement of cash flows for the year ended December 31, 2016.

Standards Issued but Not yet Effective

The Company will adopt, where applicable, the following new standards, amendments to existing standards and interpretations when these become effective. Unless otherwise stated, the adoption of these new standards, amendments thereto and interpretation is not expected to have significant impact on the Company's financial statements. Additional disclosures will be provided when these standards and amendments are adopted.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment* - Classification and Measurement of Share-based Payment Transactions
- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRS 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property* - Transfers of Investment Property
- Philippine Interpretation IFRIC-22*, Foreign Currency Transactions and Advance Consideration*
- Amendments to PFRS 4, *Insurance Contracts* - Applying PFRS 9, *Financial Instruments*, with PFRS 4
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. The Company is assessing which approach it will use and the potential impact of the chosen approach in its financial statements.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The Company is currently assessing the impact of adopting this standard.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9 - Prepayment Features with Negative Compensation
- Amendments to PAS 28 - Long-term Interests in Associates and Joint Ventures
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

- 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 this standard and plans to adopt the new standard on the required effective date.

Deferred effectivity

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

The Company continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2017 on the Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

Translation of Foreign Currency-Denominated Transactions

Transactions in foreign currencies are initially recorded at the prevailing functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the prevailing functional currency rate of exchange 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. All foreign exchange differences are taken to the statement of income.

Assets and liabilities of the foreign branch are translated at the exchange rate prevailing at the end of the reporting period, and revenue and expenses are translated at the monthly average exchange rates. The resulting translation adjustments are charged to cumulative translation adjustments and recognized as other comprehensive income.

Product Classification

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

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or have expired.

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

Short-term Investments
Placements in time deposits and other money market instruments with original maturities of more than three months but less than one year are classified as short-term investments.

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

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

Initial recognition
Financial instruments are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets and loans and receivables. The Company classifies its financial liabilities as other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date are based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable current market prices exist, option pricing models, and other relevant valuation models. Any difference noted between the fair value and the transaction price is recognized in the statement of income, unless it qualifies for recognition as some type of asset or liability.

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

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

During the reporting period ended December 31, 2017 and 2016, 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.

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

Financial assets or financial liabilities at FVPL
This category consists of financial assets or financial liabilities that are held-for-trading or designated by management as at FVPL on initial recognition.

Financial assets or financial liabilities designated by management as at FVPL are designated as such on initial recognition when any of 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;
- 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 would not be separated.

Financial assets or financial liabilities are initially recorded at fair value. Subsequent to initial recognition, these instruments are re-measured at fair value. Fair value adjustments and realized gains and losses are recognized as "Fair value gains (losses) on financial assets at FVPL" under "Investment income" in the statement of income.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, equity securities, and other debt instruments. After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-

denominated AFS debt securities, is reported in earnings. Interest earned on holding AFS financial assets is reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of income when the right to receive payment has been established. Interests and dividends are recognized under "Investment income" in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Reserve for fluctuation in value of AFS financial assets" in the equity section of the statement of financial position. The losses arising from impairment of such financial assets are recognized as "Provision for impairment losses" in the statement of income. When a security is disposed of, the cumulative gain or loss previously recognized as other comprehensive income is reported as "Gain (loss) on sale of AFS financial assets" under "Investment income" in the statement of income.

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

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held-for-trading, nor designated as AFS or at FVPL.

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 form an integral part of the effective interest rate. The amortization is included under "Investment income" in the statement of income. The losses arising from impairment of such loans and receivables are recognized as "Provision for impairment losses" in the statement of income.

This accounting policy relates to the statement of financial position captions "Cash and cash equivalents," "Short-term investments," "Insurance receivables," "Loans and receivables," and "Accrued income."

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

After initial measurement, other 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 form an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

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

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt, if it has a contractual obligation to:
- deliver cash or another financial asset to another entity, or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. Financial instruments are classified as liability or equity in accordance with the substance of the contractual agreement. Interests, dividends, gains, and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instrument classified as equity are charged directly to equity net of any related income tax benefits.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In order for the Company to have a currently enforceable legal right of set-off, the right must not be contingent on a future event, and must be legally enforceable in all of the following circumstances:
- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

Impairment of Financial Assets
The Company assesses, at each reporting date, whether a financial asset or group of financial assets is impaired

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the instrument's fair value is no longer enough to cover for its acquisition cost or where the borrower, or a group of borrowers, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Insurance receivables
A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the terms agreed with the counterparty. The carrying amount of the receivable is reduced through the use of an allowance account.

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk

characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized as "Provision for impairment losses" in the statement of income.

Interest income continues to be accrued on the reduced carrying amount based on the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in the statement of income. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed what would have been its amortized cost at the reversal date had there been no impairment.

AFS financial assets carried at fair value
For equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of an investment below its cost or where other objective evidence of impairment exists. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income) is removed from the statement of comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized in the statement of comprehensive income.

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

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

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset have expired;

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

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

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

Reinsurance
The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets include balances recoverable from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence shows that the Company may not recover outstanding amounts due under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurers can be measured reliably. The impairment loss is recorded in the statement of income.
Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

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

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

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognized based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective interest method.

Deferred Acquisition Costs (DAC) and Deferred Reinsurance Commissions
Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged against income using the 24th method. The unamortized acquisition costs are shown in the assets section of the statement of financial position as "Deferred acquisition costs." Reinsurance commissions are deferred and shown in the liabilities section of the statement of financial position as "Deferred reinsurance commissions," subject to the same amortization method as the related acquisition costs.

Investment Properties
Investment properties are properties that are held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the statement of financial position date. Gains or losses arising from changes in fair values of the investment properties are included in the statement of income in the year in which they arise.

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

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

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

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

Land, buildings, and building machinery and equipment are measured at fair value less accumulated depreciation on buildings, and building machinery and equipment and impairment losses recognized after the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus

is credited to the revaluation surplus included in the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognized in the revaluation surplus.

Accumulated depreciation as of the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Recognition of depreciation commences when the asset becomes available for its intended use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the time the asset is classified as held for sale (or it is included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, or at the date the asset is derecognized. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings	50
Building machinery and equipment	5 - 20
Computer equipment and mobile phones	5
Transportation equipment	5
Furniture, fixtures, and equipment	3 - 8

Leasehold improvements are amortized over the term of the lease or estimated useful life of five (5) years, whichever is shorter.

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

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

Investments in Subsidiaries, an Associate and a Joint Venture

The investments in a subsidiary, an associate, and a joint venture are carried in the statement of financial position at cost, less any impairment in value (see Note 14).

Investment in Subsidiaries

A subsidiary is an entity in which the Parent Company, directly or indirectly, holds more than half (1/2) of the issued share capital, or controls more than half (1/2) of the voting power, or exercises control over the operation and management of the subsidiary. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights.

Investment in an Associate and a Joint Venture
An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investments are derecognized on disposal, with the difference between the net proceeds and the carrying amount being recognized in the statement of income. The reporting dates of the subsidiary and the associate and joint venture are identical with the Company and the accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

The Company's percentages of ownership in the shares of stock of subsidiaries, associate, and joint venture in 2017 and 2016 are shown in the below:

	Country of Incorporation	**Percentage of Ownership**	
		2017	2016
Pioneer Intercontinental Insurance Corporation (PIIC)	Philippines	**96.86%**	96.86%
Center for Agriculture and Rural Development (CARD) Pioneer Microinsurance Inc. (CPMI)	Philippines	**47.88%**	47.88%
Pilipinas TAJ Autogroup, Inc. (PTA)	Philippines	**30.00%**	30.00%
Republic Surety and Insurance Company, Inc. (RSIC)	Philippines	**51.00%**	–

Impairment of Nonfinancial Assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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 assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to

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

Insurance Contract Liabilities

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

Claims provision and IBNR losses

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims therefore, the ultimate cost of which cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money and includes provision for claims reported and IBNR claims. The provision for claims reported is based on the independent adjusters' report on the individual claims. The provision for IBNR claims is calculated using Chain Ladder, Bornhuetter-Ferguson (BF), and Expected Loss Ratio (ELR) methods. No provision for equalization or catastrophic reserves is recognized. The liabilities are derecognized when the contract is discharged, cancelled, or has expired.

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. The change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognised over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Liability adequacy test

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

Pension Cost

The Company operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit method. The Company has a funded, non-contributory retirement plan, administered by a trustee, covering its regular employees. Retirement cost is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Defined retirement costs comprise the following:
(a) Service costs;
(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 cost and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit and loss.

Remeasurements comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income under "Net remeasurement on loss on defined benefit plan" in the period in which they arise. Remeasurements are not recycled to profit and loss in subsequent periods.

Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, the past service cost is recognized immediately.

The net pension asset or liability comprises the present value of the pension benefit obligation less actuarial gains and past service cost not yet recognized, and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Equity
Capital stock
Capital stock is measured at par value for all shares issued.

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

Retained earnings
Retained earnings represent the cumulative balance of net income or loss of the Company, net of any dividend distribution and restatements, net of consequential tax impact.

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

Premiums
Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written and assumed that relate to the unexpired periods of the policies at reporting date is accounted for as "Provision for unearned

premiums" and is presented under "Insurance contract liabilities" in the liabilities section of the statement of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as "Deferred reinsurance premiums" shown under "Reinsurance assets" in the assets section of the statement of financial position. The net changes in these accounts between reporting dates are charged against or credited to income for the year.

Commission income
Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as "Deferred reinsurance commissions" and presented in the liabilities section of the statement of financial position.

Investment income
- Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest method.
- Dividend income is recognized when the Company's right to receive the payment is established.
- Rental income from investment property is recognized in the statement of income on a straight-line basis over the lease term.

Other income
All other income items are recognized in the statement of income when earned.

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

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

Commission expense
Commissions incurred from short-duration insurance contracts are recognized as revenue 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 reporting date is accounted for as "Deferred acquisition costs" and presented in the asset section of the statement of financial position.

Interest expense
Interest expense is recognized in the statement of income as incurred.

General expenses
All other expenses are recognized in the statement of income as incurred.

Borrowing costs
Interest incurred on a project financed by a loan is capitalized.

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

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

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

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

Company as a lessor
Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which these are earned.

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

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from excess MCIT and NOLCO can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer

probable that sufficient taxable profit will be available to allow all or part of the deferred 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 all or part of the deferred tax assets to be recovered.

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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted as of end of the reporting period.

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.

Movements in the deferred tax assets and liabilities arising from changes in the rates are charged against or credited to operations for the period.

Value-Added Tax (VAT)
Revenue, expenses, liabilities, and assets are recognized net of the amount of sales tax except:

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

The net amount of tax payable to the tax authority is included as part of accounts and other payables in the Company's statement of financial position.

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

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

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

3. Significant Accounting Judgments and Estimates

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

judgments and estimates are reflected in the financial statements as they become reasonably determinable.

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

Judgments

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

Product classification

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

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

Distinction between investment properties and owner-occupied properties

The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately at the reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment (see Notes 12 and 13).

Evaluation of Control

The Company owns a number of subsidiaries. PFRS 10 requires an entity to reassess whether it has control over an investee. Management assessed that it has control over its subsidiaries as it is exposed, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. There have been no changes in the composition of the Company's subsidiaries in 2017 and 2016 (see Note 14).

Determination of existence of significant influence

The Company's 30% equity investment in PTA as of December 31, 2017 and 2016 is classified as an associate as management assessed that the Company's 30% interest qualifies the Company to exercise significant influence on PTA (see Note 14).

Determination of existence of joint control

On December 22, 2017, the Company acquired 51% ownership in RSIC for a total consideration of ₱288,150,000. Despite PISC owning 51% holdings of RSIC, management assessed that PISC and the other party have joint control over RSIC as either of the parties cannot make unilateral decisions over the operations of RSIC. The Company classified its investments in RSIC as investments in joint venture (see Note 14).

Estimates

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

Valuation of insurance contract liabilities

Estimates have to be made at the reporting date for the expected ultimate cost of both claims reported and claims IBNR. It can take a significant period of time before the ultimate claim cost can be established with certainty and for some types of policies, IBNR claims form the majority of the claims provision.

The primary technique adopted by management in estimating the cost of notified and IBNR claims is that of using past claims settlement trends to predict future claims settlement trends. IBNR claims is mainly calculated using Chain Ladder method but BF and ELR methods are also used whenever appropriate. At each reporting date, prior year claims estimates are assessed for adequacy and any changes made are charged to provision. Insurance claims liabilities are not discounted for the time value of money.

The carrying value of claims payable and IBNR included in the insurance contract liabilities account amounted to ₱5,143,950,215 and ₱3,376,028,603 (as restated) as of December 31, 2017 and 2016, respectively (see Note 16).

The opening balance of the earliest period presented was restated accordingly. Claims payable and IBNR included in the insurance contract liabilities account amounted amounted to ₱4,745,142,793 (as restated) as of January 1, 2016 (see Note 16).

Fair values of unquoted AFS equity securities

The Company has unquoted AFS equity securities whose fair value is determined using dividend discount model (DDM). The use of a different pricing model and assumptions could produce materially different estimates of fair values. Discussion of the method used by the Company to value its unquoted AFS equity securities is disclosed under Note 32.

The carrying value of AFS financial assets not quoted in an active market referred to above amounted to ₱489,200,169 and ₱456,938,562 as of December 31, 2017 and 2016, respectively (see Notes 7 and 32).

Impairment of equity securities

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

As of December 31, 2017 and 2016, the carrying value of the Company's AFS equity securities amounted to ₱10,833,404,431 and ₱10,820,756,503, respectively. The Company recognized impairment losses on equity securities amounting to ₱1,103,812 in 2016 (nil in 2017) (see Note 7).

Impairment of insurance receivables and loans and receivables
The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis.

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

As of December 31, 2017 and 2016, the carrying value of insurance receivables amounted to ₱1,689,432,710 and ₱1,323,179,909, respectively. The allowance for impairment losses pertaining to insurance receivables amounted to ₱44,209,810 as of December 31, 2017 and 2016 (see Note 6).

As of December 31, 2017 and 2016, the carrying value of loans and receivables amounted to ₱307,227,826 and ₱43,233,927, respectively. The Company did not recognize impairment loss on loans and receivables in 2017 and 2016 (see Note 7).

Fair values of investment properties, and property and equipment
Investment properties and certain types of property and equipment are carried at fair value, which has been determined based on market data approach. In determining the fair value of investment properties and property and equipment, the Company's external appraisers use generally accepted methodologies. There have been no significant changes on the valuation methodologies used by the external appraisers.

The carrying values of investment properties and property and equipment carried at fair value follow:

	2017	2016
Investment properties (Note 12)	**₱1,233,717,651**	₱1,136,356,631
Property and equipment (Note 13)	**2,405,309,580**	2,087,243,158
	₱3,639,027,231	₱3,223,599,789

Impairment of property and equipment
The Company assesses the impairment of its property and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

The factors that the Company considers important which could trigger an impairment review include the following:
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

As of December 31, 2017 and 2016, the Company's property and equipment amounted to ₱2,693,977,775 and ₱2,310,694,227 respectively (see Note 13).

The Company did not recognize impairment loss on its property and equipment in 2017 and 2016.

Impairment of investments in subsidiaries, an associate, and a joint venture
The Company assesses impairment of its investments in subsidiaries, an associate and joint venture whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Company considers important which could trigger an impairment review on its investments in subsidiaries include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes with an adverse effect on the subsidiaries have taken place during the period, or will take place in the near future and the technological, market, economic, or legal environment in which the subsidiaries operates.

