COVER SHEET

8 0 1 1 8

S.E.C. Registration Number

NATIONAL REINSURANCE

CORPORATION

OF THE PHILIPPINES

(Company's Full Name)

31ST FLOOR BPI PHILAM LIFE -

MAKATI 6811 AYALA AVENUE

MAKATI CITY

(Business Address : No. Street City / Town / Province)

JEFFREY R. LACSON

Contact Person

988-7400

Company Telephone Number

1 2 3 1

Month *Day*

Fiscal Year

1 7 Q

FORM TYPE

For the nine-month ending 30 September 2016

0 7 1 3 16

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

COVER SHEET

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
("PhilNaRe")
(Company's Full Name)

31st Floor, BPI-Philam Life Makati (formerly Ayala Life-FGU Centre), 6811 Ayala Avenue, Makati City, Philippines
(Company's Address)

(632) 988-7400
(Telephone Number)

31 December
(Fiscal Year Ending)

13 July 2016
(Annual Meeting)

SEC FORM 17-Q
Quarterly Report
3rd Quarter Ending 30 September 2016
(Form Type)

Amendment Designation (If applicable)

(Secondary License Type and File Number)

Cashier

LCU

DTU

S.E.C. REG. No. **80118**

Central Receiving Unit

File Number

Document I.D.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATIONS ACT AND SRC RULE 17 (2) (b) THEREUNDER

1. For the quarter ended **30 September 2016**

2. Commission identification Number **80118**

3. BIR Tax Identification Number **000-480-869**

4. **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES doing business under the name and style of Philippine National Reinsurance Company; PhilNaRe**
   Exact name of registrant as specified in its charter

5. **PHILIPPINES**
   Province, country or other jurisdiction of incorporation or organization

6. Industry classification code [ ] (SEC Use Only)

7. **31st FLOOR, BPI-PHILAMLIFE (FORMERLY AYALA LIFE-FGU CENTRE}, 6811 AYALA AVENUE MAKATI CITY, PHILIPPINES** **1227**
   Address of registrant's principal office Postal Code

8. **(632) 988-7400**
   Registrant's telephone number, including area code

9. **N/A**
   Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA as at quarter ended:

Title of Each Class	Number of Shares of Common Stock Outstanding
Common	**2,123,605,600**

11. Are any or all of the securities listed on the Philippine Stock Exchange?

    Yes [✓] No [ ]

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such report);

    Yes [✓] **No [ ]**

    (b) has been subject to such filing requirements for the past 90 days.

    Yes [✓] **No [ ]**

PART I. - FINANCIAL INFORMATION

Item 1. Financial Statements

The financial statements listed below and covering pages 15 to 59 of this report are filed as part of this Form 17-Q:

a. Statements of Financial Position as at 30 September 2016 and 31 December 2015

b. Statements of Income:
   i. For the three-month ended 30 September 2016 and 2015
   ii. For the nine-month ended 30 September 2016 and 2015

c. Statements of Comprehensive Income for the nine-month ended 30 September 2016 and 2015

d. Statements of Changes in Equity as at 30 September 2016 and 2015

e. Statements of Cash Flows:
   i. For the three-month ended 30 September 2016 and 2015
   ii. For the nine-month ended 30 September 2016 and 2015

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

I. RESULTS OF OPERATIONS

a. For the nine-month ended 30 September 2016 and 2015

	For the nine-month ended		Change	
In Million PhP	**30 Sept 2016**	**30 Sept 2015**	**Amount**	**%**
Reinsurance Premium Income				
Reinsurance premiums-net of returns	2,665.1	1,777.3	887.8	50%
Retroceded premiums	1,426.9	997.5	429.4	43%
Net Premiums Written	1,238.2	779.8	458.4	59%
Increase in premium liabilities	(438.9)	(104.2)	-334.7	321%
	799.3	**675.6**	**123.7**	**18%**
Underwriting deductions				
Share in claims & losses	588.3	517.3	71.0	14%
Commissions, net	254.8	162.5	92.3	57%
	843.1	**679.8**	**163.3**	**24%**
Net Underwriting Income (Loss)	**(43.8)**	**(4.2)**	**-39.6**	**-943%**
Interest	146.7	179.1	-32.4	(18%)
Foreign currency gain (losses)	5.1	15.4	-10.3	(67%)
Others	50.8	253.4	-202.6	(80%)
Investment and Other Income	**202.6**	**447.9**	**-245.3**	**(55%)**
Profit after Investment and Other Inco	**158.8**	**443.7**	**-284.9**	**(64%)**
General and Administrative Expenses	**159.6**	**311.0**	**-151.4**	**(49%)**
Profit Before Tax	(0.8)	132.7	-133.5	(101%)
Tax Expense	**34.0**	**35.4**	**-1.4**	(4%)
Net Profit (Loss)	**(34.8)**	**97.3**	**-132.1**	**(136%)**

1. *Underwriting Loss (P43.8M vs. P4.2M)*

For the period ending 30 September 2016, total reinsurance premium income is 18% or P123.7 million better as compared to the result in 2015. The growth is driven by:

a) Higher premiums written for both Life and Non-life business,
b) Portfolio diversification as shown by the growing share of premiums coming from foreign source, and

Compared to the same reporting period last year, non-life reinsurance premiums grew by 56% or P753 million compared to last year. Reinsurance premiums from life business, which showed a 31% or P112 million improvement from P437 million in 2015, also contributed to the 59% overall growth in written premiums.

The proportion of retained premiums (after retrocession) to written premiums for non-life business has also improved to 46% from 38% last year.

The 50% growth in reinsurance premium also explains the 57% increase in net commission. Furthermore, total share in claims and losses is 34% or P178.2 million higher than last year's result.

Overall, despite the apparent growth in premiums written, the adverse development of losses assumed resulted in further net underwriting loss of P43.8 million, which is significantly higher than the P4.2 million loss in 2015.

2. Investment and Other Income / Charges (P202.6M vs. P447.9M)

Investment and other income for the nine months ended September 2016 decreased by 55% or P245.3 million from same period last year, mainly due to the following:

- Interest income is lower by P32.4 million or 18% from P179.1 million in 3rd quarter 2015, on account of declining interest rates.
- Loss on sale of Available-For-Sale (AFS) for the 3rd quarter of 2016 amounted to P50.8 million or P202.6 million, 80% turnaround from gain on sale of AFS of P253.4 million during the same period in 2015.
- Foreign exchange gain is lower by P10.3 million or 67% from 3rd quarter 2015.

3. General and Administrative Expenses (P159.6M vs. P311.0M)

General and administrative expenses (GAE) is lower by P151.4 million or 49% primarily due to the reversal of impairment loss of P16 million in 2nd quarter 2016 and continuous underspending program.

4. Tax Expense (P34.0M vs. P35.4M)

The Company's tax expense is higher by P1.4 million or 4% to P34 million in 3rd quarter 2016 from P35.4 million in 3rd quarter 2015

b. For the three-month ended 30 September 2016 and 2015

	For the three-month ended		Change	
In Million PhP	**30 Sept 2016**	**30 Sept 2015**	**Amount**	**%**
Reinsurance Premium Income				
Reinsurance premiums-net of returns	955.1	579.6	375.5	65%
Retroceded premiums	598.6	310.4	288.2	93%
Net Premiums Written	356.5	269.2	87.3	32%
Increase in premium liabilities	(145.5)	(94.6)	(50.9)	-54%
	211.0	**174.6**	**36.4**	**21%**
Underwriting deductions				
Share in claims & losses	140.9	160.3	(19.4)	12%
Commissions, net	97.3	32.5	64.8	(199%)
	238.2	**192.8**	**45.4**	**24%**
Net Underwriting Loss	**(27.2)**	**(18.2)**	**(9.0)**	**(49%)**
Interest	49.1	57.8	(8.7)	(15%)
Foreign currency gain (losses)	1.9	8.1	(6.2)	77%
Others	29.8	165.6	(135.8)	(82%)
Investment and Other Income	**80.8**	**231.5**	**(150.7)**	**(65%)**
Profit after Investment and Other Income	**53.6**	**213.3**	**(159.7)**	**(75%)**
General and Administrative Expenses	**61.0**	**141.8**	**(80.8)**	**(57%)**
Loss Before Tax	(7.4)	71.5	(78.9)	110%
Tax Expense	**8.7**	**11.5**	**(2.8)**	24%
Net Loss	**(16.1)**	**60.0**	**(76.1)**	**127%**

1. *Underwriting Loss (P27.2M vs. P18.2M)*

The overall underwriting loss for 3rd Quarter 2016 is 50% (P9.0 million) higher than the result for the same period last year despite the growth in both gross and net written premiums.

2. Investment and Other Income / Charges (P80.8M vs. P231.5M)

Investment and other income for the three-month ended 30 September 2016 totaled P80.8 million, 65% or P150.7 million lower than the P231.5 million results of the same period last year, mainly due to the following:

- Interest income is lower by P8.7 million or 15% on account of declining interest rates.
- Gain on sale of Available-For-Sale (AFS) is lower by P135.8 million or 82% to P29.8 million in three-month ended 30 September 2016 from P165.6 million same coverage last year.
- Foreign exchange gain is also lower by P8.7 million or 15%.

3. General and Administrative Expenses (P61.0M vs. P141.8M)

General and administrative expenses (GAE) is lower by P80.8 million or 57% primarily due to the provision of P143 million added in 3rd quarter 2015.

4. Tax expense (P8.7M vs. P11.5M)

The Company's tax expense is lower by 24% or P2.8 million from P11.5 million for the three-month ended 30 September 2015 to P8.7 million for three-month ended 30 September 2016.

II. FINANCIAL CONDITION

In Million PhP	Unaudited September 2016	Audited Dec. 2015	Changes Amount	%
ASSETS				
CASH AND CASH EQUIVALENTS	1,013.8	1,047.5	(33.7)	-3%
REINSURANCE BALANCES RECEIVABLE-net	5,564.4	5,343.4	221.0	4%
AVAILABLE-FOR-SALE FINANCIAL ASSETS	6,314.4	5,728.4	586.0	10%
LOANS AND RECEIVABLES	288.3	306.8	(18.5)	-6%
PROPERTY AND EQUIPMENT-NET	67.7	71.9	(4.2)	-6%
DEFERRED ACQUISITION COST	248.1	147.7	100.4	68%
DEFERRED REINSURANCE PREMIUMS	477.5	386.7	90.8	23%
OTHER ASSETS	430.7	406.4	24.3	6%
TOTAL ASSETS	**14,404.9**	**13,438.8**	**966.1**	7%
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	7,669.5	7,438.1	231.4	3%
ACCOUNTS PAYABLE & ACCRUED EXPENSES	98.2	124.4	(26.2)	-21%
PREMIUM LIABILITIES	1,454.5	924.9	529.6	57%
DEFERRED REINSURANCE COMMISSIONS	50.0	44.1	5.9	13%
TOTAL LIABILITIES	**9,272.2**	**8,531.5**	**740.7**	9%
EQUITY				
Capital Stock	2,182.0	2,182.0	-	0%
Treasury Stock	(100.5)	(100.5)	-	0%
Additional Paid in Capital	3,019.2	3,019.2	-	0%
Remeasurement of the Defined Benefit Liability	(63.4)	(63.4)	-	0%
Revaluation reserve	194.6	(65.6)	260.2	-397%
Retained Earnings	(99.3)	(64.4)	(34.9)	54%
Total Equity	**5,132.6**	**4,907.3**	**225.3**	5%
TOTAL LIABILITIES & EQUITY	**14,404.8**	**13,438.8**	**966.0**	7%

a. **Assets (P14,.553.6M vs. P13,438.8M)**

Total resources of the Company as at 30 September 2016 amounted to P14.4 billion, 7% or P966.0 million higher than the 31 December 2015 ending level of P13.4 billion. Material changes in the Company's resources are described below:

1. ***Cash and Cash Equivalents (P1,013.8M vs. P1,047.5M)***

Cash and cash equivalents as at 30 September 2016 decreased by P33.7 million or 3% resulting from the outflow of investment activities.

