COVER SHEET

					8	0	1	1	8

S.E.C. Registration Number

NATIONAL REINSURANCE CORPORATION
OF THE PHILIPPINES

(Company's Full Name)

31st FLR. BPI-PHILAM LIFE MAKATI (FORMERLY: AYALA LIFE-FGU CENTRE), 6811 Ayala Ave. Makati City Phils.

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

Atty. Pilar Gutierrez

Contact Person

(632) 988-7400

Company Telephone Number

12 | 31

Month Day

Fiscal Year

SEC Form 17-Q
2nd Quarter Ending June 30, 2017

FORM TYPE

06 | 28

Month Day

Annual Meeting

Secondary License Type, If Applicable

CRMD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

Top be accomplished by SEC Personnel concerned

LCU

CASHIER

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 **June 30, 2017**

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-PHILAM (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 12 to 69 of this report are filed as part of this Form 17-Q:

a. Statements of Financial Position as at June 30, 2017 and December 31 2016.

b. Statements of Income:
   i. For the three-month ended June 30, 2017 and 2016.
   ii. For the six-month ended June 30, 2017 and 2016.

c. Statements of Comprehensive:
   i. For the three-month ended June 30, 2017 and 2016.
   ii. For the six-month ended June 30, 2017 and 2016.

d. Statements of Changes in Equity for the six-month ended June 30, 2017 and 2016.

e. Statements of Cash Flow:
   i. For the three-month ended June 30, 2017 and 2016.
   ii. For the six-month ended June 30, 2017 and 2016.

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

I. RESULTS OF OPERATIONS

a. For the six-month ended June 30, 2017 and 2016

	For the six-month ended		Inc(dec)	
In Million PhP	**June 30, 2017**	**June 30, 2016**	**Amount**	**%**
REINSURANCE PREMIUM INCOME				
Gross Premiums Written , net of returns	**1,669.5**	1,709.8	(40.3)	-2%
Retroceded premiums	**(340.6)**	(828.3)	487.7	-59%
Net Premiums Written	**1,328.9**	881.5	447.4	51%
Increase in premium reserves - net	**(350.9)**	(293.3)	(57.6)	20%
	978.0	588.2	389.8	66%
UNDERWRITING DEDUCTIONS				
Share in claims & losses - net	**(732.2)**	(447.4)	(284.8)	64%
Commissions - net	**(274.6)**	(157.4)	(117.2)	74%
	(1,006.8)	(604.8)	(402.0)	66%
NET UNDERWRITING LOSS	**(28.8)**	(16.6)	(12.2)	-73%
INVESTMENT AND OTHER INCOME – Net	**162.5**	121.7	40.8	34%
PROFIT AFTER INVESTMENT AND OTHER INCOME	**133.7**	105.1	28.6	27%
GENERAL AND ADMINISTRATIVE EXPENSES	**(117.9)**	(98.7)	(19.2)	19%
PROFIT BEFORE TAX	**15.8**	6.4	9.4	147%
TAX EXPENSE	**(31.3)**	(25.2)	(6.1)	24%
NET LOSS	**(15.5)**	(18.8)	3.3	18%

Underwriting Results

Gross premiums written for the first half of the year is consistent with 2016 at P1.7 billion where the Company experienced growth from both non-life foreign business and Life business amounting to P393 million or 115% and P116 million or 33%, respectively. The growth in the non-life foreign business and life business is consistent with the Company's underwriting strategy of further diversifying risks assumed by the Company. During the same period, the Company reduced its domestic non-life business as certain contracts were being reassessed and/or aligned with the Company's underwriting strategy.

Net premiums written for the first half of the year amounted to P1.3 billion or P447.4 million (51%) higher than the first half of 2016. The growth in net premiums written resulted mainly from the decision to retain most of the business written; 80% of total gross premiums written compared to 52% in 2016.

Premiums earned for the first half of the year amounted to P978.2 million, which is P390.0 million or 66% higher than the same period of 2016 as a result of the increase in premiums retained.

Claims and losses amounted P732.4 million for the first half of 2017, which is P285.0 million or 64% higher than the same period of 2016. Acquisition Cost amounted to P274.8 million, which is P117.3 million (75%) higher than the same period of 2016. The Company incurred higher claims and losses and acquisition cost as a result of retaining more premiums compared to the same period of 2016.

Investment and other income amounted to P162.6 million for the first half of 2017, P40.9 million (34%) higher than the same period of 2016 resulting mainly from the gain on sale of available for sale securities amounting to P36.4 million compared to the loss of P1.8 million in 2016. Other factors that contributed to the growth in investment and other income was higher dividend income by P6.9 million which was tapered off by lower interest income by P3.4 million.

General and administrative expenses amounted to P117.9 million for the first half of 2017, which is higher by P19.2 million compared to the same period of 2016. Higher general and administrative expenses was expected and in-line with the increase in premiums retained in 2017.