The carrying value of investments in subsidiaries, an associate, and a joint venture amounted to ₱937,072,632 and ₱648,922,632 as of December 31, 2017 and 2016, respectively. The Company did not recognize impairment loss on its investments in subsidiaries and an associate in 2017 and 2016 (see Note 14).

Recognition of deferred tax assets
Deferred tax assets are recognized for all temporary tax deductible differences to the extent that it is probable that the taxable income will be available against which these temporary differences can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.
As of December 31, 2017 and 2016, the Company recognized deferred tax assets amounting to ₱103,117,541 and ₱107,028,510 (as restated), respectively (see Note 27).

The opening balance of the earliest period presented was restated accordingly. Deferred tax assets amounted to ₱113,146,234 (as restated) as of January 1, 2016 (see Note 27).

Pension and other employee benefits
The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate, expected return on plan assets, and salary increase rate. In accordance with the relevant PFRS, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations.

As of December 31, 2017, the net pension asset (liability) amounted to ₱11,592,013 and (₱39,952,671) as of December 31, 2017 and 2016, respectively (see Note 20).

The Company also estimates other employee benefit obligations, including costs of paid leaves, based on historical leave availments of employees and subject to the Company's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

As of December 31, 2017 and 2016, the accrued balance of other employee benefits, included under "Accounts payable and other liabilities" in the statements of financial position amounted to ₱54,056,092 and ₱51,552,092, respectively (see Note 18).

Contingencies
The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the Company's legal counsels and based upon an analysis of potential results. The Company does not believe these proceedings will have a material adverse effect on the Company's financial position (see Note 34).

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Petty cash fund	**₱488,900**	₱503,682
Cash in commercial banks and trust companies	**480,884,372**	350,690,705
Cash equivalents (time deposits)	**265,791,727**	239,322,292
	₱747,164,999	₱590,516,679

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are placed for varying periods of up to three months, depending on the immediate cash requirements of the Company, and earned interest at annual rates ranging from 0.375% to 1.875% in 2017 and 0.375% to 2.00% in 2016 and it includes placement with thrift bank amounting to ₱100,000.

Interest income from cash and cash equivalents amounted to ₱7,168,242 in 2017 and ₱9,074,768 in 2016, respectively (see Note 23).

5. Short-term Investments

This account consists of cash placed in commercial banks and trust companies amounting to ₱251,081,655 and ₱252,426,881 as of December 31, 2017 and 2016, respectively (see Note 9). Short-term investments represent time deposits with maturities of more than three months but not more than one year from dates of placement and earned interest at annual rates ranging from 0.25% to 1.50% in 2017 and 2016. Interest income from short-term investments amounted to ₱3,159,154 and ₱1,477,507 in 2017 and 2016, respectively (see Note 23).

6. Insurance Receivables

This account consists of:

	2017	2016
Premiums receivable	**₱1,135,952,563**	₱664,375,170
Reinsurance recoverable on paid losses	**551,197,960**	659,203,213
Due from ceding companies	**46,491,776**	43,783,442
Funds held by ceding companies - treaty	**221**	27,894
	1,733,642,520	1,367,389,719
Less allowance for impairment losses	**44,209,810**	44,209,810
	₱1,689,432,710	₱1,323,179,909

Premiums receivable represent premiums on written policies which are collectible within the Company's grace period.

Reinsurance recoverable on paid losses pertains to amounts recoverable from reinsurers in respect of claims already paid by the Company. These amounts are due and demandable.

Due from ceding companies pertains to premiums collectible from ceding companies with respect to assumed policies. These amounts are due and demandable.

Funds held by ceding companies - treaty pertain to amounts retained by ceding companies computed at a certain percentage of reinsurance premiums due. These amounts are interest-bearing and are generally collected within one year after the reporting date.

In 2017 and 2016, interest income from funds held by ceding companies - treaty amounted to ₱237,583 and ₱431,332, respectively (see Note 23).

The aging analyses of insurance receivables follow:

	2017						
	0 to 90 days	**91 to 150 days**	**151 to 220 days**	**221 to 270 days**	**More than 270 days**	**Impaired**	**Total**
Premiums receivable	**₱1,032,533,162**	**₱40,322,211**	**₱22,343,291**	**₱10,022,313**	**₱24,888,160**	**₱5,843,426**	**₱1,135,952,563**
Reinsurance recoverable on paid losses	**211,998,176**	**57,874,521**	**32,304,723**	**1,003,735**	**211,401,118**	**36,615,687**	**551,197,960**
Due from ceding companies	**4,917,002**	**29,565,211**	**5,315,271**	**1,288,374**	**3,655,221**	**1,750,697**	**46,491,776**
Funds held by ceding companies - treaty	**221**	**–**	**–**	**–**	**–**	**–**	**221**
	₱1,249,448,561	**₱127,761,943**	**₱59,963,285**	**₱12,314,422**	**₱239,944,499**	**₱44,209,810**	**₱1,733,642,520**

	2016						
	0 to 90 days	91 to 150 days	151 to 220 days	221 to 270 days	More than 270 days	Impaired	Total
Premiums receivable	₱577,091,121	₱66,527,666	₱12,818,266	₱746,476	₱1,348,215	5,843,426	₱664,375,170
Reinsurance recoverable on paid losses	214,293,260	104,971,699	71,073,503	5,523,503	226,725,561	36,615,687	659,203,213
Due from ceding companies	25,923,664	8,168,929	5,449,469	1,869,614	621,069	1,750,697	43,783,442
Funds held by ceding companies - treaty	1,513	551	790	–	25,040	–	27,894
	₱817,309,558	₱179,668,845	₱89,342,028	₱8,139,593	₱228,719,885	₱44,209,810	₱1,367,389,719

The reconciliation of the changes in the allowance for impairment losses based on individual assessment follows:

	2017			
	Premiums Receivable	**Reinsurance Recoverable on Paid Losses (Facultative)**	**Due from Ceding Companies (Facultative)**	**Total**
At January 1 and December 31	**₱5,843,426**	**₱36,615,687**	**₱1,750,697**	**₱44,209,810**

	2016			
	Premiums Receivable	Reinsurance Recoverable on Paid Losses (Facultative)	Due from Ceding Companies (Facultative)	Total
At January	₱5,843,426	₱341,688	₱975,874	₱7,160,988
Impairment during the year	–	36,273,999	774,823	37,048,822
	₱5,843,426	₱36,615,687	₱1,750,697	₱44,209,810

7. Financial Assets

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

	2017	2016
Financial assets at FVPL	**₱1,162,534,990**	₱1,178,099,114
AFS financial assets	**11,134,324,879**	11,126,623,109
Loans and receivables	**307,227,826**	43,233,927
	12,604,087,695	12,347,956,150
Less allowance for impairment losses	**595,064**	1,103,812
	₱12,603,492,631	₱12,346,852,338

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

a. *Financial assets at FVPL*

	2017	2016
Financial assets designated as at FVPL:		
Listed equity securities	**₱1,107,253,584**	₱1,116,570,784
Financial assets held-for-trading:		
Government debt securities - foreign currency	**33,598,541**	34,309,337
Corporate debt securities - foreign currency	**21,682,865**	27,218,993
	₱1,162,534,990	₱1,178,099,114

The Company's financial assets designated at FVPL are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Interest income from financial assets at FVPL amounted to ₱3,879,885 and ₱3,781,693 in 2017 and 2016, respectively (see Note 23).

Dividend income from financial assets at FVPL amounted to ₱4,992,845 and ₱4,389,220 in 2017 and 2016, respectively (see Note 23).

b. *AFS financial assets*

	2017	2016
Quoted securities - at fair value:		
Listed equity securities:		
Common shares	**₱10,344,680,214**	₱10,364,802,641
Government debt securities - local currency (Note 9)	**154,223,122**	160,094,416
Corporate debt securities - foreign currency	**146,697,326**	145,772,190
	10,645,600,662	10,670,669,247
Unquoted securities:		
Unlisted equity securities:		
Preferred shares - at fair value	**489,200,169**	456,938,562
Common shares - at cost	**119,112**	119,112
	489,319,281	457,057,674
	11,134,919,943	11,127,726,921
Allowance for impairment losses	**595,064**	1,103,812
	₱11,134,324,879	₱11,126,623,109

Interest income from AFS financial assets amounted to ₱10,751,101 and ₱5,918,016 in 2017 and 2016, respectively (see Note 23).

Dividend income from AFS financial assets amounted to ₱13,924,802 and ₱13,939,802 in 2017 and 2016, respectively (see Note 23).

As of December 31, 2017 and 2016, the reserve for fluctuation in value of AFS financial assets amounted to ₱10,090,634,598 and ₱10,094,889,138, respectively. The roll forward analyses of the reserve for fluctuation in value of AFS financial assets follow:

	2017	2016
At January 1	**₱10,094,889,138**	₱8,462,304,752
Fair value gains	**58,963,620**	1,631,480,574
Realized gain transferred to profit or loss (Note 23)	**(63,194,353)**	–
Foreign exchange adjustment	**(23,807)**	–
Impairment loss transferred to profit or loss	–	1,103,812
At December 31	**₱10,090,634,598**	₱10,094,889,138

The carrying values of financial assets (excluding loans and receivables) have been determined as follows:

	2017		
	Financial Assets at FVPL	**AFS Financial Assets**	**Total**
At January 1	**₱1,178,099,114**	**₱11,126,623,109**	**₱12,304,722,223**
Additions	**140,424,302**	**121,140,414**	**261,564,716**
Disposals	**(165,635,136)**	**(176,992,391)**	**(342,627,527)**
Fair value gains	**9,414,944**	**65,049,789**	**74,464,733**
Discount (premium) amortization	**21,766**	**(1,130,214)**	**(1,108,448)**
Foreign exchange adjustment	**210,000**	**(365,828)**	**(155,828)**
At December 31	**₱1,162,534,990**	**₱11,134,324,879**	**₱12,296,859,869**

	2016		
	Financial Assets at FVPL	AFS Financial Assets	Total
At January 1	₱986,859,319	₱9,389,520,194	₱10,376,379,513
Additions	122,231,855	76,019,358	198,251,213
Disposals and impairment	(103,242,422)	(2,103,812)	(105,346,234)
Fair value gains	169,306,028	1,633,784,574	1,803,090,602
Discount amortization	–	20,738,727	21,842,539
Foreign exchange adjustment	2,944,334	8,664,068	10,504,590
At December 31	₱1,178,099,114	₱11,126,623,109	₱12,304,722,223

c) *Loans and receivables*

	2017	2016
Loans receivable	**₱231,000,000**	₱–
Chattel mortgage loans	**56,722,276**	38,361,222
Accounts receivable	**13,769,196**	3,256,027
Due from related parties (Note 30)	**5,245,846**	119,497
Accountable cash advances	**490,508**	1,497,181
	₱307,227,826	₱43,233,927

Loans receivable pertains to amount loaned to a third party earning interest at 2.75% per annum payable on demand after the eleventh month from issuance.

Chattel mortgage loans consist mainly of loans extended to employees. Chattel mortgage loans earn interest at 12% per annum with maturities of 4 to 7 years. Interest income from chattel mortgage loans amounted to ₱5,470,348 and ₱4,185,703 in 2017 and 2016, respectively (see Note 23).

Accounts receivable consist of amounts receivable from confiscated bonds which pertain to the outstanding premiums for bond policies wherein claims were reported and paid accordingly. This also includes receivable from assured related to adjusters' other expenses. These are due and demandable.

Accountable cash advances of employees are collected through payroll deduction or expense liquidation.

Amounts due from related parties pertain to the Company's noninterest-bearing receivables from its related parties - Pioneer Life Inc. (PLI), an entity under common control, and PIIC, a subsidiary. The Company's receivables are related to the reimbursement for various common expenses which are due and demandable (see Note 30).

8. Accrued Income

This account consists of:

	2017	2016
Interest receivable	**₱5,252,231**	₱4,865,371
Rent receivable	**1,729,972**	1,997,885
Dividends receivable	**162,750**	2,112
	₱7,144,953	₱6,865,368

9. Statutory Deposits

The following are deposited with local and foreign government agencies in compliance with insurance laws and requirements:

	2017	2016
Government debt securities (Note 7)	**₱137,500,000**	₱137,500,000
Short-term investments (Note 5)	**65,367,187**	65,367,911
	₱202,867,187	₱202,867,911

Government debt securities are deposited with the IC in accordance with the provisions of the Insurance Code (the "Code") for the benefit and security of policyholders and creditors of the Company. The face value of government debt securities deposited with the Bureau of Treasury amounted to ₱137,500,000 as of December 31, 2017 and 2016, respectively.

The above short-term investments represent placements by the Company's Hong Kong Branch to a bank, which are held in trust for the beneficiary title of the Insurance Authority of Hong Kong. These deposits earn interest at commercial rates.

10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The rollforward analyses of deferred acquisition costs follow:

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
At January 1	**₱214,152,906**	₱198,439,151	₱169,551,870
Cost incurred during the year	**(700,794,502)**	(622,375,368)	(577,767,734)
Cost deferred during the year	**745,756,700**	638,089,123	606,655,015
At December 31	**₱259,115,104**	₱214,152,906	₱198,439,151

The rollforward analyses of deferred reinsurance commissions follow:

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
At January 1	**₱100,143,329**	₱96,106,821	₱100,006,976
Income earned during the year	**(257,342,364)**	(273,243,025)	(244,905,920)
Income deferred during the year	**238,941,153**	277,279,533	241,005,765
At December 31	**₱81,742,118**	₱100,143,329	₱96,106,821

11. Reinsurance Assets

This account consists of:

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
Reinsurance recoverable on unpaid losses (Note 16)	**₱3,703,779,023**	₱2,293,371,071	₱3,722,272,691
Deferred reinsurance premiums (Note 16)	**1,554,030,636**	1,568,043,301	1,452,492,269
	5,257,809,659	3,861,414,372	5,174,764,960
Allowance for impairment loss	**2,132,193**	2,132,193	–
	₱5,255,677,466	₱3,859,282,179	₱5,174,764,960

The Company cedes insurance risk in the normal course of business for all its businesses. Reinsurance assets include balances recoverable from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Deferred reinsurance premiums are reinsurance premiums that pertain to the unexpired periods as at reporting date.

Provision for impairment loss amounted to ₱2,132,193 in 2016 (nil in 2017).

12. Investment Properties

The rollforward analyses of this account follow:

	2017	2016
At January 1	**₱1,136,356,631**	₱1,099,806,534
Fair value gains (Note 23)	**102,124,420**	32,964,406
Additions	**238,300**	9,094,857
Disposal	**(2,545,000)**	–
Foreign exchange adjustment	**(2,456,700)**	17,336,600
Transfer to property and equipment (Note 13)	–	(22,845,766)
At December 31	**₱1,233,717,651**	₱1,136,356,631

As allowed under PFRS 1, *First-time Adoption of International Financial Reporting Standards*, the Company used the fair value of the investment properties as of January 1, 2004 as deemed cost. The amount by which the fair value exceeds the carrying value of the investment properties was added to the carrying value of the property with a corresponding credit to retained earnings.

As of December 31, 2017 and 2016, the balance of retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱129,701,310 related to certain parcels of land categorized as investment properties. This arose when the Company transitioned to PFRS in 2005. This amount has yet to be absorbed through sale.

As of December 31, 2017 and 2016, the fair values of the properties in the Philippines are based on valuations performed by Cuervo Appraisers, Inc., an accredited independent valuer. Cuervo Appraisers, Inc. is a specialist in valuing these types of investment properties.

The valuation for the land and condominium units was derived through market data approach based upon prices paid in actual market transactions. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject properties adjusted based on certain elements of comparison (e.g. market conditions, location, physical condition and amenities). Significant increases (decreases) in estimated price per square meter/foot would result in a significantly higher (lower) fair value of the properties.