2. ***Reinsurance Balances Receivable-net (P5,564.4M vs. P5,343.4M)***

Total Reinsurance Balances Receivable increased by P221.0 million or 4% as at 30 September 2016. The increase in balance was mainly due to P260M increase in Due From Ceding Companies primarily caused by additional trade receivable from Ceding Companies

3. ***Available-for-Sale Financial Assets (P6,314.4M vs. P5,728.4M)***
AFS financial assets increased by P586 million or 10% to P6,314.4 million as at 30 September 2016 from P5,728.4 million as at 31 December 2015 principally due to acquisition of investment and higher revaluation reserve.

4. ***Loans and Receivables (P288.3M vs. P306.8M)***

Loans and receivables decreased by 6% or P18.5 million due to collection of other receivables.

5. ***Property and Equipment - net (P67.7M vs. P71.9M)***

Property and equipment, net of accumulated depreciation amounted to P67.7 million as at 30 September 2016, a decrease of P4.2 million or 6% from 31 December 2015 mainly due to depreciation offsetting capital expenditures.

6. ***Deferred Acquisition Cost (P248.1M vs. P147.7M)***

Commission is deferred and charged to expense over the duration of the policies under the 24th method. The increase of P100.4 million or 68% in deferred acquisition cost is the net result of the cost recognized from the commissions deferred as at 31 December 2015 and the cost deferred for the additional commission expense booked for 2016. The net increase in deferred acquisition cost is consistent with the growing premiums in 2016 and given the average rate of commission.

7. ***Deferred Reinsurance Premiums (P477.5M vs. P386.7M)***

Retroceded premium is deferred and recognized over the duration of the policies under the 24^{th} method. The increase of P90.8 million or 23% in deferred reinsurance premiums is the net result of the amount recognized from the retroceded premiums deferred as at December 31, 2015 and the additional amount deferred coming from the premiums retroceded for 2016. The increase is expected given the amount of premiums retroceded proportionately as at 30 September 2016.

8. ***Other Assets (P430.7M vs. P406.4M)***

Other assets increased by P24.3 million or 6% to P430.7 million as at 30 September 2016 from P406.4 million as at 31 December 2015 million.

b. <u>Liabilities (P9,272.2M vs. P8,531.6M)</u>

Total liabilities increased by P996.6 million or 12% from P8.5 billion as of 31 December 2015 to P9.2 billion as at 30 September 2016. The increase in total liabilities is explained below:

1. Reinsurance Balances Payable (P7,669.5M vs. P7,438.1M)

The increase in reinsurance balances payable of P487.3 million or 7% from P7,438.1 million as at 31 December 2015 to P7,670.5 million as at 30 September 2016. The balance was mainly due to P231.5 million increase in reserve for IBNR (incurred but not reported) losses.

2. *Accounts Payable and Accrued Expenses (P98.2M vs. P124.4M)*

Accounts payable and accrued expenses decreased by P26.2 million or 21% from P124.4 million as at 31 December 2015 to P98.2 million as at 30 September 2016.

3. *Premium Liabilities (P1,454.5M vs. P924.9M)*

Following the 24th method of revenue recognition, the increase in premium liabilities by P529.6 million or 57% in 2016 can be explained by the growth in proportional reinsurance premium income.

4. *Deferred Reinsurance Commissions (P50.0M vs. P44.1M)*

The increase of P5.9 million or 13% in deferred reinsurance commission is the effect of the increase in commission income coming from the retroceded premiums in 2016.

c. <u>Equity (P5,132.7M vs. P4,907. 3M)</u>

Stockholders' equity stood at P5.1 billion as at 30 September 2016 compared to P4.9 billion as at 31 December 2015. The increase in equity of P225.4 million was principally due to favorable mark to market revaluation reserve of P260.2 million and offset by net loss of P34.8 million for the 3rd quarter 2016.

III. KEY PERFORMANCE INDICATORS:

	For the nine-month ended 30 September 2016	For the nine-month ended 30 September 2015	% Inc.(Dec).
1. Net Income(loss)	(P34.9) million	P97.3 million	(136%)
2. Earnings Per Share (EPS) [a]	(P 0.02)	P0.05	60%
3. Retention Ratio[b]	46%	44%	2%
4. Combined Ratio[c]	107%	137%	(22%)
5. Return on Average Equity (ROE)	(0.69%)	1.98%	(135%)

(a) Net income divided by weighted average number of shares issued.
(b) Net Premium written (NPW) divided by gross premiums written (GPW).
(c) Sum of loss ratio (74%/77%) commission ratio (21% /21%)and expense ratio (13% /40%).

Net Income - Refer to discussion in Item 2.I Results of Operations for details.

Earnings(Loss) Per Share (EPS) - The Company reported loss per share of P0.02 for the nine-month ended 30 September 2016, a decrease of 60% from earnings per share of P0.05 for the nine-month ended 30 September 2015.

Retention Ratio – The retention ratio increased by 2% from 44% in 3rd quarter 2015 to 46% in 3rd quarter 2016.

Combined Ratio - The combined ratio was at 107% and 137% for the nine-month ended 30 September 2016 and 2015 respectively.

Return on Average Equity (ROE) – Same with Net income, ROE declined by 135%, from 1.98% as at 30 September 2015, to (0.69%) as at 30 September 2016.

IV. FINANCIAL SOUNDNESS INDICATORS

	As at 30 September 2016	As at 31 Dec. 2015
Current Ratio	2.43	2.61
Asset to Equity Ratio	2.81	2.74
Total Liabilities/Equity	1.81	1.74

V. MATERIAL EVENT/S AND UNCERTAINTIES:

Other than the disclosure described in the preceding sections, the Company has nothing to report on the following:

1. Any known trends, demands, commitments, events or uncertainties that will have a material impact on its liquidity.

2. Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

3. Material off balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

4. Any material commitments for capital expenditures.

5. Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

6. Any significant elements of income or loss that did not arise from the issuer's continuing operations.

7. Any seasonal aspects that had a material effect on the financial condition or results of operations.

VI. FINANCIAL RISK DISCLOSURE

The Company's investments are regulated under the pertinent provisions of the new Insurance Code, otherwise known as Republic Act (R.A.) 10607. The Insurance Code generally requires all insurance companies to obtain prior approval of the Insurance Commission (IC) for any and all investments. The Company provides the IC with a monthly report on all investments made during the previous month. The IC reviews these investment reports and may require the immediate sale or disposal of any investment found to be risky.

A portion of the Company's funds is invested in equities. Section 207 of the new Insurance Code provides that insurance companies may invest in listed equities of other financial institutions without need of prior approval by the Commissioner.

Beyond the provisions of the Insurance Code, the Company, through its Investment Committee, has established additional guidelines to control the risk inherent in equity investments. The Company's own investment policy requires that the Company invest only in shares of common stock of companies that are listed on the Philippine Stock Exchange. Furthermore, these listed companies must have profitable business operations and market capitalization, which are on a scale that would qualify them as blue chips.

The Company also invests in fixed income securities. The Company attempts to limit interest rate risk by establishing limits on the duration and average maturity of its fixed income portfolio. Investments in fixed income securities are made primarily to ensure adequate cash flow from investments to meet cash requirements. Moreover, investment in fixed income securities are limited only to securities issued by entities of undisputedly strong creditworthiness and to those instruments, which have active secondary or resale markets to allow for transparent valuation and immediate liquidation in the event of market turmoil.

A certain portion of the Company's investments is in foreign currencies, particularly the U.S. Dollar. These investments are monitored closely and are limited largely to dollar-denominated obligations backed by the full faith and credit of the Republic of the Philippines (ROP's).

The Company does not invest in foreign securities nor does it invest in complex financial securities or derivatives. The Company's financial assets are generally classified as available-for-sale (AFS) and are measured at fair value. For investments that are actively traded in organized financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date. The Company has not made nor does it intend to make any reclassification of financial assets held as investments.

VII. OTHER DISCLOSURE

Pursuant to SEC Memorandum Circular No. 8 (Series of 2015), which provides guidance to non-bank financial institutions that are covered by Foreign Account Tax Compliance Act (FATCA) regulations, the Company is still evaluating/assessing the potential effects of FATCA to its business. Based on the regulation, the Company is a 'Non-financial foreign Entity' (NFFE), which may either be an "exempt NFFE" or "non-exempt NFFE". Under the regulations also, excepted NFFEs such as publicly traded corporations are generally exempt from withholding tax as required by FATCA if a proper FATCA certification is provided to the payor.

The Bureau of Internal Revenue (BIR) advised all concerned Philippine Financial Institutions to take necessary steps to prepare for full implementation of the Inter-Governmental Agreement (IGA) on FATCA between the Philippines and the United States of America, which was signed on July 13, 2015. According to the Bureau, submission of information on reportable accounts will take place beginning the second quarter of 2016.