Tax expense amounted to P31.3 million, which is P6.1 million or 24% higher than the same period of 2016. Higher tax expenses can be directly attributed to higher investment and other income generated in the first half of 2017.

b. For the three-month ended June 30, 2017 and 2016

In Million PhP	for the three-month ended June 30, 2017	June 30, 2016	Inc(dec) Amount	%
REINSURANCE PREMIUM INCOME				
Gross Premiums Written , net of returns	**841.4**	914.2	(72.8)	-8%
Retroceded premiums	**(132.5)**	(452.8)	320.3	-71%
Net Premiums Written	**708.9**	461.4	247.5	54%
Increase in premium reserves - net	**(90.5)**	**(177.0)**	86.5	-49%
	618.4	284.4	334.0	117%
UNDERWRITING DEDUCTIONS				
Share in claims & losses - net	**(486.7)**	(254.3)	(232.4)	91%
Commissions - net	**(159.5)**	(81.1)	(78.4)	97%
	(646.2)	(335.4)	(310.8)	93%
NET UNDERWRITING LOSS	**(27.8)**	(51.0)	23.2	45%
INVESTMENT AND OTHER INCOME - Net	**95.5**	83.4	12.1	15%
PROFIT AFTER INVESTMENT AND OTHER INCOME	**67.7**	32.3	35.3	109%
GENERAL AND ADMINISTRATIVE EXPENSES	**(59.6)**	(38.4)	(21.2)	55%
PROFIT (LOSS) BEFORE TAX	**8.1**	(6.1)	14.2	233%
TAX EXPENSE	**15.5**	(13.5)	29.0	-215%
NET PROFIT (LOSS)	**23.6**	(19.6)	43.2	220%

Underwriting Results

Gross premiums written for the second quarter of 2017 amounted to P841.4 million, which is P72.8 million or 8% lower than the same period of 2016. Lower gross premiums written resulted mainly from the Company's decision to reassess and align certain domestic non-life business with its underwriting strategy. As a result, domestic non-life business dropped by P305.3 million or 57%. This was partially negated by the increase in gross premiums written from the foreign non-life business by P158.6 million or 83% and life business by P73.9 million or 40%. The Company wrote more business from foreign non-life and life to further diversify its portfolio that is in-line with its underwriting strategy.

Reinsurance premiums retained amounted to P708.9 million for the second quarter of 2017, which is P247.5 million or 54% higher than the same period of 2016. The growth in net premiums written resulted mainly from the decision to retain most of the business written; 84% of total gross premiums written compared to 50% in 2016.

Premiums earned for the second quarter of 2017 amounted to P618.4 million, which is P334.0 million or 117% higher than the same period of 2016. The growth experienced in premiums earned resulted directly from retaining more business in the first half of 2017.

Claims and losses amounted P486.7 million for the second quarter of 2017, which is P232.4 million or 91% higher than the same period of 2016. Acquisition cost amounted to P159.5 million, which is P78.4 million or 97% higher than the same period of 2016. The Company incurred higher claims and losses and acquisition cost as a result of retaining more premiums compared to the same period of 2016.

Investment and other income amounted to P95.5 million for the second quarter of 2017, which is P12.1 million or 15% higher than the same period of 2016 resulting mainly from the gain on sale of available for sale securities amounting to P30.2 million compared to the gain of P3.3 million in the same period of 2016. Other factors that affected the total Investment and other income were interest income which was lower by P2.3 million, dividend income which was lower by P0.9 million and foreign exchange gain which was lower by P11.2 million compared to the results of the same period of 2016.

General and administrative expenses amounted to P59.6 million for the second quarter of 2017, which is P21.2 million or 55% higher than the same period of 2016. Higher general and administrative expenses were as expected due to the increase in retained premiums in 2017.

Tax expense was negative P15.5 million for the second quarter of 2017 as the Company was able to utilize the benefits of certain unrecognized deferred tax assets during the quarter.