The valuation of the improvements was derived using cost approach based on the amount required to replace the service capacity of an asset. Significant increases (decreases) in estimated replacement cost (i.e., materials and labor cost) would result in a significantly higher (lower) fair value of the properties.

The fair value, categorized as Level 3, of certain parcels of land amounting to ₱583,744,000 and ₱510,674,000 as of December 31, 2017 and 2016, respectively, are based on their highest and best use which is to convert the said properties for residential purposes. For strategic reasons, these properties are not being used in this manner.

There was no transfer between levels of fair value measurement in 2017 and 2016. As at December 31, 2017 and 2016, no property has been pledged as collateral or security for any of the Company's liabilities and the Company has no restrictions on the realizability of its land and condominium units and no contractual obligation to purchase, construct or develop such property or for repairs, maintenance and enhancements.

The land and building located in the Philippines were valued at ₱844,037,451 and ₱802,454,231 as of December 31, 2017 and 2016, respectively. The condominium unit located in Hong Kong was last appraised on January 16, 2018 by Hong Kong's independent professionally qualified valuer, DTZ Debenham Tie Leung Limited. The property is on a 50-year lease contract and was valued at HK$61,000,000 or ₱389,680,200 and HK$52,000,000 or ₱333,902,400 as of December 31, 2017 and 2016, respectively.

Foreign exchange adjustment includes the effect of translation of investment property of the Hong Kong Branch to its Philippine Peso equivalent.

Description of the valuation techniques used and key inputs to valuation on investment properties follow:

Location	Valuation Techniques	Unobservable Inputs Used (Level 3)	Range (Weighted Average)	
			2017	2016
Southeast corner of Ramon Magsaysay and Pioneer Avenue, within Barangay Dadaingas South, General Santos City	Sales comparison approach	Price per square meter	₱30,000 to ₱35,273 (₱32,637)	₱30,000 to ₱47,667 (₱38,834)
Cebu Business Park, Barangay Hipodromo (former Barangay Mabolo), Cebu City	Sales comparison approach for land and cost approach for improvements	Price per square meter for land and current materials and labor cost for improvements	₱60,000 to 100,000 (₱80,000)	₱55,000 to 100,000 (₱77,500)
Cardinal Rosales Avenue and Panglao Road, within Cebu Business Park, Barangay Hipodromo (former Barangay Mabolo), Cebu City	Sales comparison approach	Price per square meter	₱60,000 to 100,000 (₱80,000)	₱55,000 to ₱100,000 (₱77,500)
Forest Hills Avenue, located within Barangay Inarawan (formely Barrio Pinagbarilan), Antipolo City	Sales comparison approach	Price per square meter	₱1,500 to ₱2,095 (₱1,798)	₱1,200 to ₱1,750 (₱1,475)
Barangay Malayong, Gloria (formely Barangay Balate, Pinamalayan), Oriental Mindoro	Sales comparison approach	Price per square meter	₱20 to ₱47 (₱34)	₱48 to ₱78 (₱63)
East corner of Sampaguita Street within Monterrazas Village, Barangay Tuding, Itogon, Benguet	Sales comparison approach	Price per square meter	₱–	₱6,500 to ₱7,500 (₱7,000)
Northeast Corner of Mahagnao and Danao Streets, within Lakeside Evozone South, Barangay Sto. Domingo, Sta. Rosa City	Sales comparison approach	Price per square meter	₱75,000 to ₱75,000 (₱75,000)	₱60,416 to ₱70,000 (₱65,208)
27th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong	Sales comparison approach	Price per square foot	HK$31,905 to HK$35,184 (HK$33,545)	HK$25,447 to HK$31,046 (HK$28,247)

Rental income and direct operating expenses included in the statements of income from the investment properties follow:

	2017	2016
Rental income (Note 23)	**₱82,995,390**	₱78,038,342
Direct operating expenses	**(10,899,619)**	(9,444,254)
	₱72,095,771	₱68,594,088

Direct operating expenses are included under "General expenses" in the statements of income (see Note 25).

Gain on disposal of investment properties amounted to ₱643,700 in 2017 (nil in 2016) (see Note 23).

13. Property and Equipment

This account consists of property and equipment carried at revalued amount and at cost which are as follows:

	2017	2016
At revalued amount	**₱2,405,309,580**	₱2,087,243,158
At cost	**288,668,195**	223,451,069
	₱2,693,977,775	₱2,310,694,227

Property and equipment carried at revalued amounts follow:

	2017			
	Land	**Buildings**	**Building Machinery and Equipment**	**Total**
Revalued Amount				
At January 1	**₱1,315,375,200**	**₱689,816,546**	**₱202,617,863**	**₱2,207,809,609**
Additions	**–**		**236,607**	**236,607**
Appraisal increase	**255,801,200**	**63,983,398**	**24,903,336**	**344,687,934**
Retirements	**–**		**(263,098)**	**(263,098)**
Foreign exchange adjustment	**–**	**(1,881,000)**	**–**	**(1,881,000)**
At December 31	**1,571,176,400**	**751,918,944**	**227,494,708**	**2,550,590,052**
Accumulated Depreciation				
At January 1	**–**	**72,466,925**	**48,099,526**	**120,566,451**
Closed to revaluation surplus		**(7,068,893)**	**(2,566,060)**	**(9,634,953)**
Retirements	**–**		**(263,098)**	**(263,098)**
Depreciation (Note 25)	**–**	**11,285,405**	**23,326,667**	**34,612,072**
At December 31	**–**	**76,683,437**	**68,597,035**	**145,280,472**
Net Book Value	**₱1,571,176,400**	**₱675,235,507**	**₱158,897,673**	**₱2,405,309,580**

	2016			
	Land	Buildings	Building Machinery and Equipment	Total
Revalued Amount				
At January 1	₱1,270,319,800	₱639,014,470	₱206,202,518	₱2,115,536,788
Additions	–	–	4,663,643	4,663,643
Transfer from investment property (Note 12)	–	22,845,766	–	22,845,766
Transfer to building renovation in progress	–	(1,628,151)	–	(1,628,151)
Appraisal increase	45,055,400	11,131,961	4,193,866	60,381,227
Retirements	–	–	(12,442,164)	(12,442,164)
Foreign exchange adjustment	–	18,452,500	–	18,452,500
At December 31	1,315,375,200	689,816,546	202,617,863	2,207,809,609
Accumulated Depreciation				
At January 1	–	67,807,419	40,087,417	107,894,836
Closed to revaluation surplus	–	(6,322,347)	(1,899,127)	(8,221,474)
Retirements	–	–	(12,326,093)	(12,326,093)
Depreciation (Note 25)	–	10,981,853	22,237,329	33,219,182
At December 31	–	72,466,925	48,099,526	120,566,451
Net Book Value	₱1,315,375,200	₱617,349,621	₱154,518,337	₱2,087,243,158

Property and equipment of the Company in the Philippines were last appraised on November 23, 2017 by an independent firm of appraisers, Cuervo Appraisers, Inc. The Company assessed that there is no material change in value of the property and equipment from November 24 to December 31, 2017.

The valuation for the property and equipment was derived through market data approach based upon prices paid in actual market transactions. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject properties adjusted based on certain elements of comparison (e.g., market conditions, location, physical condition, and amenities). Significant increases (decreases) in estimated price per square meter would result in a significantly higher (lower) fair value of the property and equipment.

The valuation of the improvements was derived using cost approach based on the amount required to replace the service capacity of an asset. Significant increases (decreases) in estimated replacement cost (i.e., materials and labor cost) would result in a significantly higher (lower) fair value of the properties.

The fair value, categorized as Level 3, of the parcels of land at the measurement date are based on their highest and best use which is to convert the said properties for residential purposes. For strategic reasons, these parcels of land are not being used in this manner. There was no transfer between levels of fair value measurement in 2017 and 2016.

Description of the valuation techniques used and key inputs to valuation on property and equipment follow:

Location	Valuation Techniques	Unobservable Inputs Used (Level 3)	Range (Weighted Average)	
			2017	2016
Don A. Velez Street and Mabini Streets, within Barangay 14, Cagayan de Oro City	Sales comparison approach for land and cost approach for improvements	Price per square meter for land and current materials and labor cost for improvements	₱25,000 to ₱40,000 (₱33,000)	₱35,000 to ₱50,000 (₱42,500)
South corner of 5th Avenue and 26th Streets (with FAR 12), within Fort Bonifacio, Global City, Taguig City, Metro Manila	Sales comparison approach	Price per square meter	₱375,000 to ₱585,309 (₱480,155)	₱350,000 to ₱392,000 (₱371,000)
Cebu Business Park, Barangay Hipodromo (former Barangay Mabolo), Cebu City	Sales comparison approach for land and cost approach for improvements	Price per square meter for land and current materials and labor cost for improvements	₱60,000 to 100,000 (₱80,000)	₱55,000 to ₱100,000 (₱77,500)
Southeast corner of Paseo de Roxas and Gallardo Streets, and extending to the northeast corner of Paseo de Roxas and Legaspi Streets, within Legaspi Village, Makati City, Metro Manila	Comparison approach for land and cost approach for improvements	Price per square meter for land and current materials and labor cost for improvements	₱350,000 to ₱450,000 (₱400,000)	₱305,000 to ₱364,583 (₱334,792)
27th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong	Sales comparison approach	Price per square foot	HK$31,905 to HK$35,184 (HK$33,545)	HK$25,447 to HK$31,046 (HK$28,247)

As of December 31, 2017 and 2016, property and equipment located in the Philippines that are carried at revalued amount amounted to ₱1,977,300,180 and ₱1,721,234,758, respectively. The condominium unit in Hong Kong was valued at HK$67,000,000 or ₱428,009,400 and HK$57,000,000 or ₱366,008,400 as of December 31, 2017 and 2016, respectively. The property and equipment used by the Company's Hong Kong Branch were appraised by an independent professionally qualified valuer, DTZ Cushman & Wakefield Limited.

Foreign exchange adjustment includes the effect of translation of property and equipment of the Hong Kong Branch to their Philippine Peso equivalent.

In 2017, the Company recognized restatements on its revaluation surplus on property and equipment. The net effects of the aforementioned restatement adjustments in the 2016 and 2015 financial statements are shown below:

Statement of Financial Position as at December 31, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
Revaluation surplus on property and equipment	₱1,295,899,866	(₱303,690,678)	₱992,209,188
Deferred tax liabilities - net*	547,848,931	(94,237,731)	453,611,200
Unappropriated retained earnings*	2,123,438,887	456,941,776	2,580,380,663

**Refer to Note 2 for the other related adjustments.*

Statement of Financial Position as at January 1, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
Revaluation surplus on property and equipment	₱1,231,777,695	(₱303,690,678)	₱928,087,017
Deferred tax liabilities - net*	533,661,982	(101,249,756)	432,412,226
Unappropriated retained earnings*	1,891,276,018	432,226,704	2,323,502,722

**Refer to Note 2 for the other related adjustments.*

Impact on the Statement of Comprehensive Income for the year ended December 31, 2016
The restatement has no impact on the statement of comprehensive income for the year ended December 31, 2016.

Impact on the Statement of Cash Flows for the year ended December 31, 2016
The above prior period adjustments did not have impact on the statement of cash flows for the year ended December 31, 2016.

If land, buildings, and building machinery and equipment were carried at cost less accumulated depreciation, the amounts would be as follow:

	2017	2016
Cost	**₱773,243,635**	₱773,270,126
Accumulated depreciation and amortization	**131,039,406**	107,088,826
Net book value	**₱642,204,229**	₱666,181,300

Total depreciation and amortization expense of property and equipment carried at cost and revalued amounts charged against operations amounted to ₱82,648,995 in 2017 and ₱72,784,662 in 2016 (see Note 25).

The changes in revaluation surplus recognized directly in other comprehensive income amounted to ₱238,877,862 and ₱64,122,171 in 2017 and 2016, respectively.

Property and equipment carried at cost follows:

	2017					
	Leasehold Improvements	**Computer Equipment and Mobile Phones**	**Transportation Equipment**	**Furniture, Fixtures and Equipment**	**Building Renovation in Progress**	**Total**
Cost						
At January 1	**₱76,415,461**	**₱82,645,745**	**₱54,468,520**	**₱78,541,654**	**₱39,363,014**	**₱331,434,394**
Additions	**5,460,871**	**25,855,687**	**23,752,417**	**9,213,289**	**48,971,066**	**113,253,330**
Retirements	**(250,127)**	**(17,877,184)**	**(4,569,107)**	**(2,145,862)**	**–**	**(24,842,280)**
Foreign exchange adjustment	**–**	**(6,511)**	**–**	**(32,484)**	**–**	**(38,995)**
At December 31	**81,626,205**	**90,617,737**	**73,651,830**	**85,576,597**	**88,334,080**	**419,806,449**
Accumulated Depreciation and Amortization						
At January 1	**17,493,760**	**44,317,893**	**23,254,126**	**22,917,546**	**–**	**107,983,325**
Depreciation and amortization (Note 25)	**12,254,054**	**17,087,826**	**11,736,435**	**6,958,608**	**–**	**48,036,923**
Disposal/retirements	**(250,127)**	**(17,877,184)**	**(4,569,107)**	**(2,145,862)**	**–**	**(24,842,280)**
Foreign exchange adjustment	**–**	**(7,214)**	**–**	**(32,500)**	**–**	**(39,714)**
At December 31	**29,497,687**	**43,521,321**	**30,421,454**	**27,697,792**	**–**	**131,138,254**
Net Book Value	**₱52,128,518**	**₱47,096,416**	**₱43,230,376**	**₱57,878,805**	**₱88,334,080**	**₱288,668,195**

	2016					
	Leasehold Improvements	Computer Equipment and Mobile Phones	Transportation Equipment	Furniture, Fixtures and Equipment	Building Renovation in Progress	Total
Cost						
At January 1	₱55,551,806	₱81,784,867	₱48,772,315	₱60,552,923	₱–	₱246,661,911
Additions	21,187,654	13,411,422	11,013,083	19,889,821	37,734,863	103,236,843
Disposal/Retirements	(323,999)	(12,615,412)	(5,316,878)	(2,235,415)	–	(20,491,704)
Reclassification/adjustment	–	–	–	–	1,628,151	1,628,151
Foreign exchange adjustment	–	64,868	–	334,325	–	399,193
At December 31	76,415,461	82,645,745	54,468,520	78,541,654	39,363,014	331,434,394
Accumulated Depreciation and Amortization						
At January 1	8,551,440	40,855,888	17,508,066	19,696,589	–	86,611,983
Depreciation and amortization (Note 25)	9,215,971	16,015,913	9,211,019	5,122,577	–	39,565,480
Disposal/retirements	(273,651)	(12,615,412)	(3,464,959)	(2,232,634)	–	(18,586,656)
Foreign exchange adjustment	–	61,504	–	331,014	–	392,518
At December 31	17,493,760	44,317,893	23,254,126	22,917,546	–	107,983,325
Net Book Value	₱58,921,701	₱38,327,852	₱31,214,394	₱55,624,108	₱39,363,014	₱223,451,069

14. Investments in Subsidiaries, an Associate, and a Joint Venture

Investments in subsidiaries, associate, and joint venture consist of investments in the following entities, which are all incorporated and operating in the Philippines, as of December 31, 2017 and 2016:

Subsidiary	Date of Incorporation	Nature of business
PIIC	February 24, 1966	Nonlife insurance
CPMI	August 16, 1963	*- do -*
RSIC	July 8, 1948	*- do -*
PTA	April 10, 2012	Purchase and sale of motor vehicles