PART II. - OTHER INFORMATION

B. No other material information.

NATIONAL REINSURANCE CORPORATION
OF THE PHILIPPINES
(Registrant)

JEFFREY R. LACSON
Vice President & Head of Finance

AUGUSTO P. HIDALGO
President & Chief Executive Officer

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF FINANCIAL POSITION
As at 30 September 2016 and 31 December 2015
(Amounts in Philippine Peso)

	Notes	September 2016 (Unaudited)	December 2015 (Audited)
ASSETS			
CASH AND CASH EQUIVALENTS	4	**P 1,013,849,017**	P 1,047,472,576
REINSURANCE BALANCES RECEIVABLE - Net	5	**5,564,393,083**	5,343,416,633
AVAILABLE-FOR-SALE FINANCIAL ASSETS	6	**6,314,428,485**	5,728,375,588
LOANS AND RECEIVABLES	7	**288,323,080**	306,791,128
PROPERTY AND EQUIPMENT - Net	8	**67,673,678**	71,867,335
DEFERRED ACQUISITION COST	9	**248,101,799**	147,743,688
DEFERRED REINSURANCE PREMIUMS	9	**477,478,783**	386,743,932
OTHER ASSETS	10	**430,584,732**	406,384,402
TOTAL ASSETS		**P 14,404,832,657**	P 13,438,795,282
LIABILITIES AND EQUITY			
REINSURANCE BALANCES PAYABLE	5	**P 7,669,539,590**	P 7,438,085,066
ACCOUNTS PAYABLE & ACCRUED EXPENSES	11	**98,183,054**	124,375,166
PREMIUM LIABILITIES	9	**1,454,488,473**	924,871,533
DEFERRED REINSURANCE COMMISSIONS	9	**49,967,540**	44,225,101
TOTAL LIABILITIES		**9,272,178,657**	8,531,556,866
EQUITY			
Capital Stock	15	**2,181,954,600**	2,181,954,600
Treasury Stock		**(100,525,432)**	(100,525,432)
Additional Paid in Capital		**3,019,218,458**	3,019,218,458
Remeasurement of the Defined Benefit Liability		**(63,367,874)**	(63,367,874)
Revaluation reserve		**194,638,270**	(65,639,038)
Retined Earnings		**(99,264,022)**	(64,402,298)
TOTAL EQUITY		**5,132,654,000**	4,907,238,416
TOTAL LIABILITIES & EQUITY		**P 14,404,832,657**	P 13,438,795,282

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME (Unaudited)

For the nine-month period ended 30 September 2016 and 2015
(Amounts in Philippine Peso)

	Notes	2016	2015
REINSURANCE PREMIUM INCOME			
Gross Written Premims, net of returns		**P 2,665,051,559**	P 1,777,292,434
Retroceded premiums		**1,426,930,594**	997,483,972
Net Written Premiums		**1,238,120,965**	779,808,462
Increase in premium liabilities	9	**(438,882,089)**	(104,155,033)
		799,238,876	675,653,429
UNDERWRITING DEDUCTIONS			
Share in claims & losses - net		**588,294,675**	517,306,380
Commissions - net		**254,755,660**	162,473,925
	13	**843,050,335**	679,780,305
NET UNDERWRITING LOSS		**(43,811,459)**	(4,126,876)
Interest		**146,657,491**	179,117,631
Foreign exhange gain		**5,120,653**	15,364,062
Others		**50,756,012**	253,359,898
INVESTMENT AND OTHER INCOME - Net	12	**202,534,156**	447,841,591
PROFIT AFTER INVESTMENT AND OTHER INCOME		**158,722,697**	443,714,715
GENERAL AND ADMINISTRATIVE EXPENSES	14	**159,627,987**	310,976,402
PROFIT (LOSS) BEFORE TAX		**(905,290)**	132,738,313
TAX EXPENSE		**33,956,434**	35,420,323
NET PROFIT (LOSS)		**(P 34,861,724)**	P 97,317,990
EARNINGS (LOSS) PER SHARE	17	**(P 0.02)**	P 0.05

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME (Unaudited)
For the three-month period ended 30 September 2016 and 2015
(Amounts in Philippine Peso)

	2016	2015
REINSURANCE PREMIUM INCOME		
Gross Written Premims, net of returns	**P 955,148,222**	P 579,649,528
Retroceded premiums	**598,631,111**	310,390,187
Net Written Premiums	**356,517,111**	269,259,341
Increase in premium liabilities	**(145,495,546)**	(94,646,129)
	211,021,565	174,613,212
UNDERWRITING DEDUCTIONS		
Share in claims & losses - net	**140,898,303**	160,287,861
Commissions - net	**97,328,321**	32,481,245
	238,226,624	192,769,106
NET UNDERWRITING LOSS	**(27,205,059)**	(18,155,894)
Interest	**49,131,155**	57,835,536
Foreign currency gain	**1,900,132**	8,098,321
Others	**29,795,408**	165,633,872
INVESTMENT AND OTHER INCOME - Net	**80,826,695**	231,567,729
PROFIT AFTER INVESTMENT AND OTHER INCOME	**53,621,636**	213,411,835
GENERAL AND ADMINISTRATIVE EXPENSES	**60,961,032**	141,807,813
PROFIT (LOSS) BEFORE TAX	**(7,339,396)**	71,604,022
TAX EXPENSE	**8,741,851**	11,542,605
NET PROFIT (LOSS)	**(P 16,081,247)**	P 60,061,417
EARNINGS (LOSS) PER SHARE	**(P 0.01)**	P 0.03

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
For the nine-month period ended 30 September 2016 and 2015
(Amounts in Philippine Peso)

	Notes	2016	2015
NET PROFIT (LOSS)		**(P 34,861,724)**	**P 97,317,990**
OTHER COMPREHENSIVE INCOME(LOSS)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability		**-**	9,076,439
Items that are and will be reclassified subsequently to profit or loss			
AFS Financial Asset - Net Change in Fair Value	6	**269,311,902**	(116,073,699)
AFS Financial Asset - reclassified to profit or loss	6,12	**(9,034,594)**	(213,618,056)
		260,277,308	(329,691,755)
		260,277,308	(320,615,316)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P 225,415,584**	**(P 223,297,326)**

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY (Unaudited)
For the nine-month period ended 30 September 2016 and 2015
(Amounts in Philippine Peso)

		Capital Stock				Revaluation Reserves			
	Notes	No. of Shares	Amount	Additional Paid-in Capital	Treasury Shares - At Cost	Remeasurement of defined Benefit liability	Available-for-sale Financial Assets	Retained Earnings (Deficit)	Total Equity
Balance as at 1 January 2016		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 100,525,432)	(P 63,367,874)	(P 65,639,038)	(P 64,402,298)	P 4,907,238,416
Total comprehensive income (loss) for the period						-	260,277,308	(34,861,724)	225,415,584
Total equity as at 30 September 2016	15	**2,181,954,600**	**P 2,181,954,600**	**P 3,019,218,458**	**(P 100,525,432)**	**(P 63,367,874)**	**P 194,638,270**	**(P 99,264,022)**	**P 5,132,654,000**
Balance as at 1 January 2015 (restated)		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 100,525,432)	(P 73,800,095)	P 330,285,833	(P 243,535,738)	P 5,113,597,626
Total comprehensive income (loss) for the period						9,076,439	(329,691,755)	97,317,990	(223,297,326)
Total equity as at 30 September 2015		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 100,525,432)	(P 64,723,656)	P 594,078	(P 146,217,748)	P 4,890,300,300
Balance as at 1 January 2015 (restated)		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 100,525,432)	(P 73,800,095)	P 330,285,833	(P 243,535,738)	P 5,113,597,626
Total comprehensive income (loss) for the period						10,432,221	(395,924,871)	179,133,440	(206,359,210)
Total equity as at 31 December 2015		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 100,525,432)	(P 63,367,874)	(P 65,639,038)	(P 64,402,298)	P 4,907,238,416

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (Unaudited)

For the nine-month period ended 30 September 2016 and 2015

(Amounts in Philippine Peso)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) profit before tax		**(P 905,290)**	P 132,738,313
Adjustments for:			
Increase in reserve for net premium liabilities	9	**438,882,089**	104,155,033
Unrealized foreign currency gain		**(4,820,849)**	(5,293,668)
Gain on sale of AFS financial assets	12	**(9,034,594)**	(213,618,056)
Gain on disposal of property and equipment		**(750,199)**	(163,256)
(Recovery) Impairment loss		**(16,119,761)**	143,137,531
Depreciation & amortization	14	**14,966,723**	19,776,229
Interest income	12	**(146,657,491)**	(179,117,631)
Dividend income	12	**(42,938,356)**	(44,308,680)
Operating income (loss) before working capital changes		**232,622,272**	(42,694,185)
(Increase)/Decrease in reinsurance balances receivable		**(185,839,044)**	473,996,166
Increase in deferred acquisition costs		**(94,615,672)**	(13,910,665)
Increase in other assets		**(30,607,470)**	(62,224,024)
Decrease(Increase) in loans and receivable		**919,537**	(1,880,837)
Increase/(Decrease) in reinsurance balances payable		**201,342,557**	(699,982,447)
Decrease in accounts payable		**(26,239,338)**	(82,907,325)
Cash generated from (used in) operations		**97,582,842**	(429,603,317)
Cash paid for income taxes		**(33,956,434)**	(35,420,323)
Net Cash From (Used in) Operating Activities		**63,626,408**	(465,023,640)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal/maturities of:			
Available-for-sale financial assets		**1,700,147,085**	4,334,149,891
Property and equipment		**1,741,856**	864,225
Interest received		**164,934,657**	211,632,160
Dividends received		**42,210,080**	44,308,680
Acquisitions of:			
Available-for-sale financial assets		**(2,009,484,745)**	(4,365,137,667)
Intangible assets		**(47,492)**	(3,689,307)
Property and equipment		**(5,310,090)**	(6,373,428)
Net Cash (Used in) From Investing Activities		**(105,808,649)**	215,754,554
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(42,182,241)**	(249,269,086)
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		**8,558,682**	3,395,602
CASH AND CASH EQUIVALENTS - 1 January		**1,047,472,576**	886,643,838
CASH AND CASH EQUIVALENTS - 30 September		**P 1,013,849,017**	P 640,770,354

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (Unaudited)
For the three-month period ended 30 September 2016 and 2015
(Amounts in Philippine Peso)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) profit before tax	**(P 7,339,396)**	P 71,604,022
Adjustments for:		
Increase in reserve for premium liabilities	**145,495,547**	94,646,129
Loss (gain) on sale of AFS financial assets	**661,310**	(2,486,637)
Gain on sale of AFS financial assets	**(10,820,920)**	(151,800,179)
Gain on disposal of property and equipment	**(716,493)**	(22,992)
Impairment loss	**-**	100,000,000
Depreciation & amortization	**3,697,929**	4,222,746
Interest income	**(49,131,155)**	(57,835,536)
Dividend income	**(16,383,860)**	(15,512,342)
Operating income before working capital changes	**65,462,962**	42,815,211
Decrease in reinsurance balances receivable	**236,573,276**	197,585,035
Increase in deferred acquisition costs	**(33,610,110)**	(21,409,298)
Increase in other assets	**(14,925,891)**	(35,649,722)
Increase in loans and receivable	**(7,039,675)**	(16,728,074)
Decrease in reinsurance balances payable	**(157,748,762)**	(333,816,308)
Increase/(Decrease) in accounts payable	**(36,091,017)**	16,300,293
Cash generated from (used in) operations	**52,620,783**	(150,902,863)
Cash paid for income taxes	**(8,741,852)**	(11,542,605)
Net Cash From (Used in) Operating Activities	**43,878,931**	(162,445,468)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal/maturities of:		
Available-for-sale financial assets	**553,507,829**	2,675,506,085
Property and equipment	**1,180,414**	160,491
Interest received	**68,156,010**	89,134,570
Dividends received	**15,947,190**	15,512,342
Acquisitions of:		
Available-for-sale financial assets	**(782,365,222)**	(2,704,922,827)
Intangible assets	**(47,492)**	(3,228,571)
Property and equipment	**(3,261,180)**	(1,479,928)
Net Cash (Used in) From Investing Activities	**(146,882,451)**	70,682,162
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(103,003,520)**	(91,763,306)
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	**9,207,854**	(83,566)
CASH AND CASH EQUIVALENTS - 30 June	**1,107,644,683**	732,617,226
CASH AND CASH EQUIVALENTS - 30 September	**P 1,013,849,017**	P 640,770,354

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
Notes and Other Disclosures

1. CORPORATE INFORMATION

National Reinsurance Corporation of the Philippines (the Company) was incorporated on 7 September 1978 by virtue of Presidential Decree No. 1270 (the Decree), as a domestic professional reinsurance firm to provide life and non-life reinsurance capacity to the Philippines and neighboring insurance markets. Under the Decree, it became the vehicle for the Philippine insurance industry's participation in the Asian Reinsurance Corporation (ARC), a multi-government-initiated reinsurance entity, based in Bangkok, Thailand, which was established to foster regional cooperation among insurance companies doing business in Asia. The Company's shares are listed in the Philippine Stock Exchange (PSE).