The Company's percentage of ownership in the shares of stock of its investees follow:

	Direct Percentage of Ownership		Amount of Investment	
	2017	2016	**2017**	2016
PIIC	**96.86%**	96.86%	**₱242,155,101**	₱242,155,101
CPMI	**47.88%**	47.88%	**298,767,531**	298,767,531
PTA	**30.00%**	30.00%	**108,000,000**	108,000,000
RSIC	**51.00%**	–	**288,150,000**	–
Total			**₱937,072,632**	₱648,922,632

a. CPMI
In compliance with the IC's required minimum networth of ₱550,000,000, the Company put in the amount of ₱33,683,811 as additional investment in CPMI (see Note 30). The ₱28,823,446 was put in as contributed surplus while the ₱4,860,400 was additional subscription on CPMI's issued shares as approved by latter's BOD on October 17, 2016. These issued shares have par value of ₱100 per share. Consequently, the Company's ownership in CPMI increased from 47.85% to 47.88%. The Company still maintains control over CPMI since it holds more voting rights relative to other vote holders: CARD MBA (46.08%), CaMia (2.92%), PIIC (1.48%), PLI (1.424%), and PLHI (0.214%). The Company's holding and the size of the holdings of entities of the Pioneer Group would also give it a power since it has a collective ownership of 51%.

b. PTA
On July 27, 2016, PTA approved a pre-emptive rights offering of its new shares of stock to which a stockholder of record as of July 27, 2016 would be entitled to subscribe to 0.80 share of stock for every one (1) share of stock held by such stockholders as of record date. The Company subscribed 6.4 million shares or a total amount of ₱64,000,000 of which ₱34,000,000 was already paid in 2016 (see Notes 18 and 30). The Company paid the remaining subscription amounting to ₱30,000,000 in 2017. Further, on July 20, 2016, the Company acquired and paid 400,000 shares of PTA from a third party for ₱4,000,000. Consequently, the Company has now 30% direct percentage of ownership to PTA. Management assessed that the Company's 30% interest qualifies the Company to exercise significant influence on PTA.

c. RSIC
On December 22, 2017, the Company acquired 51% ownership in RSIC for a total consideration of ₱288,150,000. Despite PISC owning 51% holdings of RSIC, management assessed that PISC and the other party have joint control over RSIC as either of the parties cannot make unilateral decisions over the operations of RSIC. The Company classified its investments in RSIC as investments in joint venture.

The Company, PIIC, CPMI, and RSIC are subject to statutory regulations on capital requirement of the IC. The Company, PIIC, CPMI, and RSIC submit annual reports to the IC to determine adequacy of its investment. IC classifies assets according to admitted and non-admitted assets for purposes of calculating financial ratios that the Company, PIIC, CPMI and RSIC are required to maintain. These, among others, may pose restrictions as to the use or transfer of assets, as well as, the settlement of liabilities as of December 31, 2017 and 2016.

In 2017, the new valuation standards for nonlife policy reserves was adopted by the Company, PIIC, CPMI, and RSIC retrospectively in accordance with IC CL No. 2016-67 which introduced changes in the valuation method for IBNR claims. As a result of the aforementioned change in the valuation method on IBNR claims, the Company, PIIC, CPMI, and RSIC restated its 2016 financial statements.

Financial information of the subsidiaries and associate follow:

	2017	2016
Subsidiaries		
PIIC		
Total assets	**₱1,432,639,129**	₱1,327,909,449
Total liabilities	**273,829,648**	224,966,820
Total equity	**1,158,839,481**	1,102,942,629
Revenue	**81,479,006**	119,076,812
Net income	**19,410,691**	30,066,888
CPMI		
Total assets	**₱1,531,842,118**	₱1,124,288,557
Total liabilities	**628,826,160**	430,995,015
Total equity	**903,015,958**	693,293,542
Revenue	**555,770,987**	380,877,189
Net income	**210,342,091**	142,080,280
Associate		
PTA		
Financial position		
Financial assets	**₱95,846,062**	₱53,084,404
Inventories	**237,975,815**	206,653,016
Property and equipment	**25,904,184**	31,564,162
Intangible asset	**364,917**	419,900
Other assets	**43,586,800**	47,867,593
Accounts and other liabilities	**(31,592,109)**	(50,343,495)
Loans payable	**(257,040,068)**	(184,229,307)
Equity	**₱115,045,600**	₱105,016,273
Financial performance		
Revenue	**₱324,203,853**	₱22,278,309
Loss before tax	**(46,970,673)**	(53,917,731)
Net loss for the year	**(46,970,673)**	(54,493,226)

	2017
Joint Venture	
*RSIC**	
Financial position	
Financial assets	**₱904,024,588**
Reinsurance assets	**323,254,041**
Deferred acquisition costs	**16,664,712**
Property and equipment - net	**6,018,626**
Deferred tax assets - net	**13,191,958**
Other assets	**39,332,507**
Insurance contract liabilities	**(605,969,117)**
Insurance payables	**(214,553,081)**
Deferred reinsurance commissions	**(9,662,500)**
Accounts and other liabilities	**(57,828,195)**
Equity	**₱414,473,539**
Financial performance	
Revenue	**₱589,827,398**
Loss before tax	**(136,525,102)**
Net loss for the year	**(138,560,731)**

**The Company acquired its interest in RSIC on December 22, 2017.*

15. Other Assets

Other assets consist of:

	2017	2016
Creditable withholding taxes (CWTs)	**₱277,147,094**	₱269,456,172
Input VAT	**69,306,304**	54,310,814
Tax credit certificate (TCC)	**37,173,292**	–
Prepayments	**15,785,582**	13,938,448
Memorial lots	**7,567,625**	7,567,625
Foreign tax credit	**7,088,423**	–
Security fund	**1,025,117**	780,055
Nonproprietary golf and club shares	**670,000**	670,000
	₱415,763,437	₱346,723,114

CWTs pertain to withholding taxes from prior years and current transactions.

Prepayments include prepaid rent, deposits for utility services, and funds set aside for the payment of documentary stamps tax and VAT.

TCC pertains to the certificate granted by the Bureau of Internal Revenue (BIR) to the Company which may applied against any internal revenue tax liability of Company excluding withholding taxes.

Memorial lots located in Heritage Park consist of 17 lots in 2017 and 2016.

Security fund pertains to the fund which will be used for payment of allowed claims against insolvent insurance companies as required under Section 378 of the Amended Insurance Code.

16. Insurance Contract Liabilities and Reinsurance Assets

The analyses of insurance contract liabilities, net of reinsurers' share of liabilities follow:

	December 31, 2017			December 31, 2016, as restated			January 1, 2016, as restated		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 11)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 11)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 11)	Net
Provision for:									
Claims reported (Note 32)	**₱4,520,447,982**	**₱3,342,863,607**	**₱1,177,584,375**	₱2,793,010,511	₱1,856,020,347	₱936,990,164	₱4,187,124,243	₱3,303,028,142	₱884,096,101
Claims IBNR (Note 32)	**623,502,233**	**360,915,416**	**262,586,817**	583,018,092	437,350,724	145,667,368	558,018,550	419,244,549	138,775,001
Provision for unearned premiums (Note 31)	**2,454,834,424**	**1,554,030,636**	**900,803,788**	2,335,698,046	1,568,043,301	767,654,745	2,140,673,767	1,452,492,269	688,181,498
	₱7,598,784,639	**₱5,257,809,659**	**₱2,340,974,980**	₱5,711,726,649	₱3,861,414,372	₱1,850,312,277	₱6,885,816,560	₱5,174,764,960	₱1,711,052,600

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

	December 31, 2017			December 31, 2016, as restated			January 1, 2016, as restated		
	Provision for Claims Reported and Claims IBNR	**Reinsurers' Share of Liabilities** (Note 11)	**Net**	Provision for Claims Reported and Claims IBNR	Reinsurers' Share of Liabilities (Note 11)	Net	Provision for Claims Reported and Claims IBNR	Reinsurers' Share of Liabilities (Note 11)	Net
At January 1	**₱3,376,028,603**	**₱2,293,371,071**	**₱1,082,657,532**	₱4,745,142,793	₱3,722,272,691	₱1,022,870,102	₱3,678,566,496	₱2,785,573,959	₱892,992,537
Claims incurred	**4,087,526,779**	**3,004,881,577**	**1,082,645,202**	2,435,931,067	1,530,477,326	905,453,741	2,456,306,016	2,039,684,136	416,621,880
Claims paid (Note 24)	**(2,363,139,668)**	**(1,521,905,951)**	**(841,233,717)**	(3,847,685,405)	(2,979,027,110)	(868,658,295)	(1,924,710,689)	(1,529,428,316)	(395,282,373)
Increase in claims IBNR	**40,484,141**	**(76,435,308)**	**116,919,449**	24,999,542	18,106,175	6,893,367	523,920,942	419,243,549	104,677,393
	5,140,899,855	**3,699,911,389**	**1,440,988,466**	3,358,387,997	2,291,829,082	1,066,558,915	4,734,082,765	3,715,073,328	1,019,009,437
Effect of foreign exchange on outstanding claims	**3,050,360**	**3,867,634**	**(817,274)**	17,640,606	1,541,989	16,098,617)	11,060,028	7,199,363	3,860,665
At December 31	**₱5,143,950,215**	**₱3,703,779,023**	**₱1,440,171,192**	₱3,376,028,603	₱2,293,371,071	₱1,082,657,532	₱4,745,142,793	₱3,722,272,691	₱1,022,870,102

The provision for unearned premiums may be analyzed as follows:

	December 31, 2017			December 31, 2016, as restated			January 1, 2016, as restated		
	Provision for Unearned Premiums	**Reinsurers' Share of Liabilities** (Note 11)	**Net**	Provision for Unearned Premiums	Reinsurers' Share of Liabilities (Note 11)	Net	Provision for Unearned Premiums	Reinsurers' Share of Liabilities (Note 11)	Net
At January 1	**₱2,335,698,046**	**₱1,568,043,301**	**₱767,654,745**	₱2,140,673,767	₱1,452,492,269	₱688,181,498	₱1,764,449,806	₱1,193,837,552	₱570,612,254
New policies written (Note 22)	**8,024,967,100**	**5,636,528,579**	**2,388,438,521**	7,034,941,055	5,040,554,090	1,994,386,965	6,501,834,943	4,625,805,930	1,876,029,013
Premiums earned (Note 22)	**(7,905,830,722)**	**(5,650,541,244)**	**(2,255,289,478)**	(6,839,916,776)	(4,925,003,058)	(1,914,913,718)	(6,125,610,982)	(4,367,151,213)	(1,758,459,769)
At December 31	**₱2,454,834,424**	**₱1,554,030,636**	**₱900,803,788**	₱2,335,698,046	₱1,568,043,301	₱767,654,745	₱2,140,673,767	₱1,452,492,269	₱688,181,498

17. Insurance Payables

This account consists of:

	2017	2016
Due to reinsurers (Note 30)	**₱1,498,573,266**	₱1,128,783,231
Funds held for reinsurers	**233,680,980**	170,143,600
	₱1,732,254,246	₱1,298,926,831

The roll forward analyses of insurance payables follow:

	Due to Reinsurers	**Funds Held for Reinsurers**	**Total**
At January 1, 2016	₱1,356,273,034	₱151,953,760	₱1,508,226,794
Arising during the year	5,040,554,090	241,724,921	5,282,279,011
Paid during the year	(5,268,043,893)	(223,535,081)	(5,491,578,974)
At December 31, 2016	**₱1,128,783,231**	**₱170,143,600**	**₱1,298,926,831**
Arising during the year	**5,636,528,578**	**240,573,435**	**5,877,102,013**
Paid during the year	**(5,266,738,543)**	**(177,036,055)**	**(5,443,774,598)**
At December 31, 2017	**₱1,498,573,266**	**₱233,680,980**	**₱1,732,254,246**

Due to reinsurers represent premiums payable on treaty and facultative reinsurance contracts. These are noninterest-bearing and are generally settled within one year.

Funds held for reinsurers pertain to amounts retained by the Company computed as a certain percentage of reinsurance premiums ceded out in accordance with reinsurance agreements. These amounts are interest-bearing and are generally settled within one year after the reporting date.

Interest expense on funds held for reinsurers amounted to ₱1,425,415 and ₱2,449,944 in 2017 and 2016, respectively.

18. Accounts Payable and Other Liabilities

This account consists of:

	2017	2016
Taxes payable	**₱295,032,182**	₱197,377,384
Commissions payable	**160,271,874**	179,219,424
Accounts payable	**91,713,276**	71,595,462
Due to related parties (Notes 14 and 30)	**74,770,565**	105,999,654
Accrued employee benefits	**54,056,092**	51,552,092
Security deposits	**19,185,605**	17,837,216
Accrued expenses	**10,592,427**	8,543,457
Deposit surety bond	**5,437,287**	5,426,244
Investments payable	**–**	12,925,760
Other liabilities	**210,936**	210,932
	₱711,270,244	₱650,687,625

Taxes payable consist of documentary stamps, business tax, fire service tax, premium tax, VAT, and withholding tax. These are subsequently remitted within one month after the reporting date. Output

VAT included in the taxes payable is net of input VAT and advance payment thru Bayad Center is ₱99,927,684 and ₱61,544,404 as of December 31, 2017 and 2016, respectively.

Commissions payable represent unpaid commissions to agents and brokers arising from policy issuances. Commission rates vary depending on the product line and coverage of the policy. These are due upon receipt of premium payments.

Accounts payable consists of advance premium payments from various brokers and suppliers. These are due upon completion of the services as agreed upon in the contract.

Due to related parties represent the premium cessions and acceptances, which are due and demandable, of the Company in accordance with terms agreed. This also includes subscription payable to an associate amounting to ₱30,000,000 as of December 31, 2016 and fully paid as of December 31, 2017 (see Note 30).

Accrued employee benefits include service award liability and accruals for productivity incentives granted to the Company's employees except those under contractual employment. Productivity incentives are due on the 15th of May of the following year.

Security deposits represent advance payments from tenants which are refunded upon termination of the related lease contracts.

Accrued expenses include unpaid utility, contracted services, professional, and maintenance expenses. These are settled within one year after the reporting date.

Deposit surety bond pertains to bond deposits which will be refunded by the Company upon the performance of the contractual obligations set forth in the surety bond agreement.

Other liabilities are noninterest-bearing and are normally settled within one year.

19. Notes Payable

Movements of the account follow:

	2017	2016
At January 1	**₱600,000,000**	₱500,000,000
Availments	**830,000,000**	400,000,000
Payments	**(530,000,000)**	(300,000,000)
At December 31	**₱900,000,000**	₱600,000,000

Notes payable as of December 31, 2017 and 2016 are due to be settled in January 2018 and January 2017, respectively. The loans bear nominal interest of 2.75% to 3.00% in 2017 and 2.25% to 2.50% in 2016.

Interest expense on notes payable amounted to ₱11,039,467 and ₱4,921,125 in 2017 and 2016, respectively.

20. Pension Cost

The Company has a noncontributory defined benefit plan covering all regular employees and which requires contributions to be made to a separately administered retirement fund. Benefits are based on the employee's years of service and final plan salary. The Board of Trustees of the plan is responsible for setting investment strategies. The Retirement Plan is considered a "reasonable private benefit plan" within the contemplation of Republic Act No. 4917.

The retirement plan of the Company is being administered by Pioneer Group of Insurance Companies Staff Retirement Benefit Plan.