The Company's registered office and principal place of business is located at 31st floor BPI Philam-Life Makati (formerly: Ayala Life FGU Center), 6811 Ayala Avenue, Makati City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents the statement of comprehensive income in two statements: a statement of income and a statement of comprehensive income.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.
Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

2.2 New and Amended PFRS

Effective 2016 and subsequent to 2016 that are relevant to the company

There are new PFRS, amendments and annual improvements to existing standards *effective* for 2016 and subsequent to 2016, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements–Disclosure Initiative* (effective from 1 January 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(b) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from 1 January 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(c) PFRS 9 (2014), *Financial Instruments* (effective from 1 January 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements, which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Company and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

Annual Improvements to PFRS (2012-2014 Cycle) - effective from 1 January 2016.

Among the improvements, the following amendments are relevant to the Company but management does not expect these to have material impact on the Company's financial statements:

(a) PFRS 7 (Amendment), Financial Instruments – Disclosures. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(b) PAS 19 (Amendment), Employee Benefits – Discount Rate. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

2.3 Reinsurance Contract Assets

(a) Due from Ceding Companies

Due from ceding companies refers to the premiums receivable from the cedants as a result of treaty and facultative acceptances and is presented as part of Reinsurance Balances Receivable in the statement of financial position.

(b) Deferred Acquisition Costs

Deferred acquisition costs are cost that vary with and are primary related to the acquisition of new and renewal of existing reinsurance contracts such as commissions. These are deferred and charged to expense in proportion to premium revenue recognized. The unamortized acquisition costs are presented as part of asset in the statement of financial position as Deferred Acquisition Costs.

Subsequent to initial recognition, these deferred costs are amortized using the24th method and is charged against income.

(c) Deferred Reinsurance Premiums

Deferred reinsurance premiums represent unexpired portion of reinsurance premiums retroceded using the 24th method. The unamortized portion is presented as part of asset in the statement of financial position.

Subsequent to initial recognition, these deferred reinsurance premiums are amortized using the 24th method and is charged against income.

(d) Reinsurance Recoverable on Paid and Unpaid Losses

The Company retrocedes insurance risk in the normal course of business. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Balances recoverable from reinsurance companies on paid and unpaid losses are presented as part of Reinsurance Balances Receivable in the statement of financial position.

(e) Funds Held by Ceding Companies

Funds held by ceding companies pertain to the portion of reinsurance premiums withheld by ceding companies in accordance with treaty and facultative agreements and are presented as part of Reinsurance Balances Receivable in the statement of financial position.

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

Retroceded reinsurance agreements do not relieve the Company from its obligations to ceding companies.

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 reinsured were considered direct business, taking into account the product classification of the reinsured business. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Reinsurance receivables and recoveries are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

2.4 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32. All other non-derivative financial instruments are treated as debt instruments.

(a) *Classification and Measurement of Financial Assets*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: FVTPL, loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the categories of financial assets that are relevant to the Company is as follows:

(i) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Company provides money or services directly to a debtor with no intention of trading the receivables.

The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Reinsurance Balances Receivable, and Loans and Receivables in the statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

(j) AFS Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS financial assets include listed equity securities, government and corporate bonds, and golf club shares.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(b) Impairment of Financial Assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Company recognizes impairment loss based on the category of financial assets as follows:

(i) Carried at Amortized Cost – Loans and Receivables

If there is objective evidence that an impairment loss on loans and receivables carried at cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the profit or loss.

(ii) Carried at Cost – AFS Financial Assets

If there is objective evidence of impairment for any of the unquoted equity instruments 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 required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(iii) Carried at Fair Value – AFS Financial Assets

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) *Items of Income and Expense Related to Financial Assets*

All income and expenses relating to financial assets that are recognized in profit or loss are presented as part of Investment and Other Income account in the statement of income, except for impairment losses which are presented as part of General and Administrative Expenses account.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) *De-recognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.5 Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Condominium units	40 years
Office improvements	10 years
Office furniture and equipment	5 years
Transportation equipment	5 years
Electronic data processing (EDP) equipment	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Fully depreciated assets are retained in the accounts until these are no longer in use. No further charge of depreciation is made in respect of those assets.

An item of property and equipment, including the related accumulated depreciation and impairment losses, 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 de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.6 Other Assets

Other assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

2.7 Investment Property

Investment property (included as part of Other Assets) is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Except for land, investment properties are stated at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value. The cost of the investment property comprises its purchase price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Depreciation is computed using the straight-line basis over the estimated useful life of the properties, which is ten years.

The carrying amount of investment property is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the statement of income in the year of retirement or disposal.

2.8 Intangible Assets

Intangible assets (presented as part of Other Assets account) include acquired software licenses, which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over five years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.19.

Acquired computer software licenses are capitalized on the cost incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.9 Reinsurance Contract Liabilities

(a) Premium Liabilities

Premium Liabilities refer to all future claim payments arising from future events after the valuation date that are insured under unexpired policies, as well as expenses for policy management and claims settlement, and is computed as the higher of the Unearned Premium Reserves (UPR) and Unexpired Risk Reserves (URR) at a designated level of confidence, on both gross and net of reinsurance basis. UPR is the reserve for that portion of the premium received which is attributable to a period of risk falling beyond the valuation date; and is recognized as revenues over the period of the contracts using the 24th method.

URR is an estimate of the total liability (including expenses), at a designated level of confidence, in respect of the risk after the valuation date of policies written prior to that date including expenses for policy management and claims settlement costs.

A computation should be performed to determine whether the unexpired risk reserve required is greater or less than the unearned premium reserve at the gross of reinsurance basis. If the unexpired risk reserve is greater, then the difference should be booked as an additional reserve on top of the unearned premium reserve.

(b) Claims Provision and Incurred But Not Reported (IBNR) Losses

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduced for the expected value of salvage and other recoveries. Delays can be experience in the notification and settlement of certain types of claims, therefore the ultimate cost of which, cannot be known with certainty at the end of the reporting period. No provision for equalization or catastrophic reserve is recognized. The liability is derecognized when the contract expires, is discharged or is cancelled.

(c) Liability Adequacy Test

At end of each reporting period, liability adequacy tests are performed, to ensure the adequacy of reinsurance contract liabilities, net of related Deferred Acquisition Costs. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses 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 charged to profit or loss. The reinsurance contract liability is increased to the extent that the future claims and expense in respect of current insurance contracts exceed future premiums.

2.10 Financial Liabilities

Financial liabilities, which include Reinsurance Balances Payable and Accounts Payable and Accrued Expenses [excluding deferred output value-added tax (VAT), defined benefit liability and other taxes payable], are recognized when the Company becomes a party to the contractual terms of the agreement. All interest-related charges are recognized as an expense in the statement of income.

Reinsurance Balances Payable and Accounts Payable and Accrued Expenses are recognized initially at their fair value and subsequently measured at amortized cost, using the effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Company.

Financial liabilities are derecognized from the statement of financial position only when the

obligations are extinguished either through discharge, cancellation or expiration.
The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.11 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.12 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using pretax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.13 Revenue and Expense Recognition

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

(a) *Reinsurance premiums* – Premiums from short duration insurance contracts are recognized over the period of the contracts using the “24th method”, except for revenues from marine cargo risks wherein the premiums written during the first ten months of the current year and the last two months of the preceding year are recognized as revenue in the current year. The “24th method” assumes that the average date of issue of all policies written during any one month is the middle of that month. Accordingly, 1/24th of the net premiums are considered earned in the month the reinsurance contracts are issued and 2/24th for every month thereafter (or 1/24th for every 15-day period after the issue month). The portion of the gross reinsurance premiums that relate to the unexpired periods of the policies at the end of the reporting period are accounted for as Premium Liabilities and is presented in the liability section of the statement of financial position while the portion of the retroceded reinsurance premiums that relate to the unexpired periods of the policies at the end of the reporting period are accounted for as Deferred Reinsurance Premiums and is presented in the asset section of the statement of financial position. The net changes in the account Premium Liabilities and Deferred Reinsurance Premiums between the end of the reporting periods are recognized in the statement of income.

(b) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

(c) *Dividend income* – Revenue is recognized when the Company's right to receive the payment is established.

(d) *Gain on sale of assets* – Revenue is recognized when the risks and rewards of ownership of the investments have passed to the buyer.

Costs and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred.

2.14 Claim Costs Recognition

Share in claims and losses relating to insurance contracts are accrued when insured events occur. They arise from events that have occurred up to reporting date even if they have not yet been reported to the Company. The share in claims (including those for IBNR) are based on the estimated ultimate cost of settling the claims and are not discounted for time value of money. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverables. Recoveries on settled and unsettled claims are recognized in statement of income in the period the claims are made and are presented as part of Reinsurance Balances Receivable account in the statement of financial position [see Note 2.3(d)].

2.15 Acquisition Costs

Costs that vary with and are primarily related to the acquisition of new and renewal reinsurance contracts such as commissions, certain underwriting costs and inspection fees, are deferred and charged to expense in proportion to reinsurance premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as Deferred Acquisition Costs.

2.16 Commissions on Retrocessions

Commissions on retrocessions are deferred and are subjected to the same amortization method as the related acquisition costs. Deferred portion are presented in the statement of financial position as Deferred Reinsurance Commissions.

2.17 Leases – Company as Lessee

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

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes 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.

2.18 Foreign Currency Transactions and Translation

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates, which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at quarter-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income as part of profit or loss from operations.

2.19 Impairment of Non-financial Assets

The Company's property and equipment, investment property and intangible assets (presented as part of Other Assets in the statement of financial position) are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value-in-use. In determining value-in-use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements.

Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.20 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan.

(a) Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability and asset recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation (asset) is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing & Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Re-measurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance costs account under General and Administrative Expenses in the statement of income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.

(b) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accounts Payable and Accrued Expenses account in the Statements of Financial Position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.21 Income Taxes

Tax expense recognized in the statement of income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.22 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close member of the family of any such individual; and, (d) the Company’s retirement plan.

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

2.23 Equity

Capital stock represents the nominal value of shares that have been issued or reissued.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Company’s equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise gains and losses due to the revaluation of AFS financial assets and re-measurements of defined benefit liability.

Retained earnings (deficit) represent all current and prior period results of operations as reported in the statement of income, reduced by the amounts of dividends declared.

2.24 Earnings (Loss) Per Share

Basic earnings (loss) per share is determined by dividing net profit (loss) by the weighted average number of shares issued, adjusted for stock dividends and stock split, less shares held in treasury during the period.

Diluted earnings (loss) per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

2.25 Events After the End of the Reporting Period

Any post-quarter-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-quarter-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 Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstance affecting the Company's AFS financial assets, management concluded that AFS financial assets are not impaired as at 30 September 2016, 31 December 2015 and 30 September 2015. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(b) Distinction Between Investment Properties and Owner-managed 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 the property but also to other assets used in the operations.

Some properties comprise a portion that is held to earn rental and another portion that is held for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Company accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held 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.

(c) Distinction Between Operating and Finance Leases

The Company has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's judgment, the Company's existing lease was determined to be an operating lease.

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.12.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Impairment of Reinsurance Balances Receivable and Loans and Receivables

Adequate amount of allowance for impairment is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates the amount of allowance for impairment based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

The carrying value of reinsurance balances receivables and the analysis of allowance for impairment on such financial assets are shown in Note 5. The carrying value of loans and receivables is shown in Note 7.

(b) Fair Value Measurement of Financial Assets Other than Loans and Receivables

The Company carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

The carrying values of the Company's AFS financial assets and the amounts of fair value changes recognized are disclosed in Note 6.

(c) Estimation of Useful Lives of Property and Equipment, Investment Property an Intangible Assets

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

The carrying amounts of property and equipment are analyzed in Note 8, and of investment property and intangible assets in Note 10. Based on management's assessment as at 30 September 2016 and 31 December 2015, there is no change in the estimated useful lives of those assets during these years. Actual results, however, may vary due to changes in estimates brought about by the changes in factors mentioned above.

(d) Impairment of Non-financial Assets

The Company's policy on estimating the impairment of non-financial assets is discussed in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses were recognized on non-financial assets in 2016 and 2015.

(e) Determination Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. As at 30 September 2016 and 31 December 2015, no deferred tax assets were recognized by the Company since management believes that they will not be able to utilize the amount prior to its expiration.

(f) Valuation of Post-employment Defined Benefit

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase and employee turnover rate.

A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation.

(g) Valuation of Reinsurance Contract Liabilities

The Company estimates the cost of IBNR through the use of past claims settlement trends to predict future claims settlement trends and the estimate of the ultimate loss. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Insurance contract liabilities are not discounted for the time value of money.

The principal assumption underlying the liability estimates is that the Company's future claims development will depend on the estimate of the ultimate loss during a period of time for a particular risk exposure and then estimate the percentage of this ultimate loss that was not reported at that time. The Company's liability estimates as ascertained by an independent actuary is determined by calculating the estimated loss as the sum of reported loss plus IBNR, with IBNR calculated as the estimated ultimate loss multiplied by the percentage of loss that is unreported. The Company also included Margin for Adverse Deviation (MfAD) as a percentage of the total outstanding losses, IBNR best estimate and loss adjustment expenses payable, to allow for inherent uncertainty of the best estimate of the policy reserves.

Additional qualitative judgments are used by the independent actuary to assess the extent to which the full tail of the claims development is influenced by the different factors, for example, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix and policy conditions. Judgment is further used to assess the extent to which external factors such as juridical decisions and government legislation affect the estimates.

As at 30 September 2016 and 31 December 2015, the carrying values of provision for claims reported and IBNR are recognized as Claims payable under Reinsurance Balances Payable account that is presented in Note 5 to the financial statements.

4. CASH AND CASH EQUIVALENTS

This account consists of:

		30 September 2016		31 December 2015
Short-term placements	**P**	**892,178,751**	P	921,210,948
Cash on hand and in banks		**121,670,266**		126,261,628
	P	**1,013,849,017**	P	1,047,472,576

Short-term placements include time deposits and special deposit accounts made for varying periods of up to three (3) months depending on the liquidity requirements of the Company.

The range of annual interest rates of the short-term placements follows:

	30 September 2016	31 December 2015
Philippine Peso	**0.25% - 2.55%**	0.25% - 2.55%
US Dollar	**1.50% - 1.60%**	1.50% - 1.85%

Cash in banks generally earn interest at rates based on daily bank deposit rates.

The Cash and Cash Equivalents account includes:

	30 September 2016	31 December 2015
U.S. dollar denominated cash	6,106,714	4,629,436
U.S. dollar denominated cash in PHP	294,691,686	218,351,986

5. REINSURANCE BALANCES - Net

The details of Reinsurance Balances Receivable are as follows:

	30 September 2016	31 December 2015
Reinsurance recoverable on unpaid losses	**P 3,705,505,936**	P 3,597,573,220
Due from ceding companies	**1,492,083,022**	1,231,923,155
Reinsurance recoverable on paid losses	**605,536,291**	794,903,981
Reinsurance recoverable on IBNR losses	**461,789,211**	399,092,704
Funds held by ceding companies	**107,435,698**	144,000,408
	6,372,350,158	6,167,493,468
Allowance for impairment	**(807,957,075)**	(824,076,835)
	P 5,564,393,083	P 5,343,416,633

The movements in these accounts are as follows:

	Reinsurance recoverable on losses incurred	Due from ceding companies	Funds held by ceding companies	Total
30 September 2016				
Balance at beginning of period	P 4,791,569,905	P 1,231,923,155	P 144,000,408	P 6,167,493,468
Loss recoveries during the period	557,766,249	-	-	557,766,249
Premiums written during the period	-	2,665,051,559	-	2,665,051,559
Collections, net of funds withheld during the period	-	-	(37,960,121)	(37,960,121)
Collections during the period	(592,352,333)	(2,406,666,310)	-	(2,999,018,643)
Revaluation adjustment	15,847,617	1,774,618	1,395,411	19,017,646
	4,772,831,438	**1,492,083,022**	**107,435,698**	**6,372,350,158**
Allowance for impairment	(578,515,996)	(229,335,809)	(105,270)	(807,957,075)
Balance at end of period	**P 4,194,315,442**	**P 1,262,747,213**	**P 107,330,428**	**P 5,564,393,083**
31 December 2015				
Balance at beginning of period	P 5,212,477,051	P 1,209,089,581	P 130,261,689	P 6,551,828,321
Loss recoveries during the period	376,030,819	-	-	376,030,819
Premiums written during the period	-	2,168,267,612	-	2,168,267,612
Funds Withheld during the period	-	-	14,092,168	14,092,168
Collections during the period	(844,172,826)	(2,147,228,305)	-	(2,991,401,131)
Revaluation adjustment	47,234,861	1,794,267	(353,449)	48,675,679
	4,791,569,905	1,231,923,155	144,000,408	6,167,493,468
Allowance for impairment	(578,515,996)	(245,455,569)	(105,270)	(824,076,835)
Balance at end of period	P 4,213,053,909	P 986,467,586	P 143,895,138	P 5,343,416,633

The Company's collections on these reinsurance receivables include collections equivalent to underwriting costs and claims deducted by cedants from their statement of accounts.

The Reinsurance recoverable on paid losses is the amount recoverable from the retrocessionaires in respect of claims already paid by the Company.

All of the Company's reinsurance balances receivables have been reviewed for indicators of impairment. Certain reinsurance balances receivable were found to be impaired and provisions have been recorded accordingly.

A reconciliation of the allowance for impairment at the beginning and as at end of 30 September 2016 and 31 December 2015 is shown below:

		Reinsurance recoverable on paid losses		Due from ceding companies		Funds held by ceding companies		Total
30 September 2016								
Balance at beginning of period	P	578,515,996	P	245,455,569	P	105,270	P	824,076,835
Reversal during the period		-		(16,119,760)		-		(16,119,760)
Balance at end of period	P	**578,515,996**	P	**229,335,809**	P	**105,270**	P	**807,957,075**
31 December 2015								
Balance at beginning of period	P	443,764,579	P	138,177,229	P	21,743,922	P	603,685,730
Provision during the period		134,751,417		107,278,340		-		242,029,757
Reversal during the period		-		-		(21,638,652)		(21,638,652)
Balance at end of period	P	578,515,996	P	245,455,569	P	105,270	P	824,076,835

The details of Reinsurance Balances Payable follows:

		30 September 2016		31 December 2015
Claims payable	**P**	**5,770,363,168**	P	5,703,387,502
Due to retrocessionaires		**985,951,631**		970,742,419
IBNR		**869,711,717**		674,431,025
Funds held for retrocessionaires		**43,513,074**		89,524,120
	P	**7,669,539,590**	P	7,438,085,066

Claims payable are losses and claims due to ceding companies under treaty and facultative agreements inclusive of provision for IBNR losses, loss adjustment expenses payable and MfAD as shown below:

		Outstanding Claims		IBNR		Total
30 September 2016						
Balance at beginning of period	P	5,703,387,502	P	674,431,025	P	6,377,818,527
Claims incurred during the period		950,780,232		-		950,780,232
Increase in reserve (net)		-		195,280,692		195,280,692
Claims paid during the period		(909,342,304)		-		(909,342,304)
Revaluation adjustment		25,537,738		-		25,537,738
Balance at end of period		**5,770,363,168**		**869,711,717**		**6,640,074,885**
31 December 2015						
Balance at beginning of period	P	6,094,561,059	P	833,584,587	P	6,928,145,646
Claims incurred during the period		951,725,659		-		951,725,659
Increase in reserve (net)		-		(159,153,562)		(159,153,562)
Claims paid during the period		(1,403,278,522)		-		(1,403,278,522)
Revaluation adjustment		60,379,306		-		60,379,306
Balance at end of period	P	5,703,387,502	P	674,431,025	P	6,377,818,527

The movements in these accounts are shown below:

		Due to retrocessionaires		Funds held for retrocessionaires		Total
30 September 2016						
Balance at beginning of period	P	970,742,419	P	89,524,120	P	1,060,266,539
Retroceded premiums during the period		1,426,930,594		-		1,426,930,594
Payment, net of withheld during the period		-		(46,011,046)		(46,011,046)
Payments made during the period		(1,416,295,612)		-		(1,416,295,612)
Revaluation adjustment		4,574,230		-		4,574,230
Balance at end of period	P	**985,951,631**	P	**43,513,074**	P	**1,029,464,705**
31 December 2015						
Balance at beginning of period	P	1,016,675,866	P	74,420,432	P	1,091,096,298
Retroceded premiums during the period		1,239,307,124		-		1,239,307,124
Payment, net of withheld during the period		-		15,103,688		15,103,688
Payments made during the period		(1,285,601,297)		-		(1,285,601,297)
Revaluation adjustment		360,726		-		360,726
Balance at end of period	P	970,742,419	P	89,524,120	P	1,060,266,539

Due to retrocessionaires are unremitted share in premiums of retrocessionaires. Funds held for retrocessionaires represent portion of the reinsurance premium ceded to retrocessionaires which was withheld by the Company in accordance with treaty and facultative agreements. The Company's payments on these reinsurance liabilities include settlement equivalent to underwriting costs and retrocessionaires' share in losses paid claims deducted from the statement of account.