Changes in pension liability (asset) are as follows:

		Net benefit cost in statement of income				Remeasurements in other comprehensive income							
	At January 1	**Current service cost** (Note 25)	**Net interest** (Note 25)	**Subtotal**	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes rising from changes in financial assumptions**	**Actuarial changes arising from experience adjustments**	**Subtotal**	**Transferred obligation**	**Contributions**	**At December 31**
Present value of defined benefit obligation	**₱399,649,930**	**₱23,671,580**	**₱17,588,742**	**₱41,260,322**	**(₱75,225,617)**	**₱–**	**₱468,196**	**(₱10,516,656)**	**(₱18,767,766)**	**(₱104,041,843)**	**₱7,691,431**	**₱–**	**₱344,559,840**
Fair value of plan assets	**(359,697,259)**	**–**	**(15,463,260)**	**(15,463,260)**	**75,225,617**	**(17,525,520)**	**–**	**–**	**–**	**57,700,097**	**(₱7,691,431)**	**(31,000,000)**	**(356,151,853)**
	₱39,952,671	**₱23,671,580**	**₱2,125,482**	**₱25,797,062**	**₱–**	**(₱17,525,520)**	**₱468,196**	**(₱10,516,656)**	**(₱18,767,766)**	**(₱46,341,746)**	**₱–**	**(₱31,000,000)**	**(₱11,592,013)**

		Net benefit cost in statement of income				Remeasurements in other comprehensive income							
	At January 1	Current service cost (Note 25)	Net interest (Note 25)	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes rising from changes in financial assumptions	Actuarial changes rising from experience adjustments	Subtotal	Transferred obligation	Contributions	At December 31
Present value of defined benefit obligation	₱368,366,844	₱20,128,907	₱15,585,628	₱35,714,535	(₱13,104,327)	₱–	₱2,794,081	(₱7,701,111)	₱13,579,908	(₱4,431,449)	₱–	₱–	₱399,649,930
Fair value of plan assets	(319,026,039)	–	(13,103,786)	(13,103,786)	13,104,327	(10,447,287)	–	–	–	2,657,040	–	(30,224,474)	(359,697,259)
	₱49,340,805	₱20,128,907	₱2,481,842	₱22,610,749	₱–	(₱10,447,287)	₱2,794,081	(₱7,701,111)	₱13,579,908	(₱1,774,409)	₱–	(₱30,224,474)	₱39,952,671

The distribution of the plan assets of the Pioneer Group, of which 66.83% and 69.36% is attributed to the Company as of December 31, 2017 and 2016, respectively, follows:

	2017	2016
AFS financial assets	**₱255,343,311**	₱279,346,441
Cash and cash equivalents	**62,535,415**	44,041,714
Investment properties - at fair value	**38,273,127**	36,309,104
Total plan assets	**₱356,151,853**	₱359,697,259

The carrying value of retirement plan assets approximates its fair value as of December 31, 2017 and 2016. All investment held have quoted prices in active markets. Also, the plan assets have diverse investments and do not have any concentration risk.

The Company expects to contribute ₱36.2 million to the retirement fund in 2018. Currently, the Company does not employ any asset-liability matching strategy.

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

	2017	2016
Discount rate*	**5.72%**	5.32%
Salary increase rate	**6.00%**	6.00%
Average years of service	**10.92**	11.64
Mortality rate	**2017 PICM*** **	1994 GAM**
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	1952 Disability Study, Period 2, Benefit 5

** This is the single weighted average discount rate which is based on PDEX PDST-R2 rates at various bootstrapped tenors as of December 29, 2017 and as of December 29, 2016. Rates for intermediate durations were interpolated.*

*** Group annuity mortality*

**** Philippine intercompany mortality*

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2017and 2016, assuming all other assumptions were held constant. The impacts on present value of defined benefit obligation follow:

	Increase (decrease)	Impact on present value of defined benefit obligation	
		2017	2016
Discount rates	+1%	**(₱24,085,463)**	(₱23,810,774)
	-1%	**27,899,323**	27,558,616
Future salary increases	+1%	**29,619,584**	29,520,432
	-1%	**(26,064,077)**	(26,054,996)

The maturity analysis of the undiscounted benefit payments follow:

	2017	2016
Within 1 year	**₱69,552,179**	₱138,068,939
More than 1 year to 5 years	**109,979,066**	93,182,204
More than 5 years to 10 years	**153,572,435**	154,098,856
More than 10 years to 15 years	**192,186,390**	181,738,372
More than 15 years to 20 years	**266,061,051**	240,689,490
More than 20 years	**553,263,950**	469,299,884

Salaries, allowances, and other benefits consist of (see Note 25):

	2017	2016
Salaries and wages	**₱283,307,209**	₱252,185,932
Employee welfare and allowances	**75,081,415**	75,124,178
Pension expense	**28,028,349**	24,628,144
Social security costs	**9,679,025**	8,524,840
Others	**1,523,170**	1,154,181
	₱397,619,169	₱361,617,275

Pension expense includes payments to the defined contribution retirement plan of employees of the Company's Hong Kong branch amounting to ₱2,231,287 and ₱2,017,395 in 2017 and 2016, respectively.

21. Retained Earnings

On July 5, 2017, the BOD approved the declaration of cash dividends amounting to ₱9,000,000 or ₱3 per share out of the unappropriated retained earnings of the Company in favor of stockholders of record as of July 10, 2017. The Company fully paid the said dividend on August 11, 2017.

On July 15, 2016, the BOD approved the declaration of cash dividends amounting to ₱9,000,000 or ₱3 per share out of the unappropriated retained earnings of the Company in favor of stockholders of record as of July 22, 2016. The Company fully paid the said dividend on August 11, 2016.

22. Net Earned Premiums

Net earned premiums on insurance contracts are as follows:

	2017	2016
Gross premiums written:		
Direct	**₱7,635,382,645**	₱6,693,600,609
Assumed	**389,584,455**	341,340,446
Total gross premiums written (Note 16)	**8,024,967,100**	7,034,941,055
Gross change in provision for unearned premiums	**(119,136,378)**	(195,024,279)
Total gross earned premiums (Note 16)	**7,905,830,722**	6,839,916,776

(Forward)

	2017	2016
Reinsurers' share of gross premiums written:		
Direct	**₱5,464,629,121**	₱4,900,046,806
Assumed	**171,899,458**	140,507,284
Total reinsurer's share of gross premiums written	**5,636,528,579**	5,040,554,090
Reinsurers' share of change in provision for unearned premiums	**14,012,665**	(115,551,032)
Total reinsurers' share of gross earned premiums (Note 16)	**5,650,541,244**	4,925,003,058
	₱2,255,289,478	₱1,914,913,718

23. Investment Income

This account consists of:

	2017	2016
Interest income		
AFS financial assets (Note 7)	**₱10,751,101**	₱5,918,016
Cash and cash equivalents (Note 4)	**7,168,242**	9,074,768
Chattel mortgage loans (Note 7)	**5,470,348**	4,185,703
Financial assets at FVPL (Note 7)	**3,879,885**	3,781,693
Short-term investments (Note 5)	**3,159,154**	1,477,507
Insurance receivables (Note 6)	**237,583**	431,332
	30,666,313	24,869,019
Fair value gain on investment properties (Note 12)	**102,124,420**	32,964,406
Rental income (Notes 12, 26, and 30)	**82,995,390**	78,038,342
Gain on sale of AFS financial assets (Note 7)	**63,194,353**	–
Dividend income (Note 7)	**18,917,647**	18,329,022
Fair value gains on financial assets at FVPL (Note 7)	**9,414,944**	169,306,028
Gain on disposal of investment properties (Note 12)	**643,700**	–
Other income	–	4,426
	₱307,956,767	₱323,511,243

24. Net Insurance Contract Benefits and Claims Paid

Gross insurance contract benefits and claims paid follow:

	2017	2016
Direct	**₱2,251,148,806**	₱3,748,307,185
Assumed	**111,990,862**	99,378,220
	₱2,363,139,668	₱3,847,685,405

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

	2017	2016
Direct	**₱1,489,303,549**	₱2,958,271,286
Assumed	**32,602,402**	20,755,824
	₱1,521,905,951	₱2,979,027,110

25. General Expenses

This account consists of:

	2017	2016
Salaries, allowances and benefits (Note 20)	**₱397,619,169**	₱361,617,275
Depreciation and amortization (Note 13)	**82,648,995**	72,784,662
Professional fees	**73,332,630**	55,411,626
Communication, light, and water	**33,738,431**	25,702,580
Entertainment, amusement, and recreation	**24,985,207**	30,097,980
Security, janitorial, and contractual services	**23,856,628**	22,999,195
Office supplies, printing, and stationery	**22,386,666**	23,688,921
Transportation and travel	**14,790,784**	15,160,702
Taxes and licenses	**13,958,740**	9,007,760
Repairs and maintenance	**11,225,131**	9,805,575
Rent expense (Note 26)	**10,898,170**	8,125,235
Membership and subscription dues	**8,697,381**	5,507,301
Advertising expense	**8,508,689**	8,358,058
Seminar and training expenses	**7,495,471**	4,316,495
Insurance expense	**2,267,967**	2,227,607
Miscellaneous	**33,790,114**	7,004,492
	₱770,200,173	₱661,815,464

26. Operating Lease Commitments

The Company has entered into various leases for its investment properties and office spaces. These leases have terms ranging from one to five years. Some of these lease agreements include clauses for 5% annual escalation in rental fees.

The Company, as a lessor, earned rental income of ₱82,995,390 and ₱78,038,342 in 2017 and 2016, respectively (see Notes 12 and 23).

The Company, as lessor, has future minimum rentals receivable under noncancellable operating leases on its investment properties as follows:

	2017	2016
Within one year	**₱72,991,617**	₱45,040,629
After one year but not more than five years	**158,241,598**	49,448,834
	₱231,233,215	₱94,489,463

The Company has also entered into lease agreements for its branch offices. These leases have terms ranging from one to five years. The Company, as a lessee, incurred rent expense of ₱10,898,170 and ₱8,125,235 in 2017 and 2016, respectively (see Note 25). The Company has future minimum rentals payable under noncancellable operating leases on its branch offices as follows:

	2017	2016
Within one year	**₱4,855,537**	₱5,768,350
After one year but not more than five years	**7,311,834**	11,376,087
	₱12,167,371	₱17,144,437

27. Income Tax

The provision for (benefit from) income tax consists of:

	2017	2016
Current	**₱58,494,853**	₱24,094,452
Deferred	**(70,887,663)**	(9,118,277)
	(₱12,392,810)	₱14,976,175

The current provision for income tax consists of:

	2017	2016
RCIT	**₱48,755,918**	₱19,504,293
Final tax	**2,461,205**	1,639,160
Gross income tax (GIT)	**752,349**	749,383
Profit tax (Hong Kong Branch)	**13,613,803**	2,201,616
Foreign tax credits	**(7,088,422)**	–
	₱58,494,853	₱24,094,452

The Company's net deferred tax liabilities relate to the tax effects of the following:

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
Deferred tax assets:			
Provision for IBNR	**₱78,776,045**	₱43,700,211	₱41,632,503
Allowance for impairment losses	**13,902,602**	13,902,601	2,148,294
Unamortized past service cost	**5,540,794**	3,018,373	438,855
Accrued service award and bonuses	**4,898,100**	4,146,900	2,340,600
Deferred reinsurance commissions	–	30,073,989	28,837,098
Pension liability	–	11,985,801	14,802,242
Excess of net provision for unearned premiums per tax basis over books	–	200,635	–
Accrued commission	–	–	22,946,642
	103,117,541	107,028,510	113,146,234
Deferred tax liabilities:			
Revaluation surplus on property and equipment	**527,608,734**	425,232,510	397,751,579
Deemed cost adjustments on investments properties	**55,586,276**	55,586,276	55,586,276
Reserve for fluctuation in value of AFS financial assets	**13,380,025**	7,293,856	4,989,856
Pension asset	**3,477,604**	–	–
Unrealized foreign currency exchange gain	**4,927,997**	7,712,074	5,279,662
Excess of net provision for unearned premiums per tax basis over books	**3,225,359**	–	22,096,675
Deferred acquisition costs	–	64,814,994	59,854,409
	608,205,995	560,639,710	545,558,457
	₱505,088,454	₱453,611,200	₱432,412,223

The reconciliation of income tax computed at statutory income tax rate to the provision for income tax reported in the statements of income is shown below:

	2017	2016
Income tax at statutory income tax rate	**₱37,636,257**	₱84,256,235
Add (deduct) the tax effects of:		
Income not subjected to income tax	**(79,960,728)**	(69,322,484)
Nondeductible expenses	**39,262,934**	6,135,541
Interest income already subjected to final tax	**(5,569,527)**	(2,346,203)
Income subjected to lower tax rate (Note 28)	**(3,761,746)**	(3,746,914)
Provision for income tax	**(₱12,392,810)**	₱14,976,175

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have significant impact on the financial statement balances as of the reporting date except for the setup of consequential deferred tax liabilities on unquoted equity securities. With the implementation of TRAIN, deferred tax liabilities on unquoted equity securities increased from previous years.

28. Registration with PEZA

On April 23, 2007, the Company was registered with the PEZA to establish, develop, construct, administer, manage, and operate an Information Technology (IT) Center known as Pioneer House Cebu. Under the terms and conditions of its registration, the Company is entitled to the option to pay a special 5% tax on gross income earned from IT Locator enterprises, in lieu of all national and local taxes, except real property taxes on land owned by the Company.

29. Reconciliation of Net Income under PFRS to Statutory Net Income

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

	2017	2016
Net income per PFRS	**₱137,847,000**	₱265,877,942
Add (deduct):		
Difference in change in provision for unearned premiums - net	**(2,523)**	(12,700,911)
Tax effects of reconciling items	**757**	3,810,273
Statutory net income	**₱137,845,234**	₱256,987,304

30. Related Party Transactions

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

Significant related party transactions are summarized below:

2017

Category	Volume	Outstanding balance	Terms	Conditions
Subsidiaries				
PIIC				
Due from ceding company	**₱1,798,987**	**₱4,032**		
Insurance recoverable on paid losses	**2,304,548**	**766,015**	Noninterest-bearing, due and demandable	Unsecured, no impairment
Insurance recoverable on unpaid losses	–	**2,155,471**	Noninterest-bearing, due and demandable	Unsecured, no impairment
Rental income	**207,864**	–		
Trade receivables	–	**1,962,664**	Noninterest-bearing, due and demandable	Unsecured, no impairment
Due to reinsurer	**23,698,816**	**5,195,022**	Noninterest-bearing, due and demandable	Unsecured
Trade payables (Note 18)	–	**5,412,702**	Noninterest-bearing, due and demandable	Unsecured
CPMI				
Due from ceding company	**2,791,982**	–		
Insurance recoverable on paid losses	**25,582,261**	**3,936,597**	Noninterest-bearing, due and demandable	Unsecured, no impairment
Insurance recoverable on unpaid losses	–	**255,295**	Noninterest-bearing, due and demandable	Unsecured, no impairment
Rental income	**807,408**	–		
Trade receivables	–	**82,195**	Noninterest-bearing, due and demandable	Unsecured
Due to reinsurer	**67,690,971**	**9,908,709**	Noninterest-bearing, due and demandable	Unsecured, no impairment
Entity under common control				
PLI				
Rental income	**18,013,429**	–		
Trade payables (Note 18)	–	**67,678,525**	Noninterest-bearing, due and demandable	Unsecured
Pioneer Life Holdings, Inc. (PLHI)				
Acquisition of preferred shares (Notes 7 and 32)	**16,000,000**	–		
Pioneer Foundation, Inc.				
Trade payables (Note 18)	–	**1,679,338**	Noninterest-bearing, due and demandable	Unsecured

2016

Category	Volume	Outstanding balance	Terms	Conditions
Subsidiaries				
PIIC				
Due from ceding company	₱169,051	₱–		
Insurance recoverable on paid losses	2,264,368	418,202	Noninterest-bearing, due and demandable	Unsecured, no impairment
Insurance recoverable on unpaid losses	–	5,467,489	Noninterest-bearing, due and demandable	Unsecured, no impairment
Rental income	207,864	–		

(Forward)

Category	Volume	Outstanding balance	Terms	Conditions
Trade receivables	₱–	₱35,118	Noninterest-bearing, due and demandable	Unsecured, no impairment
Due to reinsurer	15,449,264	3,087,968	Noninterest-bearing, due and demandable	Unsecured
Trade payables (Note 18)	–	292,677	Noninterest-bearing, due and demandable	Unsecured
CPMI				
Due from ceding company	1,028,191	112,352	Noninterest-bearing, due and demandable	Unsecured, no impairment
Insurance recoverable on paid losses	9,626,595	9,148,660	Noninterest-bearing, due and demandable	Unsecured, no impairment
Insurance recoverable on unpaid losses	–	579,488	Noninterest-bearing, due and demandable	Unsecured, no impairment
Rental income	807,408	–		
Trade receivables	–	84,378	Noninterest-bearing, due and demandable	Unsecured, no impairment
Due to reinsurer	55,533,542	5,303,815	Noninterest-bearing, due and demandable	Unsecured, no impairment
Contributed surplus (Note 14)	28,823,446	–		
Additional subscription (Note 14)	4,860,400	–		
Associate				
PTA				
Additional subscription (Note 14)	64,000,000	–		
Subscription payable (Notes 14 and 18)	–	30,000,000	Noninterest-bearing, due and demandable	Unsecured
Trade payables (Note 18)	–	137,179	Noninterest-bearing, due and demandable	Unsecured
Entity under common control				
PLI				
Rental income	14,833,036	–		
Trade payables (Note 18)	–	75,569,798	Noninterest-bearing, due and demandable	Unsecured

The Company's related party transactions pertain to the following:

a. In the ordinary course of business, the Company accepts and cedes insurance business under various reinsurance contracts with its subsidiaries PIIC and CPMI (see Notes 22 and 24).

b. The Company has outstanding insurance balances due from (to) its subsidiaries PIIC and CPMI included in the statements of financial position (see Notes 6, 16, and 17).

c. The Company earns rentals from its buildings and condominium units under lease agreements with its subsidiaries PIIC and CPMI and an entity under common control PLI (see Note 26).

d. The Company has receivables from (payables to) its affiliates PIIC, CPMI, PTA, and entity under common control PLI, for their advances for various expenses, which are included in "Loans and receivables" (see Note 7) and "Accounts payable" (see Note 18).

e. The Company has outstanding subscription payable to PTA which is included in "Due to related parties" as of December 31, 2016 (nil as of December 31, 2017) (see Notes 14 and 18).

f. The Company's retirement fund is administered and monitored by the Pioneer Group's Investment Committee which is headed by the Company's independent director (see Note 20).

g. The Company Company has investments in unquoted preferred equity shares of PLHI classified as AFS financial assets (see Notes 7 and 32).

h. Key management personnel of the Company include all personnel having a position of Assistant Vice President and above. The summary of compensation of key management personnel is shown below:

	2017	2016
Salaries and other short-term employee benefits	**₱124,529,775**	₱121,750,977
Post-employment and other long-term benefits	**14,627,964**	12,637,186
	₱139,157,739	₱134,388,163

31. Capital Management

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the Risk-Based Capital (RBC) Model.

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

As of December 31, 2017 and 2016, the Company fully complied with the externally-imposed capital requirements during the reported financial periods. These are the fixed capitalization requirement and RBC requirement.

Fixed Capitalization Requirements

On January 13, 2015, the Insurance Commission issued Circular Letter No. 2015-02-A clarifying the minimum capitalization and net worth requirements of new and existing insurance companies in the Philippines. Based on the said Circular Letter, all domestic life and non-life insurance companies duly licensed by the Insurance Commission must have a net worth of at least ₱550.0 million by December 31, 2016. The minimum net worth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

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

The Company has ₱14,576,688,389 and ₱14,182,028,371 (as restated) net worth as of December 31, 2017 and 2016, respectively, and has complied with the minimum paid-up capital and net worth requirements.

RBC Requirements

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

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

The following table shows how the RBC ratio was determined by the Company based on its calculations:

Net worth	₱14,569,801,046
RBC capital	4,643,278,070
RBC ratio	313.78%

The final RBC ratio can only be determined after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the Code. The RBC ratio for 2016 as determined by the IC is 309.72%.

If the Company failed to meet the minimum required statutory networth and RBC requirements, the IC is authorized to suspend or revoke all certificates of authority granted to the Company, its officers and agents, and no new business shall be borne by and for the Company until its authority is restored by the IC.

Pursuant to IC CL No. 2017-15, *Regulatory Requirements and Actions for the New Regulatory Framework*, effective January 1, 2017, nonlife insurance companies are required to maintain minimum RBC2 requirement as prescribed under IC CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*. Under the RBC2 Framework, the RBC ratio shall be calculated as total available capital divided by the RBC2 requirement. The following table shows the estimated RBC ratio as of December 31, 2017 as determined by the Company based on the RBC2 Framework:

Total available capital	**₱13,533,958,157**
RBC2 requirement	**4,421,668,725**
RBC2 ratio	**306.08%**

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

The total available capital shall be the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer. Tier 2 capital shall not exceed 50% of Tier 1 Capital.

The RBC requirement shall be the capital that is required to be held appropriately to the risks an insurance company is exposed to, computed using the formula as prescribed under IC CL No. 2016-68.

Financial Reporting Framework

IC CL No. 2016-65, *Financial Reporting Framework under Section 189 of the Amended Insurance Code*, prescribes the new financial reporting framework (FRF) that will be used for the statutory quarterly and annual reporting. This also includes rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies.

IC CL No. 2016-67, *Valuation Standards for Nonlife Insurance Policy Reserves*, prescribes the new valuation methodology for the nonlife insurance companies. Nonlife insurance companies are required to change the basis of valuation of non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The IBNR reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. A margin for adverse deviation is provisionally set at 10% and shall be incorporated on both premiums and claims liability valuation. Discount rates to be used shall be based on the latest PDST-R2 rates and the Bloomberg IYC Curve for PhP and USD-denominated policies, respectively.

Unexpired Risk Reserves or URR refers to the amount of reserve required to cover future claims, commission and expenses at a designated level of confidence, that are expected to emerge from an unexpired period of cover. For 2017, companies shall be allowed to set up as premium liabilities the Unearned Premium Reserves or UPR instead of the higher of the UPR and URR. Starting 2018, premiums liabilities shall be determined in accordance with the valuation standards prescribed under IC CL No. 2016-67 which is the higher between the UPR and URR.

On December 28, 2016, the IC issued Circular Letter No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended RBC2 Framework*, which provides that the following new regulatory requirements under their respective CL shall take effect beginning January 1, 2017:

1. FRF: CL No. 2016-65;
2. Valuation Standards for Life Insurance Policy Reserves: CL No. 2016-66;
3. Valuation Standards for Nonlife Insurance Policy Reserves: CL No. 2016-67;
4. Amended RBC2 Framework: CL No. 2016-68.

The Company complied with the aforementioned regulation. Accordingly, the Company restated its 2016 and 2015 financial statements to reflect the change in valuation methodology on IBNR reserves and premium liabilities on marine cargo business (see Note 2).

32. Management of Insurance and Financial Risks

Insurance Risk

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

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

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

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

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

The business of the Company mainly comprises of nonlife insurance contracts.

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

The following table sets out the concentration of the claims liabilities as of December 31, 2017 and 2016 by type of contract (see Note 16).

	2017			2016		
	Gross Claims Liabilities	**Reinsurers' Share of Claims Liabilities**	**Net**	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net
Fire	**₱1,084,547,776**	**₱676,889,344**	**₱407,658,432**	₱894,901,933	₱644,176,826	₱250,725,107
Marine hull	**938,256,049**	**716,021,304**	**222,234,745**	902,799,045	723,931,008	178,868,037
Engineering	**271,619,659**	**262,172,372**	**9,447,287**	266,231,696	256,703,294	9,528,402
General accident	**388,690,330**	**145,745,783**	**242,944,547**	366,140,883	118,411,817	247,729,066
Motor car	**416,188,185**	**548,905**	**415,639,280**	263,391,176	(535,034)	263,926,210
Others	**2,044,648,216**	**1,902,401,315**	**142,246,901**	682,563,870	550,683,160	131,880,710
	₱5,143,950,215	**₱3,703,779,023**	**₱1,440,171,192**	₱3,376,028,603	₱2,293,371,071	₱1,082,657,532

The geographical conce ntration of the Company's insurance contract liabilities is noted below. The disclosures are based on the countries where the business is written.

	2017			2016		
	Gross Claims Liabilities	**Reinsurers' Share of Claims Liabilities**	**Net**	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net
Philippines	**₱4,831,598,174**	**₱3,661,754,565**	**₱1,169,843,609**	₱3,027,920,624	₱2,243,396,195	₱784,524,429
Hong Kong	**312,352,041**	**42,024,458**	**270,327,583**	348,107,979	49,974,876	298,133,103
	₱5,143,950,215	**₱3,703,779,023**	**₱1,440,171,192**	₱3,376,028,603	₱2,293,371,071	₱1,082,657,532

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

Other key assumptions include variations in interest, delays in settlement and changes in foreign currency rates.

Sensitivities
The insurance claims provision is sensitive to the above key assumptions. Because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting dates.

The analysis in the next page is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and income before income tax.

	2017			
	Change in Assumptions	**Impact on Gross Insurance Contract Liabilities**	**Impact on Net Insurance Contract Liabilities**	**Impact on Income Before Income Tax**
Average claim costs	**5% increase**	**₱437,535,912**	**₱131,260,774**	**(₱131,917,077)**
Average number of claims	**5% increase**	**304,957,528**	**91,487,258**	**(91,944,695)**

	2016			
	Change in Assumptions	Impact on Gross Insurance Contract Liabilities	Impact on Net Insurance Contract Liabilities	Impact on Income Before Income Tax
Average claim costs	5% increase	₱351,939,487	₱105,581,846	(₱106,109,755)
Average number of claims	5% increase	344,267,757	103,280,327	(103,796,729)

Average claim costs and number of claims used for valuation are selected with consideration for statutory requirements, as specified in the Code.

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

Claims development table

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.

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

	Gross Insurance Contract Liabilities for 2017					
Accident year	2013 and prior years	2014	2015	2016	**2017**	**Total**
Estimate of ultimate claim costs						
At the end of accident year	₱3,041,624,775	₱4,206,151,115	₱2,338,429,025	₱1,875,992,437	**₱4,396,923,282**	**₱4,396,923,282**
One year later	1,728,012,544	1,857,120,567	997,132,488	1,639,733,598	–	**1,639,733,598**
Two years later	4,177,131,278	1,621,147,447	517,736,131	–	–	**517,736,131**
Three years later	3,689,667,773	195,658,258	–	–	–	**195,658,258**
Four years later	757,038,614	–	–	–	–	**757,038,614**
Current estimate of cumulative claims	757,038,614	195,658,258	517,736,131	1,639,733,598	**4,396,923,282**	**7,507,089,883**
Cumulative payments to date	300,885,388	84,383,093	261,133,323	760,745,107	**955,992,757**	**2,363,139,668**
Liability recognized in the statement of financial position	₱456,153,226	₱111,275,165	₱256,602,808	₱878,988,491	**₱3,440,930,525**	**₱5,143,950,215**

	Net Insurance Contract Liabilities for 2017					
Accident year	2013 and prior years	2014	2015	2016	**2017**	**Total**
Estimate of ultimate claim costs						
At the end of accident year	₱904,026,185	₱1,260,280,449	₱718,822,950	₱1,011,298,799	**₱1,344,360,901**	**₱1,344,360,901**
One year later	538,087,983	737,623,561	679,711,787	559,646,231	–	**559,646,231**
Two years later	941,676,679	320,042,714	163,071,311	–	–	**163,071,311**
Three years later	544,965,881	75,834,351	–	–	–	**75,834,351**
Four years later	138,492,115	–	–	–	–	**138,492,115**
Current estimate of cumulative claims	138,492,115	75,834,351	163,071,311	559,646,231	**1,344,360,901**	**2,281,404,909**
Cumulative payments to date	42,393,943	26,363,584	61,406,750	312,274,325	**398,795,115**	**841,233,717**
Liability recognized in the statement of financial position	₱96,098,172	₱49,470,767	₱101,664,561	₱247,371,906	**₱945,565,786**	**₱1,440,171,192**

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing group-wide policies on credit, liquidity and market risk. It also supports the effective implementation of policies at the overall group and the individual business unit levels.

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

Fair Value of Financial Instruments

Due to short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, accrued income, insurance payables, accounts payable and other liabilities and notes payable, the carrying values reasonably approximate fair values as of the reporting date.

The fair values of financial assets at FVPL and AFS financial assets were determined using quoted market prices. The table below shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

December 31, 2017

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL:				
Listed equity securities	**₱1,107,253,584**	**₱–**	**₱–**	**₱1,107,253,584**
Corporate debt securities	**21,682,865**	**–**	**–**	**21,682,865**
Government debt securities	**33,598,541**	**–**	**–**	**33,598,541**
AFS financial assets:				
Listed equity securities	**10,139,193,456**	**204,891,694**	**–**	**10,344,085,150**
Unquoted equity securities*	**–**	**–**	**489,200,169**	**489,200,169**
Government debt securities	**146,697,326**	**–**	**–**	**146,697,326**
Corporate debt securities	**154,223,122**	**–**	**–**	**154,223,122**
	₱11,602,648,894	**₱204,891,694**	**₱489,200,169**	**₱12,296,740,757**

**Excluding club and equity shares carried at cost*

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL:				
Listed equity securities	₱1,116,570,784	₱–	₱–	₱1,116,570,784
Corporate debt securities	27,218,993	–	–	27,218,993
Government debt securities	34,309,337	–	–	34,309,337
AFS financial assets:				
Listed equity securities	10,176,997,135	186,701,694	–	10,363,698,829
Unquoted equity securities*	–	–	456,938,562	456,938,562
Government debt securities	160,094,416	–	–	160,094,416
Corporate debt securities	145,772,190	–	–	145,772,190
	₱11,660,962,855	₱186,701,694	₱456,938,562	₱12,304,603,111

**Excluding club and equity shares carried at cost*

The following table shows the reconciliation of the beginning and ending balances of Level 3 AFS financial assets which are recorded at fair value:

	2017	2016
At January 1	**₱456,938,562**	₱433,898,562
Additions (Note 30)	**16,000,000**	–
Fair value gains	**16,261,607**	23,040,000
At December 31	**₱489,200,169**	₱456,938,562

The Company has investments in PLHI's preferred shares of stock which are not quoted in the market as of December 31, 2017 and 2016. In 2017 and 2016, PLHI's preference shares were valued using dividend discount moded or DDM which calculates the intrinsic value of a stock, exclusive of current market conditions. DDM equates this value to the present value of a stock's future dividends.

In 2017, the Company acquired additional 160,000 preferred shares of PLHI at ₱100 per share or ₱16,000,000. PLHI did not distribute any dividend in 2017 and 2016. In performing its valuation, management assumed dividend payouts.