The fair values of these short-term financial assets and liabilities are not individually determined as their carrying amounts are reasonable approximation of their fair values

6. AFS FINANCIAL ASSETS

This account is composed of the following:

		30 September 2016		31 December 2015
Bonds	**P**	**3,796,614,340**	P	3,686,967,019
Equity securities - net		**2,372,274,318**		1,860,924,875
Investment in Asian Re shares		**30,356,991**		4,444,847
Various funds		**115,182,836**		176,038,847
	P	**6,314,428,485**	P	5,728,375,588

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting to P500,000,000 both in September 2016 and December 2015, respectively which are on deposit with the IC as security for the benefit of policyholders and creditors of the Company in accordance with the provisions of the Insurance Code.

Bonds earn interest at annual rates ranging from 1.63% to 9.13% in 2016 and 2.13% to 15.00% in 2015. Interest income recognized is presented as part of Investment and Other Income in the Statements of Income (see Note 12).

The following presents the fair values of investments in bonds by contractual maturity dates:

		30 September 2016		31 December 2015
Due within one year	**P**	**214,313,235**	P	249,169,188
Due after one year through five years		**783,255,003**		742,148,528
Due after five years through ten years		**2,436,328,401**		2,338,844,983
Due after ten years		**362,717,701**		356,804,320
	P	**3,796,614,340**	P	3,686,967,019

The balance of equity securities classified as available-for-sale financial assets consist of:

		30 September 2016		31 December 2015
Cost:				
Quoted in the stock exchange	**P**	**2,161,641,753**	P	1,796,167,163
Not quoted in the stock exchange		**37,599,882**		38,346,338
	P	**2,199,241,635**	P	1,834,513,501
Fair value gains (losses):				
Quoted in the stock exchange	**P**	**191,819,892**	P	45,228,583
Not quoted in the stock exchange		**(18,787,209)**		(18,817,209)
	P	**173,032,683**	P	26,411,374
	P	**2,372,274,318**	P	1,860,924,875

Equity securities mainly consist of investments in companies listed in the PSE.

Dividend income from these equity securities is presented under Investment and Other Income account in the Statements of Income (see Note 12). The shares of Asian Re have been issued in the name of the Government of the Philippines (GoP) as the Philippine government's participation in the joint undertaking of Asian countries to organize a reinsurance company that will service the needs of the region. The GoP assigned such shares, including any interest accruing thereon, to the Company. The GoP designated the Company as the national institution authorized to subscribe and pay for the said shares of stock. The shares of stock of Asian Re, while not for sale, were classified under this category since these do not qualify for inclusion in any other categories of financial assets.

The fair value of investment in ARC shares amounted to P30,356,991 and P4,444,847 as at 30 September 2016 and 31 December 2015, respectively (see Note 19).

The reconciliation of the carrying amounts of available-for-sale financial assets are as follows:

		30 September 2016		31 December 2015
Balance at beginning of period	**P**	**5,728,375,588**	P	6,107,737,706
Additions		**2,009,484,745**		4,961,897,763
Disposals/maturities		**(1,700,147,085)**		(5,182,567,232)
Fair value gains(loss) - net		**269,311,902**		(170,754,065)
Foreign currency gains (losses)		**7,403,335**		12,061,416
Balance at end of period	**P**	**6,314,428,485**	P	5,728,375,588

Changes in fair value of AFS financial assets recognized in the statements of comprehensive income amounted to P269,311,902 net fair value gain as at 30 September 2016 and P170,754,065 net fair value loss as at 31 December 2015.

The Company sold AFS financial assets with carrying amount of P1,198,977,122 in 2016 and P1,380,372,142 in 2015. Accordingly, the Company recognized gain on Sale of AFS Financial Assets amounting to P9,034,594 and P213,618,056 in 2016 and 2015, respectively. These are presented under Investment and Other Income account in the Statements of Income (see Note 12).

The fair values of AFS financial assets have been determined directly by reference to published prices in active market. Certain investments where fair value is not reliably determinable either through reference of similar instruments or valuation techniques, are carried at cost.

Various funds pertain to the Company's investments in mutual funds & Long - term negotiable certificates.

7. LOANS AND RECEIVABLES

This account includes the following:

		30 September 2016		31 December 2015
Current:				
Term loans	P	**240,000,000**	P	-
Accrued dividend & interest receivable		**24,717,159**		42,266,050
Others		**17,898,354**		15,533,346
		282,615,513		57,799,396
Non-current:				
Loans receivable		**5,707,567**		6,491,732
Term loans		**-**		242,500,000
		5,707,567		**248,991,732**
	P	**288,323,080**	P	306,791,128

Term loans mainly pertain to the Company's participation in syndicated loans of other companies. These loans are unsecured, interest-bearing and with terms ranging from two to five years. The annual effective interest rate on these loans ranges from 3.80% to 5.86% and 4.80% to 5.86% in 2016 and 2015, respectively.

Loans receivable includes car plans extended to its managers and officers as part of their benefits. These loans are collected through salary deductions for a period of five years with annual effective interest rates of 8.00%.

Interest income on loans and receivables are presented as part of Investment and Other Income account in the Statements of Income (see Note 12).

The carrying value of these financial assets approximate their fair value as these are short-term in nature and the interest rates are approximately the same as the market interest rate.

8. PROPERTY AND EQUIPMENT- net

Presented below are the gross carrying amounts and accumulated depreciation of property and equipment.

The roll forward analysis of this account as at 30 September 2016 and 31 December 2015:

30 September 2016		**Condominium Units**		**Office Improvements**		**Office Furniture and Equipment**		**Transportation Equipment**		**EDP Equipment**		**Total**
Cost												
Balance at beginning of period	P	101,310,361	P	10,826,265	P	10,256,148	P	11,158,214	P	40,408,715	P	173,959,703
Addition		-		222,820		73,587		3,155,419		1,858,264		5,310,090
Disposal/retirement		-		-		(1,299,493)		(4,274,643)		(628,783)		(6,202,919)
Balance at end of period		**101,310,361**		**11,049,085**		**9,030,242**		**10,038,990**		**41,638,196**		**173,066,874**
Accumulated depreciation												
Balance at beginning of period		54,595,028		4,602,368		9,360,558		4,406,924		29,127,490		102,092,368
Depreciation		2,532,759		817,354		389,356		1,490,637		3,281,984		8,512,090
Disposal/retirement		-		-		(1,299,437)		(3,283,042)		(628,783)		(5,211,262)
Balance at end of period		57,127,787		5,419,722		8,450,477		2,614,519		31,780,691		105,393,196
Net Book Value	P	**44,182,574**	P	**5,629,363**	P	**579,765**	P	**7,424,471**	P	**9,857,505**	P	**67,673,678**

31 December 2015		Condominium Units		Office Improvements		Office Furniture and Equipment		Transportation Equipment		EDP Equipment		Total
Cost												
Balance at beginning of period	P	101,310,361	P	10,885,911	P	10,680,461	P	8,673,928	P	36,680,076	P	168,230,737
Addition		-				181,650		4,393,571		3,731,881		8,307,102
Disposal/retirement		-		(59,646)		(605,963)		(1,909,285)		(3,242)		(2,578,136)
Balance at end of period		101,310,361		10,826,265		10,256,148		11,158,214		40,408,715		173,959,703
Accumulated depreciation												
Balance at beginning of period		51,218,016		3,530,088		9,416,029		3,723,535		23,996,724		91,884,392
Depreciation		3,377,012		1,072,280		550,452		1,891,745		5,134,008		12,025,497
Disposal/retirement		-		-		(605,923)		(1,208,356)		(3,242)		(1,817,521)
Balance at end of period		54,595,028		4,602,368		9,360,558		4,406,924		29,127,490		102,092,368
Net Book Value	P	46,715,333	P	6,223,897	P	895,590	P	6,751,290	P	11,281,225	P	71,867,335

9. REINSURANCE RESERVES

The movements in Deferred Reinsurance Premiums and Premium Liabilities follow:

		30 September 2016		31 December 2015
Deferred Reinsurance Premiums:				
Balance at beginning of period	**P**	**386,743,932**	P	356,285,616
Premiums retroceded		**1,426,930,594**		1,254,410,812
Premiums amortized		**(1,336,195,743)**		(1,223,952,496)
Balance at end of period	**P**	**477,478,783**	P	386,743,932
Premium Liabilities:				
Balance at beginning of period	**P**	**924,871,533**	P	866,875,910
Premiums written		**2,665,051,559**		2,182,359,780
Premiums earned		**(2,135,434,619)**		(2,124,364,157)
Balance at end of period	**P**	**1,454,488,473**	P	924,871,533

The difference between the increase in Deferred Reinsurance Premiums and Premium Liabilities for the year is presented as Decrease (Increase) in Premium Liabilities account in the Statements of Income.

The movements in Deferred Acquisition Costs and Deferred Reinsurance Commissions follow:

			30 September 2016		31 December 2015
Deferred acquisition costs:					
Balance at beginning of period		**P**	**147,743,688**	P	150,257,105
Cost deferred during the period			**455,308,610**		376,688,454
Commission expenses	13.2		**(354,950,499)**		(379,201,871)
Balance at end of period		**P**	**248,101,799**	P	147,743,688
Deferred reinsurance commissions:					
Balance at beginning of period		**P**	**44,225,101**	P	36,251,613
Income deferred during the period			**105,937,278**		131,456,816
Income recognized			**(100,194,839)**		(123,483,328)
Balance at end of period		**P**	**49,967,540**	P	44,225,101

The difference between the movement of Deferred Acquisition Costs and Deferred Reinsurance Commissions are presented as part of Commissions – net under Underwriting Deductions in the Statements of Income.