In accordance with the Company's fair value calculation using the DDM, the following fair value adjustments and consequential deferred tax impacts were determined:

	December 31, 2017	December 31, 2016	January 1, 2016
AFS financial assets - at cost	**₱400,000,000**	₱384,000,000	₱384,000,000
Add fair value gains recognized in OCI, gross of deferred tax impact:			
Reserve for fluctuation in value of AFS financial assets	**75,820,144**	65,644,706	44,908,706
Deferred tax liability on the reserve for fluctuation in value of AFS financial assets (Note 27)	**13,380,025**	7,293,856	4,989,856
	89,200,169	72,938,562	49,898,562
AFS financial assets - at fair value	**₱489,200,169**	₱456,938,562	₱433,898,562

Fair value gains on the above unquoted equity securities classified as AFS financial assets in 2016 amounted to ₱23,040,000. Consequential deferred income tax liability impact in 2016 amounted to ₱2,304,000.

The analysis of the fair market value of PLHI's preferred shares below is performed for the reasonably possible movement in future dividend payments with all other variables held constant, showing the impact on the other comprehensive income:

	Significant unobservable input	**Level at yearend**	**Sensitivity of the input to fair value**
2017	**Dividend per share**	**₱6.00 per share**	**5% increase (decrease) in the dividend per share of the investee holding company would result in the decrease (increase) in fair value by ₱11,527,008**
2016	Dividend per share	₱6.00 per share	5% increase (decrease) in the book value per share of the investee holding company would result in the decrease (increase) in fair value by ₱11,065,928

For other unquoted equity securities, these are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of other suitable methods of arriving at a reliable fair value.

Financial Risk

The Company is exposed to financial risk through its financial assets and financial liabilities, particularly, credit risk, liquidity risk, and market risk (foreign exchange, interest rate, and equity price risks). The BOD reviews and amends policies for managing each of these risks. The Company's risk management policies and practices are documented in the subsequent paragraphs.

Credit risk

Credit risk is the risk that the Company will incur a loss arising from its counterparties that fail to discharge their contractual obligations.

Prior to extending credit, the Company manages its credit risk by assessing the credit quality of its counterparty. The Company has a credit policy group that reviews all information about the counterparty which may include its statements of financial position, statements of income, statements of comprehensive income and other market information, and implements the internal rating system of the Company. The nature of the obligation is likewise considered. Based on this analysis, the credit analyst assigns the counterparty a credit rating to determine whether or not credit may be provided.

Credit risk limits are also used to manage credit exposure specific to each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.
As of December 31, 2017 and 2016, the carrying values of the Company's financial instruments represent maximum exposure to credit risk as reporting date. The Company does not enter into collateral or credit enhancements.

The table below provides information regarding the credit risk exposure of the Company by classifying financial assets according to credit ratings of the counterparties:

	2017			
	Investment Grade	Below Investment Grade	Past Due or Impaired	Total
Loans and Receivables				
Cash and cash equivalents*	₱746,676,099	₱–	₱–	₱746,676,099
Short-term investments	251,081,655	–	–	251,081,655
Insurance receivables:				
Premiums receivable	1,032,533,162	–	103,419,401	1,135,952,563
Reinsurance recoverable on paid losses	270,895,363	–	280,302,597	551,197,960
Due from ceding companies	39,197,170	–	7,294,606	46,491,776
Funds held by ceding companies - treaty	221	–	–	221
Loans and receivables:				
Loans receivable	231,000,000	–	–	231,000,000
Chattel mortgage loan	56,722,276	–	–	56,722,276
Accounts receivable	13,769,196	–	–	13,769,196
Due from related parties	5,245,846	–	–	5,245,846
Accountable cash advance	490,508	–	–	490,508
Accrued income	7,144,953	–	–	7,144,953
Financial Assets at FVPL				
Government debt securities	33,598,541	–	–	33,598,541
Corporate debt securities	21,682,865	–	–	21,682,865
AFS Financial Assets				
Government debt securities	154,223,122	–	–	154,223,122
Corporate debt securities	146,697,326	–	–	146,697,326
Reinsurance recoverable on unpaid losses	3,701,646,830	–	2,132,193	3,703,779,023
	₱6,712,605,133	₱–	₱393,148,797	₱7,105,753,930

** Cash and cash equivalents exclude petty cash fund.*

	2016			
	Investment Grade	Below Investment Grade	Past Due or Impaired	Total
Loans and Receivables				
Cash and cash equivalents*	₱590,012,997	₱–	₱–	₱590,012,997
Short-term investments	252,426,881	–	–	252,426,881
Insurance receivables:				
Premiums receivable	577,091,121	–	87,284,049	664,375,170
Reinsurance recoverable on paid losses	320,884,971	–	338,318,242	659,203,213
Due from ceding companies	38,813,072	–	4,970,370	43,783,442
Funds held by ceding companies	27,894	–	–	27,894
Loans and receivables:				
Chattel mortgage loan	38,361,222	–	–	38,361,222
Accounts receivable	3,256,027	–	–	3,256,027
Due from related parties	119,497	–	–	119,497
Accountable cash advance	1,497,181	–	–	1,497,181
Accrued income	6,865,368	–	–	6,865,368
Financial Assets at FVPL				
Government debt securities	34,309,337	–	–	34,309,337
Corporate debt securities	27,218,993	–	–	27,218,993
AFS Financial Assets				
Government debt securities	160,094,416	–	–	160,094,416
Corporate debt securities	145,772,190	–	–	145,772,190
Reinsurance recoverable on unpaid losses	2,291,238,878	–	2,132,193	2,293,371,071
	₱4,487,990,045	₱–	₱432,704,854	₱4,920,694,899

** Cash and cash equivalents exclude petty cash fund.*

The aging analyses of financial assets that are impaired or past due but not impaired follow:

	2017						
	Past Due but Not Impaired*						
	30 to 60 days	**61 to 120 days**	**121 to 180 days**	**More than 180 days**	**Total Past Due but Not Impaired**	**Impaired**	**Total**
Premiums receivable	**₱40,322,211**	**₱22,374,223**	**₱11,434,073**	**₱23,445,469**	**₱97,575,976**	**₱5,843,426**	**₱103,419,402**
Reinsurance recoverable on paid losses facultative	**32,243,934**	**(546,708)**	**4,139,682**	**207,850,002**	**243,686,910**	**36,615,687**	**280,302,597**
Due from ceding companies	**1,237,551**	**1,958,357**	**412,863**	**1,935,138**	**5,543,909**	**1,750,697**	**7,294,606**
Reinsurance recoverable on unpaid losses	**–**	**–**	**–**	**–**	**–**	**2,132,193**	**2,132,193**
	₱73,803,696	**₱23,785,872**	**₱15,986,618**	**₱233,230,609**	**₱346,806,795**	**₱46,342,003**	**₱393,148,798**

**Includes items considered/rated as "Below Investment Grade"*

	2016						
	Past Due but Not Impaired*						
	30 to 60 days	61 to 120 days	121 to 180 days	More than 180 days	Total Past Due but not Impaired	Impaired	Total
Premiums receivable	₱65,244,218	₱9,831,620	₱5,016,570	₱1,348,215	₱81,440,623	₱5,843,426	₱87,284,049
Reinsurance recoverable on paid losses facultative	73,488,152	217,690,026	2,594,522	7,929,855	301,702,555	36,615,687	338,318,242
Due from ceding companies	2,062,975	980,735	175,963	–	3,219,673	1,750,697	4,970,370
Reinsurance recoverable on unpaid losses	–	–	–	–	–	2,132,193	2,132,193
	₱140,795,345	₱228,502,381	₱7,787,055	₱9,278,070	₱386,362,851	₱46,342,003	₱432,704,854

**Includes items considered/rated as "Below Investment Grade"*

The Company considers premiums receivable as past due when it is outstanding for more than 90 days. Reinsurance recoverable on paid losses, due from ceding companies and funds held by ceding companies are treated as past due when outstanding for more than 180 days.

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

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

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

c. *Debt securities*
These are classified as investment grade. The government debt securities are issued by the Philippine Government and are considered as risk-free debt securities. The corporate debt securities are issued by stable companies and are considered to be of high creditworthiness.

Equity securities not subjected to other than temporary decline are classified as investment grade. The fair value of impaired equity securities amounted to ₱2,581,231 as of December 31, 2016 (nil as of December 31, 2017).

Liquidity risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments as they fall due. Liquidity risks may result from either the inability to sell financial assets quickly at their fair values, the counterparty failing to repay a contractual obligation, insurance liabilities falling due for payment earlier than expected, or inability to generate cash inflows as anticipated.

An institution may suffer from a liquidity problem when its credit standing falls. The Company is also exposed to liquidity risk if the market on which it depends on is subject to loss of liquidity. The major liquidity risk confronting the Company is the potential daily calls on its available cash resources in respect of claims arising from insurance contracts.

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

The tables in the next page group the financial assets and liabilities, including reinsurance assets and insurance contract liabilities, of the Company as of December 31 into their relevant maturity groups based on the remaining period at the reporting date to their undiscounted contractual maturities or expected repayment dates.

	2017				
	Up to a year	**1-3 years**	**3-5 years**	**No Maturity Date**	**Total**
Loans and Receivable					
Cash and cash equivalents	**₱747,164,999**	**₱–**	**₱–**	**₱–**	**₱747,164,999**
Short-term investments	**251,081,655**	**–**	**–**	**–**	**251,081,655**
Insurance receivables	**1,689,432,710**	**–**	**–**	**–**	**1,689,432,710**
Loans and receivables	**262,300,256**	**21,328,693**	**23,598,877**	**–**	**307,227,826**
Accrued income	**7,144,953**	**–**	**–**	**–**	**7,144,953**
Financial Assets at FVPL					
Listed securities	**–**	**–**	**–**	**1,107,253,584**	**1,107,253,584**
Government debt securities	**2,171,955**	**21,806,928**	**18,224,450**	**–**	**42,203,333**
Corporate debt securities	**1,373,075**	**11,646,173**	**10,310,545**	**–**	**23,329,793**
AFS Financial Assets					
Listed equity securities	**–**	**–**	**–**	**10,344,085,150**	**10,344,085,150**
Unlisted equity securities	**–**	**–**	**–**	**489,319,281**	**489,319,281**
Government debt securities	**8,945,825**	**28,716,525**	**213,364,594**	**–**	**251,026,944**
Corporate debt securities	**4,328,756**	**87,971,317**	**68,814,088**	**–**	**161,114,161**
Reinsurance recoverable on unpaid losses	**3,701,646,830**	**–**	**–**	**–**	**3,701,646,830**
Total Financial Assets	**₱6,675,591,014**	**₱171,469,636**	**₱334,312,554**	**₱11,940,658,015**	**₱19,122,031,219**
Other Financial Liabilities and Insurance Contract Liabilities					
Insurance contract liabilities	**₱7,598,784,639**	**₱–**	**₱–**	**₱–**	**₱7,598,784,639**
Insurance payables	**1,732,254,246**	**–**	**–**	**–**	**1,732,254,246**
Accounts and other payables*	**402,032,060**	**1,538,000**	**12,668,000**	**–**	**416,238,060**
Notes payable	**901,756,000**	**–**	**–**	**–**	**901,756,000**
Total Liabilities	**₱10,634,826,945**	**₱1,538,000**	**₱12,668,000**	**₱–**	**₱10,649,032,945**

**Accounts and other payables exclude taxes payable.*

	2016				
	Up to a year	1-3 years	3-5 years	No Maturity Date	Total
Loans and Receivable					
Cash and cash equivalents	₱590,516,679	₱–	₱–	₱–	₱590,516,679
Short-term investments	252,426,881	–	–	–	252,426,881
Insurance receivables	1,323,179,909	–	–	–	1,323,179,909
Loans and receivables	18,919,719	16,479,641	7,834,567	–	43,233,927
Accrued Income	6,865,368	–	–	–	6,865,368
Financial Assets at FVPL					
Listed securities	–	–	–	1,116,570,784	1,116,570,784
Government debt securities	19,813,420	22,548,020	994,400	–	43,355,840
Corporate debt securities	6,682,368	12,318,130	11,236,720	–	30,237,218
AFS Financial Assets					
Listed equity securities	–	–	–	10,363,698,829	10,363,698,829
Unlisted equity securities	–	–	–	457,057,674	457,057,674
Government debt securities	12,944,625	28,344,125	207,968,094	–	249,256,844
Corporate debt securities	67,322,256	66,853,868	15,262,473	–	149,438,597
Reinsurance recoverable on unpaid losses	2,291,238,878	–	–	–	2,291,238,878
Total Financial Assets	₱4,589,910,103	₱146,543,784	₱243,296,254	₱11,937,327,287	₱16,917,077,428
Other Financial Liabilities and Insurance Contract Liabilities					
Insurance contract liabilities	₱5,711,726,649	₱–	₱–	₱–	₱5,711,726,649
Insurance payables	1,298,926,831	–	–	–	1,298,926,831
Accounts and other payables*	441,531,742	1,202,500	10,576,000	–	453,310,241
Notes payable	602,060,000	–	–	–	602,060,000
Total Liabilities	₱8,054,245,222	₱1,202,500	₱10,576,000	₱–	₱8,066,023,721

**Accounts and other payables exclude taxes payable.*

It is unusual for a Company in the insurance industry to predict the requirements of funding with absolute certainty since the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are, thus, based on management's best estimate based on statistical techniques and past experience.

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

The Company manages market risk by evenly distributing capital among investment instruments, sectors, and geographical areas.

The Company structures levels of market risk it accepts through a sound market risk policy based on specific guidelines set by an Investment Committee. This policy sets certain limits on exposure to investments mostly with top-rated banks, which are selected on the basis of the banks' credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation and portfolio limit structure. Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures to the IC, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

a. *Currency risk*
Currency risk is the risk that the value of the financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in Philippine Peso and foreign currency-denominated transactions are primarily in terms of the US Dollar and the HK Dollar. The tables below show the Company's exposure to currency risk.

	December 31, 2017			
	US Dollar	**HK Dollar**	**Euro**	**Total**
Financial Assets				
Financial Assets at FVPL:				
Government debt securities	**₱33,598,541**	**₱–**	**₱–**	**₱33,598,541**
Corporate debt securities	**21,682,865**	**–**	**–**	**21,682,865**
AFS financial assets:				
Corporate equity securities	**–**	**6,068,790**	**–**	**6,068,790**
Corporate debt securities	**146,697,326**	**–**	**–**	**146,697,326**
Loans and Receivables:				
Cash and cash equivalents	**516,262,878**	**14,728,581**	**–**	**530,991,459**
Short-term investments	**244,837,377**	**–**	**–**	**244,837,377**
Insurance receivables	**236,872,486**	**26,609,753**	**–**	**263,482,239**
Loans and receivables	**–**	**1,595,744**	**–**	**1,595,744**
Accrued income	**865,922**	**1,756,742**	**–**	**2,622,664**
	1,200,817,395	**50,759,610**	**–**	**1,251,577,005**
Financial Liabilities				
Insurance payables	**503,208,355**	**23,627,839**	**732,687**	**527,568,881**
Net currency exposure	**₱697,609,040**	**₱27,131,771**	**(₱732,687)**	**₱724,008,124**

The exchange rates used were ₱49.93 to US$1; ₱6.3882 to HK$1; and ₱59.6131 to EUR

	December 31, 2016			
	US Dollar	HK Dollar	Euro	Total
Financial Assets				
Financial Assets at FVPL:				
Government debt securities	₱34,309,337	₱–	₱–	₱34,309,337
Corporate debt securities	27,218,993	–	–	27,218,993
AFS financial assets:				
Corporate equity securities	–	5,136,980	–	5,136,980
Corporate debt securities	145,772,190	–	–	145,772,190

(Forward)

	December 31, 2016			
	US Dollar	HK Dollar	Euro	Total
Loans and Receivables:				
Cash and cash equivalents	₱343,305,025	₱13,247,602	₱–	₱356,552,627
Short-term investments	246,182,604	–	–	246,182,604
Insurance receivables	1,014,360,689	29,785,153	119,543	1,044,265,385
Loans and receivables	–	1,583,485	–	1,583,485
Accrued income	896,015	1,312,648	–	2,208,663
	1,812,044,853	51,065,868	119,543	1,863,230,264
Financial Liabilities				
Insurance payables	802,056,251	19,897,800	1,383,888	823,337,939
Net currency exposure	₱1,009,988,602	₱31,168,068	(₱1,264,345)	₱1,040,000,000

The exchange rates used were ₱49.72 to US$1; ₱6.4212 to HK$1; and ₱51.8404 to EUR

The table below shows the effect of the increase or decrease in applicable foreign exchange rates:

December 31, 2017

Currency	**Change in variable**	**Impact on Income Before Tax**
US Dollar	**+2.00**	**₱12,112,767**
	-2.00	**(12,112,767)**
Euro	**+4.77**	**(₱59,779)**
	-4.77	**59,779**
Hong Kong Dollar	**+0.26**	**₱848,137**
	-0.26	**(848,137)**

December 31, 2016

Currency	Change in variable	Impact on Income Before Tax
US Dollar	+1.99	₱24,343,020
	-1.99	(24,343,020)
Euro	+4.15	(₱102,457)
	-4.15	102,457
Hong Kong Dollar	+0.26	₱1,041,244
	-0.26	(1,041,244)

Reasonably possible movements in foreign exchange rates are computed based on average percentage changes in closing rate for 3 years.

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

The tables in the next page sets out the Company's financial instruments subject to fixed interest rates by maturity.

		December 31, 2017				
	Range of Interest Rate	**Within One Year**	**1-2 years**	**2-3 years**	**More than 3 years**	**Total**
Loans and receivables						
Cash and cash equivalents*	**0.375%-1.875%**	**₱746,676,099**	**₱–**	**₱–**	**₱–**	**₱746,676,099**
Short-term investments	**0.25%-1.50%**	**251,081,655**	**–**	**–**	**–**	**251,081,655**
Loans and receivables	**12.00%**	**242,794,706**	**11,081,182**	**10,247,512**	**23,598,876**	**287,722,276**
Financial assets at FVPL						
Government debt securities	**5%-8.375%**	**–**	**21,790,096**	**–**	**11,808,445**	**33,598,541**
Corporate debt securities	**6.5%-7.25%**	**–**	**10,682,188**	**–**	**11,000,677**	**21,682,865**
AFS financial assets						
Government debt securities	**2.125%-8.00%**	**11,181,483**	**–**	**–**	**143,041,639**	**154,223,122**
Corporate debt securities	**2.10% - 3.231%**	**19,762,318**	**59,589,568**	**67,345,440**	**–**	**146,697,326**
Total interest-bearing financial assets		**₱1,271,496,261**	**₱103,143,034**	**₱77,592,952**	**₱189,449,637**	**₱1,641,681,884**
Insurance payables	**1.00%-5.00%**	**₱233,680,980**	**₱–**	**₱–**	**₱–**	**₱233,680,980**
Notes payable	**2.75%-3.00%**	**900,000,000**	**–**	**–**	**–**	**900,000,000**
Total interest-bearing financial liabilities		**₱1,133,680,980**	**₱–**	**₱–**	**₱–**	**₱1,133,680,980**

**Excluding petty cash funds*

		December 31, 2016				
	Range of Interest Rate	Within One Year	1-2 years	2-3 years	More than 3 years	Total
Loans and receivables						
Cash and cash equivalents*	0.375%-2.00%	₱590,012,997	₱–	₱–	₱–	₱590,012,997
Short-term investments	0.25%-1.50%	252,426,881	–	–	–	252,426,881
Loans and receivables	12.00%	14,047,014	11,981,761	4,497,880	7,834,567	38,361,222
Financial assets at FVPL						
Government debt securities	5%-8.375%	–	–	23,060,187	11,249,150	34,309,337
Corporate debt securities	6.5%-7.25%	5,133,069	–	11,081,894	11,004,030	27,218,993
AFS financial assets						
Government debt securities	2.10%-8.00%	4,030,321	11,064,578	–	144,999,517	160,094,416
Corporate debt securities	2.10% - 3.231%	64,892,942	20,180,348	45,746,610	14,952,290	145,772,190
Total interest-bearing financial assets		₱930,543,224	₱43,226,687	₱84,386,571	₱190,039,554	₱1,248,196,036
Insurance payables	1.00%-5.00%	₱170,143,600	₱–	₱–	₱–	₱170,143,600
Notes payable	2.20-2.45%	600,000,000	–	–	–	600,000,000
Total interest-bearing financial liabilities		₱770,143,600	₱–	₱–	₱–	₱770,143,600

**Excluding petty cash funds*

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's net income before income tax and other comprehensive income.

December 31, 2017

Currency	**Change in variable**	**Impact on Profit Before Tax**	**Impact on Other Comprehensive Income**
Peso	**0.34%**	**₱–**	**₱876,704**
Peso	**-0.34%**	**–**	**(6,756,692)**
US$	**0.22%**	**₱498,234**	**₱660,045**
US$	**-0.22%**	**(511,569)**	**(664,030)**

December 31, 2016

Currency	Change in variable	Impact on Profit Before Tax	Impact on Other Comprehensive Income
Peso	1.66%	₱–	₱36,683,448
Peso	-1.66%	–	4,810,622

Currency	Change in variable	Impact on Profit Before Tax	Impact on Other Comprehensive Income
US$	0.22%	(₱588,055)	₱612,275
US$	-0.22%	616,552	(616,443)

The Company determined the reasonably possible change in interest rates using the daily percentage changes in weighted average yield rates of outstanding securities for the past three years.

c. *Equity price risk*
The Company's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, limits on investment in each sector and market.

The analysis below is performed for reasonably possible movements in the Philippine Stock Exchange index (PSEi) with all other variables held constant, showing the impact on profit before tax (due to changes in the fair value of financial assets at FVPL) and the impact on other comprehensive income (due to changes in the fair value of AFS financial assets):

December 31, 2017

	Change in variable	**Impact on Profit Before Tax**	**Impact on Other Comprehensive Income**
PSEi	**+15%**	**₱40,434,169**	**₱373,396,715**
PSEi	**-15%**	**(40,434,169)**	**(373,396,715)**

December 31, 2016

	Change in variable	Impact on Profit Before Tax	Impact on Other Comprehensive Income
PSEi	+2%	₱6,477,986	₱60,088,695
PSEi	-2%	(6,477,986)	(60,088,695)

The impact on impact on profit before tax and other comprehensive income is arrived at using the reasonably possible change of PSEi and the specific adjusted beta of each stock the Company holds. The possible change of PSEi is determined by obtaining expected movement of PSEi based on a 5-year data of its annual historical movements. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

33. **Maturity Analysis of Assets and Liabilities**

The tables in the next page show an analysis of assets and liabilities analyzed according to when they are expected to be recovered, settled, or reversed as of December 31.

	December 31, 2017		
	Within 12 months	**Over 12 months**	**Total**
ASSETS			
Cash and Cash Equivalents	**₱747,164,999**	**₱–**	**₱747,164,999**
Short-term Investments	**251,081,655**	**–**	**251,081,655**
Insurance Receivables - net	**1,689,432,710**	**–**	**1,689,432,710**
Financial Assets			
Fair value through profit or loss	**1,106,105,276**	**56,429,714**	**1,162,534,990**
AFS financial assets	**10,897,381,535**	**236,943,344**	**11,134,324,879**
Loans and receivables	**262,300,255**	**44,927,571**	**307,227,826**
Accrued Income	**7,144,953**	**–**	**7,144,953**
Deferred Acquisition Costs	**259,115,104**	**–**	**259,115,104**
Reinsurance Assets	**5,255,677,466**	**–**	**5,255,677,466**
Investment Properties	**–**	**1,233,717,651**	**1,233,717,651**
Property and Equipment	**–**	**2,693,977,775**	**2,693,977,775**
Investments in Subsidiaries, an Associate and a Joint Venture	**–**	**937,072,632**	**937,072,632**
Pension Asset	**–**	**11,592,013**	**11,592,013**
Other Assets	**406,500,695**	**9,262,742**	**415,763,437**
TOTAL ASSETS	**₱20,881,904,648**	**₱5,223,923,442**	**₱26,105,828,090**
LIABILITIES			
Insurance contract liabilities	**₱7,598,784,639**	**₱–**	**₱7,598,784,639**
Insurance payables	**1,732,254,246**	**–**	**1,732,254,246**
Accounts payable and other liabilities	**686,647,352**	**24,622,892**	**711,270,244**
Notes payable	**900,000,000**	**–**	**900,000,000**
Deferred reinsurance commissions	**81,742,118**	**–**	**81,742,118**
Deferred tax liabilities - net	**–**	**505,088,454**	**505,088,454**
TOTAL LIABILITIES	**₱10,999,428,355**	**₱529,711,346**	**₱11,529,139,701**

	December 31, 2016, as restated		
	Within 12 months, as restated	Over 12 months, as restated	Total
ASSETS			
Cash and Cash Equivalents	₱590,516,679	₱–	₱590,516,679
Short-term Investments	252,426,881	–	252,426,881
Insurance Receivables - net	1,323,179,909	–	1,323,179,909
Financial Assets			
Fair value through profit or loss	1,121,669,400	56,429,714	1,178,099,114
AFS financial assets	10,820,756,503	305,866,606	11,126,623,109
Loans and receivables	4,032,340	39,201,587	43,233,927
Accrued Income	6,865,368	–	6,865,368
Deferred Acquisition Costs	214,152,906	–	214,152,906
Reinsurance Assets	3,859,282,179	–	3,859,282,179
Investment Properties	–	1,136,356,631	1,136,356,631
Property and Equipment	–	2,310,694,227	2,310,694,227
Investments in Subsidiaries and an Associate	–	648,922,632	648,922,632
Other Assets	337,705,434	9,017,680	346,723,114
TOTAL ASSETS	₱18,530,587,599	₱4,506,489,077	₱23,037,076,676

(Forward)

	December 31, 2016, as restated		
	Within 12 months, as restated	Over 12 months, as restated	Total
Insurance contract liabilities	₱5,711,726,649	₱–	₱5,711,726,649
Insurance payables	1,298,926,831	–	1,298,926,831
Accounts payable and other liabilities	627,424,165	23,263,460	650,687,625
Notes payable	600,000,000	–	600,000,000
Pension liability	–	39,952,671	39,952,671
Deferred reinsurance commissions	100,143,329	–	100,143,329
Deferred tax liabilities - net	–	453,611,200	453,611,200
TOTAL LIABILITIES	₱8,338,220,974	₱516,827,331	₱8,855,048,305

	January 1, 2016, as restated		
	Within 12 months, as restated	Over 12 months, as restated	Total
ASSETS			
Cash and Cash Equivalents	₱895,679,304	₱–	₱895,679,304
Short-term Investments	230,536,322	–	230,536,322
Insurance Receivables - net	1,359,769,374	–	1,359,769,374
Financial Assets			
Fair value through profit or loss	926,764,988	60,094,331	986,859,319
AFS financial assets	9,183,889,796	205,630,398	9,389,520,194
Loans and receivables	41,066,461	34,917,902	75,984,363
Accrued Income	4,721,717	–	4,721,717
Deferred Acquisition Costs	198,439,151	–	198,439,151
Reinsurance Assets	5,174,764,960	–	5,174,764,960
Investment Properties	–	1,099,806,534	1,099,806,534
Property and Equipment	–	2,167,691,880	2,167,691,880
Investments in Subsidiaries and an Associate	–	547,238,821	547,238,821
Other Assets	288,549,697	8,050,792	296,600,489
TOTAL ASSETS	₱18,304,181,770	₱4,123,430,658	₱22,427,612,428
LIABILITIES			
Insurance contract liabilities	₱6,885,816,560	₱–	₱6,885,816,560
Insurance payables	1,508,226,794	–	1,508,226,794
Accounts payable and other liabilities	699,726,688	27,568,467	727,295,155
Notes payable	500,000,000	–	500,000,000
Pension liability	–	49,340,805	49,340,805
Deferred reinsurance commissions	96,106,821	–	96,106,821
Deferred tax liabilities - net	–	432,412,223	432,412,223
TOTAL LIABILITIES	₱9,689,876,863	₱509,321,495	₱10,199,198,358

34. **Contingencies**

The Company has various contingent liabilities arising in the ordinary conduct of business, which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these claims, if any, will not have a material or adverse effect on the Company's operations.

Also, the Company may have certain obligations under the terms of bonds issued in favor of the Bureau of Customs but management believes that these obligations, if any, will not materially affect the financial statements.

35. **Supplementary Tax Information Under Revenue Regulations (RR) No. 15-2010**

In compliance with the requirements set forth by RR No. 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

VAT
The Company is a VAT-registered company with VAT output tax declaration of ₱721,977,865 in 2017 based on the amount reflected in the gross sales of ₱6,016,482,205.

The Company has zero-rated/exempt sales amounting to ₱1,338,214,289 pursuant to the provisions of Section 108 B-3 of National Internal Revenue Code, *Value-added Tax on Sale of Services and Use or Lease of Properties*.

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

Balance at January 1, 2017		₱54,310,814
Current year's purchases:		
Services lodged under commission and general administrative expenses	₱1,299,776,233	155,973,148
Goods other than capital goods	131,609,061	15,793,087
Capital goods subject to amortization		10,138,510
Input VAT applied to output VAT		(166,909,255)
Balance at end of the year		69,306,304
Advance payment thru Bayad Center		2,644,751
		₱71,951,055

Import Duties
The Company did not have any importations in 2017.

Documentary Stamp Tax (DST)
The DST paid/accrued on the Company's promissory notes amounting to ₱900,000,000 amounted to ₱1,392,932 in 2017.

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, licenses, and permit fees. Details consist of the following:

Local	
Real estate tax	₱4,120,750
Licenses and fees	748,117
	4,868,867
National	
Transfer taxes and other charges in the acquisition of lot	4,990,555
Taxes on condominium property - Hong Kong	586,932
Renewal of agents' license	559,345
Accreditation and certification fees	548,178
Application and filing fees	466,111
Supervision fees and penalties	178,750

(Forward)

National	
Renewal fee as resident agent of various foreign companies	₱181,800
Company car registration	70,110
Notarial fees	63,602
Gross receipts tax on rental	36,658
Renewal of VAT registration	10,500
Others	4,400
	7,696,941
	₱12,565,808

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

DST on:	
DS110-Policies of insurance upon property	₱911,642,903
DS114-CTPL	7,918,501
DS111-Fidelity bonds	2,048,354
DS109-Accident and health	1,190,749
DS111-Migrant workers	12,527,752
Local government taxes	11,938,212
Fire service taxes	8,510,610
Premium taxes	3,728,762
	₱959,505,843

Withholding Taxes

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

Expanded withholding taxes	₱100,948,631
Withholding taxes on compensation and benefits	60,005,845
Final withholding taxes	3,959,540
	₱164,914,016

Excise Taxes

The Company did not incur any excise tax in 2017.

Tax Assessments and Cases

The Company has no deficiency tax assessment or any tax case, litigation, and/or prosecution incourts or bodies outside the Bureau of Internal Revenue as of December 31, 2017.