10. OTHER ASSETS

The Other Assets account includes the following:

		30 September 2016		31 December 2015
Creditable withholding tax	**P**	**151,730,270**	P	146,664,603
Input VAT		**134,766,980**		121,640,732
Deferred input VAT		**79,238,470**		71,502,770
Define Benefit asset		**27,490,877**		32,419,064
Prepayments		**9,272,711**		5,069,321
Deferred withholding VAT		**9,202,886**		9,202,886
Intangible assets - net		**5,826,269**		12,229,660
Investment property - net		**2,826,159**		2,829,909
Deposit		**831,879**		799,399
Security fund		**643,925**		192,888
Others		**8,754,306**		3,833,170
	P	**430,584,732**	P	406,384,402

Input VAT mainly pertains to input VAT derived from commissions paid to ceding companies.

Deferred input VAT mainly pertains to input VAT on unpaid commissions due to ceding companies.

Intangible assets pertain to acquired computer software licenses used in production and administration. The gross carrying amounts and accumulated amortization of intangible assets as at 30 September 2016 and 31 December 2015 follows:

		30 September 2016		31 December 2015
Cost	**P**	**114,982,474**	P	114,934,981
Accumulated amortization		**(109,156,205)**		(102,705,321)
Balance at end of period	**P**	**5,826,269**	P	12,229,660

A reconciliation of the carrying amounts of intangible assets at the beginning and end of 30 September 2016 and 31 December 2015 is shown below:

		30 September 2016		31 December 2015
Balance at beginning of period net of accumulated amortization	P	12,229,660	P	20,582,988
Additions		47,492		3,689,306
Amortization charges for the period		(6,450,883)		(12,042,634)
Balance at end of period	P	5,826,269	P	12,229,660

Deferred withholding VAT represents unapplied input taxes resulting from unpaid premiums on ceded out transactions to the company from a certain government entity.

Prepayments pertain mainly to prepaid subscription of IT tools and services.

Investment properties mainly consist of land and improvements, which were acquired for capital appreciation. The changes to the carrying amounts of the investment properties as at 30 September 2016 and 31 December 2015 can be summarized as follows:

		30 September 2016		31 December 2015
Balance at beginning of period	P	2,829,909	P	2,834,909
Depreciation charges for the period		(3,750)		(5,000)
Balance at end of period	P	2,826,159	P	2,829,909

These properties are classified as Level 3 in the fair value hierarchy. The total estimated fair values based on the latest available selling price of the properties obtained by the Company amounted to P5,880,000 as at 30 September 2016 and 31 December 2015

Security fund represents amount deposited with the Insurance Commission (IC), as required by the Insurance Code, to be used as payment of valid claims in the event that the company becomes insolvent. The balance of the fund earns interest at rates determined by the IC annually.

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

Management considers the carrying amounts of accounts payable and accrued expenses recognized in the Statements of Financial Position to be a reasonable approximation of their fair values due to their short duration.

		30 September 2016		31 December 2015
Accounts payable	P	18,689,905	P	11,684,383
Deferred output VAT		39,867,755		38,795,518
Accrued expenses		31,921,717		66,419,242
Withholding taxes payable		5,168,431		4,941,002
Other liabilities		2,535,246		2,535,021
	P	98,183,054	P	124,375,166

12. INVESTMENT AND OTHER INCOME

The details of this account follow:

		30 September 2016		30 September 2015
Interest Income	P	**146,657,491**	P	179,117,631
Dividend income		**42,938,356**		44,308,680
Gain on sale of AFS		**9,034,594**		213,618,056
Foreign exchange gain		**5,120,653**		15,364,062
Gain on sale of property & equipment		**750,199**		163,256
Other charges		**(1,967,137)**		(4,730,094)
	P	**202,534,156**	P	447,841,591

13. UNDERWRITING DEDUCTIONS

13.1 Share in Claims and Losses - net

This account represents the aggregate amount of the Company's share in net losses and claims relative to its acceptances under treaty and facultative reinsurances.

		30 September 2016		30 September 2015
Gross claims paid	P	**909,342,304**	P	1,103,143,538
Retrocessionaires' share in losses paid		**(394,900,827)**		(556,723,305)
Gross change in provision for claims reported		**41,437,928**		(63,537,855)
Retrocessionaires' share in change in provision for claims reported		**(100,168,915)**		-
Gross change in provision for IBNR		**195,280,692**		34,424,002
Retrocessionaires' share in change in provision for IBNR		**(62,696,507)**		-
Balance at end of the period	P	**588,294,675**	P	517,306,380

13.2 Commissions - net

This account consists of the following:

		30 September 2016		30 September 2015
Commission expense	P	**354,950,499**	P	271,251,000
Commission income		**(100,194,839)**		(108,777,075)
	P	**254,755,660**	P	162,473,925

Commission incurred pertains to fees deducted by ceding companies from reinsurance premiums assumed during the period under treaty and facultative agreements.

Commission earned pertains to fees charged by the Company related to reinsurance premiums retroceded during the period under treaty and facultative agreements.

14. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

		30 September 2016		30 September 2015
Salaries and employee benefits	**P**	**92,874,933**	P	81,035,590
Professional fees		**15,138,000**		21,637,644
Depreciation and amortization		**14,966,723**		19,776,229
Outsourced functions		**13,735,153**		11,542,465
Repairs and maintenance		**5,065,541**		3,994,914
Tools		**4,548,898**		-
Taxes, licenses and fees		**4,309,791**		6,354,494
Association and pool expense		**2,714,308**		2,148,196
Rental		**2,668,876**		2,581,806
Meetings, Conferences & Conventions		**2,605,910**		2,856,154
Light and water		**1,678,611**		1,737,089
Advertising and publicity		**1,453,289**		1,992,473
Communication and postages		**1,447,608**		1,549,876
Printing and office supplies		**900,458**		580,676
Insurance		**679,974**		620,417
Representation and entertainment		**484,912**		421,898
Miscellaneous		**10,474,763**		9,008,950
(Recovery) Impairment loss		**(16,119,761)**		143,137,531
	P	**159,627,987**	P	310,976,402

14.1 Salaries, Wages and Employee Benefit Expense

Expenses recognized for employee benefits are presented below:

		30 September 2016		30 September 2015
Short-term employee benefits	**P**	**85,056,380**	P	68,726,406
Post-employment defined benefit		**4,928,187**		687,297
Compensated absences		**2,890,366**		3,696,500
Separation benefits		**-**		7,925,387
	P	**92,874,933**	P	81,035,590

14.2 Post-employment Defined Benefit

Characteristics of the Defined Benefit Plan

The Company maintains a wholly-funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 10 years of credited service. Normal retirement benefit is an amount equivalent to 175% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

15. EQUITY

15.1 Capital Stock

As at 30 September 2016 and 31 December 2015, the Company has authorized shares of 3,000,000,0000 and has issued and outstanding shares amounted to P2,123,605,600 net of treasury shares, which is divided into 2,123,605,600 shares with a par value of P1 per share.

On April 27, 2007, the SEC approved the listing of the Company's shares totaling 741,902,600. The shares were initially issued at an offer price of P3.80 per share. As at 30 September 2016 and 31 December 2015, there are 279 & 280 holders of the listed shares, respectively. Such listed shares closed at P0.91 and P0.94 per share, as at those dates, respectively,

15.2 Treasury Shares

As at 30 September 2016 and 31 December 2015, total shares in treasury is 58,349,000 amounting to P100,525,432. In 2011, the Company acquired 36,072,000 of its own shares at a total cost of P60,443,621. There are no treasury stock transactions in 2016 and 2015.

15.3 Appropriation for Contingencies

On April 18, 1989, the Company's Board of Director approved the establishment of a special reserve, which will serve as cushion to the paid-up capital in the event of extraordinarily high loss occurrences or severe catastrophic losses. As such, at 31 December of each year where there is profit, 10% of such profit is set aside as additional reserve for contingencies. In 2015, the Company did not appropriate any amount since it has incurred deficit.

15.4 Declaration of Cash Dividends

There was no declaration of cash dividends in 2016 and 2015. The total outstanding dividends payable amounted to P2,535,246 as at 30 September 2016 and 31 December 2015. These are presented as part of Other Liabilities under Accounts Payable and Accrued Expenses account in the Statements of Financial Position.

16. RELATED PARTY TRANSACTIONS

The Company's related parties include its principal stockholders, related parties under common ownership, retirement plan and the Company's key management personnel with which the Company had transactions as described below:

16.1 Reinsurance Contracts with Related Parties

The Company accepts and cedes insurance business under various reinsurance contracts with related parties. The details of which follow:

	30 September 2016		30 September 2015	
	Stockholders	**Related Parties Under Common Ownership**	Stockholders	Related Parties Under Common Ownership
Premiums	**P 498,271,664**	**P 30,137,454**	P 282,626,812	P 25,502,780
Retrocessions	**-**	**8,914,795**	999,714	5,010,237
Commission income	**25,347,160.78**	**-**	42,130	-
Commission expenses	**132,412,559**	**-**	76,208,795	-
Losses paid	**290,136,736**	**-**	248,403,135	-
Losses recoveries	**93,015,897.61**	**-**	77,499	-

	30 September 2016		31 December 2015	
	Stockholders	**Related Parties Under Common Ownership**	Stockholders	Related Parties Under Common Ownership
Due from (to) ceding cos.	**P 207,337,444**	**P (81,982)**	P 222,331,936	P 20,216,776
RI recoverable on losses	**656,046,531**	**-**	95,866,745	489,795.00
Funds held by ced. cos.	**54,353,706**	**-**	60,839,214	-
Claims payable	**1,404,735,383**	**99,184**	1,212,866,352	4,458,459
Due to Retrocessionaires	**23,552,174**	**4,264,858**	44,783,499	1,374,498
Funds held for retro	**(23,694,142)**	**-**	164,777	-

The balance of due from ceding companies pertaining to related parties is presented net of P97.1 million and P115.4 million allowance for impairment as at 30 September 2016 and 31 December 2015, respectively (see Note 5).

16.2 Other Transactions

The Company's other transactions with related parties follow:

		30 September 2016		31 December 2015	
		Amount of Transactions	**Outstanding Balance**	Amount of Transactions	Outstanding Balance
Stockholder:					
Cash & cash equivalent	(a)	**(99,000,372)**	**66,773,593**	161,051,957	165,773,965
AFS financial assets	(b)	**(16,228,113)**	**50,845,095**	21,900,662	67,073,208
Loans and receivables	(c)	**(16,071)**	**71,771**	87,842	87,842
Interest Income-Bank accounts	(a)	**2,051,106**	**-**	546,854	-
Interest Income-AFS Financial assets	(b)	**-**	**-**	1,234,771.00	-
Gain(loss) on sales of AFS	(b)	**2,903,068**	**-**		
Service fees	(d)	**(3,112,085)**	**-**	(3,718,236)	-
Related Party Under Common Ownership					
Cash & Cash equivalent	(a)	**(194,673,990)**	**368,146,472**	274,579,834	562,820,462
AFS financial assets	(b)	**(2,995,947)**	**149,777,615**	(82,890,836)	152,773,562
Loans and receivables	(c)	**(30,670)**	**823,261**	(1,291,390)	853,931
Interest Income-Bank accounts	(a)	**6,474,892**	**-**	570,998	-
Interest Income-AFS Financial assets	(b)	**4,856,425**	**-**	8,785,067	-
Interest income-Loans and receivables	(c)	**-**	**-**	-	-
Gain(loss) on sales of AFS	(b)	**(2,336,466)**	**-**	-	
Service fees	(d)	**(876,720)**		(1,203,272)	

(a) Cash and Cash Equivalent

The Company maintains several savings and current accounts with a stockholder and related party under common ownership. Interest income recognized is presented as part of interest income under Investment and Other Income in the Statements of Income (see Note 12).

(b) AFS Financial Assets

The Company has AFS financial assets with a stockholder and related party under common ownership. Relative to these transactions, the Company recognized interest income and trading gains which are presented as part of Investment and Other Income in the Statements of Income (see Note 12).

(c) Loans and Receivables

The Company has term loans with certain related parties under common ownership. Relative to this, the Company recognized interest income which are presented as part of interest income under Investment and Other Income in the Statements of Income (see Note 12). The term loan is unsecured and earns interest of 3.80% to 5.86% in 2016 and 4.80% to 5.86% in 2015. As at 30 September 2016, management assessed that these term loans are not impaired.

(d) Investment Management and Custodianship

The Company has entered into agreements known as "Investment Management Agreement" and "Custodianship Agreement" with a stockholder and a related party for the management and custodianship of certain investible funds of the Company subject to terms and conditions in the said agreements. In consideration for the services rendered, the Company pays the stockholder and the related party service fees equivalent to a certain percentage of the market value of the investments. Total service fee paid is charged against Other income (charges) under Investment and Other Income account (see Note 12) in the Statements of Income. There are no outstanding liabilities from these transactions as at 30 September 2016 and 31 December 2015.

16.3 Retirement Fund Investment Management

In 2007, the Company entered into a "Retirement Fund Investment Management Agreement" with its stockholder and a related party for the management of the investments of the Company's retirement funds subject to the terms and conditions in the said agreement.

16.4 Transactions with Retirement Fund

As discussed in Note 17.2, the Company maintains a wholly-funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. The Company has no other transaction with its retirement fund in 2016 and 2015 except for its contribution of P32,141,298 in 2015.

16.5 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows:

		30 September 2016		30 September 2015
Short-term benefits	**P**	**33,923,780**	P	27,542,440
Post-employment benefits		**1,746,035**		1,176,573
	P	**35,669,815**	P	28,719,013

17. Earnings Per Share

The earnings per share amounts are as follows:

		30 September 2016		30 September 2015
Net income (loss) available to common shareholders	**P**	**(34,861,724)**	P	97,317,990
Divided by the average number of outstanding common shares		**2,123,605,600**		2,123,605,600
	P	**(0.02)**	P	0.05

18. Categories offsetting of financial assets and liabilities

18.1. Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the Statements of Financial Position are shown below:

	30 September 2016				31 December 2015			
		Carrying Values		**Fair Values**		Carrying Values		Fair Values
Financial assets								
Loans and receivables:								
Cash and cash equivalents	**P**	**1,013,849,017**	**P**	**1,013,849,017**	P	1,047,472,576	P	1,047,472,576
Reinsurance balances receivables		**5,564,393,083**		**5,564,393,083**		5,343,416,633		5,343,416,633
Loans and receivables		**288,323,080**		**288,323,080**		306,791,128		306,791,128
	P	**6,866,565,180**	**P**	**6,866,565,180**	P	6,697,680,337	P	6,697,680,337
AFS financial assets:								
Debt securities	**P**	**3,796,614,340**	**P**	**3,796,614,340**	P	3,686,967,019	P	3,686,967,019
Equity securities		**2,372,274,318**		**2,372,274,318**		1,860,924,875		1,860,924,875
Treasury Bills		**-**		**-**		-		-
Investment in ARC		**30,356,991**		**30,356,991**		4,444,847		4,444,847
Various funds		**115,182,836**		**115,182,836**		176,038,847		176,038,847
	P	**6,314,428,485**	**P**	**6,314,428,485**	P	5,728,375,588	P	5,728,375,588
Financial liabilities								
Financial liabilities at amortized cost:								
Reinsurance balances payable	**P**	**7,669,539,590**	**P**	**7,669,539,590**	P	7,438,085,066	P	7,438,085,066
Accounts payable and other								-
accrued expenses		**53,146,868**		**53,146,868**		80,638,646		80,638,646
	P	**7,722,686,458**	**P**	**7,722,686,458**	P	7,518,723,712	P	7,518,723,712

Due to the short-term duration, management considers the carrying values of the Company's financial assets and financial liabilities approximate their fair values as at the end of the reporting periods.

See Notes 2.4 and 2.10 for a description of the accounting policies for each category of financial instrument including the determination of fair values.

18.2 Offsetting of Financial Assets and Financial Liabilities

For financial assets and financial liabilities, particularly, reinsurance balances, subject to netting agreements or similar arrangements, each agreement between the Company and counterparties, including related parties, allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis.

Reinsurance balances as at 30 September 2016 and 31 December 2015 are as follows:

	Note		**30 September 2016**		31 December 2015
Reinsurance balances receivable	5	**P**	**5,564,393,083**	P	5,343,416,633
Reinsurance balances payable	5		**7,669,539,590**		7,438,085,066

19. Fair value measurement and disclosures

19.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

i. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

ii. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

iii. Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

19.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Company's financial assets and financial liabilities measured at fair value in the Statements of Financial Position on a recurring basis, as at 30 September 2016 and 31 December 2015 (amounts in thousand Philippine Peso).

	Level 1	Level 2	Level 3	Total
30 September 2016				
AFS Financial Assets	P **5,002,940**	**P 18,880**	**P 30,357**	**P 5,052,177**
31 December 2015				
AFS Financial Assets	P 4,550,100	P 80,321	P 4,445	P 4,634,866

The Company's AFS financial assets includes certain investments measured at cost amounting to P1,262,251 and P1,093,509 (amounts in thousand Philippine Peso) as at 30 September 2016 and 31 December 2015, respectively (see Note 6).

The Company has no financial liabilities measured at fair value as at 30 September 2016 and 31 December 2015.

The movement of the AFS financial assets classified under level 3 in the fair value hierarchy is shown below (amount in thousands Philippine Peso).

		30 September 2016		31 December 2015
Balance at beginning of period	**P**	**4,445**	P	590,796
Disposals		**-**		(562,960)
Transfer		**-**		(23,391)
Fair value gain		**23,990**		-
Gain on Foreign exchange		**1,922**		-
Balance at end of period	**P**	**30,357**	P	4,445

Described below are the information about how the fair values of the Company's classes of financial assets are determined.

a) Equity securities

As at 30 September 2016 and 31 December 2015, instruments included in Level 1 comprise equity securities classified as AFS financial assets. These securities were valued based on their market prices quoted in the Philippine stock exchanges at the end of each reporting period.

Golf club shares classified as AFS financial assets are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period. Moreover, equity security held in a private company is included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the fair value of a comparable instrument adjusted for inputs internally developed by management to consider the differences in corporate profile and historical performance of the entity.

The fair value of the Company's debt securities which consist of government and corporate bonds is estimated by reference to quoted bid price in active market at the end of the reporting period and is categorized within Level 1 and 3.

b) Debt securities

The fair value of the Company's debt securities which consist of government and corporate bonds is estimated by reference to quoted bid price in active market at the end of the reporting period and is categorized within Level 1.

c) Mutual funds

The fair value of the Company's mutual funds which consist of money market placements and minimal equity securities is estimated by reference to the net asset value provided by the fund managers.

19.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the September 2016 and December 2015 Statements of Financial Position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
30 September 2016				
Financial assets:				
Cash and cash equivalents	P 1,013,849,017	P -	P -	P 1,013,849,017
Reinsurance balances receivables	-	-	5,564,393,083	5,564,393,083
Loans and receivables	-	-	288,323,080	288,323,080
	P 1,013,849,017	**P -**	**P 5,852,716,163**	**P 6,866,565,180**
Financial liabilities:				
Reinsurance balances payable	P -	P -	P 7,669,539,590	P 7,669,539,590
Accounts payable and other accrued expenses	-	-	53,146,868	53,146,868
	P -	**P -**	**P 7,722,686,458**	**P 7,722,686,458**
31 December 2015				
Financial assets:				
Cash and cash equivalents	P 1,047,472,576	P -	P -	P 1,047,472,576
Reinsurance balances receivables	-	-	5,343,416,633	5,343,416,633
Loans and receivables	-	-	306,791,128	306,791,128
	P 1,047,472,576	P -	P 5,650,207,761	P 6,697,680,337
Financial liabilities:				
Reinsurance balances payable	P -	P -	P 7,438,085,066	P 7,438,085,066
Accounts payable and other accrued expenses	-	-	80,638,647	80,638,647
	P -	P -	P 7,518,723,713	P 7,518,723,713

For financial assets, other than AFS investments, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 3 above, which are not traded in an active market is determined by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

19.4 Fair Value Measurement for Non-financial Assets

The Company used market comparable approach as a valuation technique in measuring the fair values of its investment properties to arrive at fair values that are more representative of the investment properties' highest and best use. As at 30 September 2016 and 31 December 2015, the fair values of the investment properties is P5,880,000, respectively, and are classified under Level 3 of the fair value hierarchy. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

20. Other SEC requirements

The following information, as a minimum, should be disclosed in the notes to financial statements, if material and if not disclosed elsewhere in the interim financial report:

• Explanatory comments about the seasonality or cyclicality of interim operations	• Nothing to report.
• The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents	• Nothing to report.
• The nature and amount of changes in estimates of amounts reported in prior interim periods of the current fiscal year or changes in estimates of amounts reported prior financial years, if those changes have a material effect in the current interim period	• Nothing to report.
• Issuances, repurchases, and repayments of debt and equity securities	• Nothing to report.
• Dividends paid (aggregate or per share) separately for ordinary shares and other shares	• Nothing to report.
• Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting. (This shall be provided only if the issuer is required to disclose segment information in its annual financial statements)	• Nothing to report.
• Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period	• Nothing to report
• The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisitions or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations	• Nothing to report.
• Changes in contingent liabilities or contingent assets since the last annual balance sheet date	• Nothing to report.
• Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.	• Nothing to report.

AGING OF REINSURANCE BALANCES RECEIVABLE

As at 30 September 2016
(In million pesos)

	Total	Below 360 days	Over 360 days
Due from Ceding Companies	1,492	1,119	373
Reinsurance recoverable on paid losses	606	37	569
Funds Held by Ceding companies	107	107	-
	2,205	1,263	942
less: provision			
Reinsurance recoverable on unpaid losses	3,706		
Allowance for impairment*	(808)		
	5,103		

*The company's policy on providing allowance for impairment is primarily based on specific identification of accounts, which are deemed uncollectible after taking into consideration the result of collection efforts, age of receivables and company status or perceived degree of financial capacity.