II. FINANCIAL CONDITIONS

- In Million PhP	Unaudited June 2017	Audited December 2016	Inc(dec) Amount	%
CASH AND CASH EQUIVALENTS	**1,612.0**	920.4	691.6	75%
REINSURANCE BALANCES RECEIVABLE - Net	**1,739.1**	1,445.9	293.2	20%
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**4,703.8**	5,857.6	(1,153.8)	-20%
HELD-TO-MATURITY INVESTMENTS	**1,094.2**	-	1,094.2	0%
LOANS AND RECEIVABLES	**201.6**	464.9	(263.3)	-57%
PROPERTY AND EQUIPMENT - Net	**71.2**	66.0	5.2	8%
REINSURANCE RECOVERABLE ON UNPAID LOSSES	**4,106.5**	4,200.4	(93.9)	-2%
DEFERRED ACQUISITION COSTS	**229.1**	258.6	(29.5)	-11%
DEFERRED REINSURANCE PREMIUMS	**223.8**	394.8	(171.0)	-43%
OTHER ASSETS	**590.2**	567.1	23.1	4%
TOTAL ASSETS	14,571.5	14,175.7	395.8	3%
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	**1,051.0**	1,086.9	(35.9)	-3%
ACCOUNTS PAYABLE & ACCRUED EXPENSES	**129.7**	128.7	1.0	1%
LOSSES AND CLAIMS PAYABLE	**6,781.6**	6,728.8	52.8	1%
PREMIUM RESERVES	**1,517.2**	1,337.3	179.9	13%
DEFERRED REINSURANCE COMMISSIONS	**8.6**	41.2	(32.6)	-79%
TOTAL LIABILITIES	**9,488.1**	9,322.9	165.2	2%
EQUITY	**5,083.4**	4,852.8	230.6	5%
TOTAL LIABILITIES & EQUITY	**14,571.5**	14,175.7	395.8	3%

Cash and cash equivalents amounting to P1.6 billion as at June 30, 2017, increased by P691.6 million or 75% from P920.4 million as at December 31, 2016. The increase resulted mainly from the collection of loans and reinsurance receivables and disposal or maturities of available for sale securities.

Reinsurance balances receivables amounting to P1.7 billion as at June 30, 2017 increased by P293.2 million or 20% from P1.4 billion as at December 31, 2016. The increase is consistent with the higher premiums retained in 2017.

Investments in available for sale financial assets and Held to Maturity Investments
Investments in available for sale financial assets amounting to P4.7 billion as at June 30, 2017 decreased by P1.2 billion or 20% from P5.9 billion as at December 31, 2016. The decrease in these investments resulted mainly from the reclassification of certain corporate

bonds amounting to P1.1 billion previously classified as available for sale financial assets to held to maturity financial assets

Loans and receivables amounting to P201.6 million as at June 30, 2017 decreased by P263.3 million or 57% due to the collection and maturity of certain loans receivables and long term notes receivables.

Deferred Reinsurance Premiums amounting to P223.6 million as at June 30, 2017 decreased by P171.0 million from P394.8 million as at December 31, 2016. The decline in Deferred reinsurance premiums is consistent with the decline in retroceded premiums.

Premium reserves amounting to P1.5 billion as at June 30, 2017 increased by P179.9 million or 13% from P1.3 billion as at December 31, 2016. The increase in premium reserves can be attributed to higher premiums assumed in 2017.

Deferred Reinsurance Commissions amounting to P8.6 million as at June 30, 2017 decreased by P32.6 million or 79% from P41.2 million as at December 31, 2016. The decline in Deferred reinsurance commissions is consistent with the decline in retroceded premiums.

III. KEY PERFORMANCE INDICATORS:

	For the six-month ended June 30, 2017	For the six-month ended June 30, 2016	% Inc.(Dec).
1. Net loss	(P15.5) million	(P18.8) million	18%
2. Earnings Per Share (EPS) [a]	(P 0.01)	(P 0.01)	0%
3. Retention Ratio[b]	80%	52%	54%
4. Combined Ratio[c]	104%	105%	0%
5. Return on Average Equity (ROE)	(0.31%)	(0.38%)	(0.16%)

(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 following:

	2017	2016
Loss Ratio	75%	76%
Commission Ratio	20%	18%
Expense Ratio	9%	11%
Total	104%	105%

IV. FINANCIAL SOUNDNESS INDICATORS

	As at June 30, 2017	As at Dec. 31, 2016
Current Ratio	3.16	2.47
Asset to Equity Ratio	2.87	2.92
Total Liabilities/Equity	1.87	1.92

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 2016), 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. On December 01, 2016 President Duterte ratified the FATCA agreement and its transmitted to the Senate on December 06, 2016 for concurrence.

II. - OTHER INFORMATION

B. No other material information.

NATIONAL REINSURANCE CORPORATION
OF THE PHILIPPINES
(Registrant)

SANTINO U. SONTILLANO
Senior Assistant Vice President
& Head of Finance

AUGUSTO P. HIDALGO
President & Chief Executive Officer

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF FINANCIAL POSITION
as at JUNE 30, 2017 and DECEMBER 31, 2016
(Amounts in Philippine Peso)

	Notes	June 30, 2017 (Unaudited)	December 31,2016 (Audited)
ASSETS			
CASH AND CASH EQUIVALENTS	4	P 1,611,986,750	P 920,425,229
REINSURANCE BALANCES RECEIVABLE - Net	5	1,739,093,231	1,445,939,323
AVAILABLE-FOR-SALE FINANCIAL ASSETS	6	4,703,808,759	5,857,571,100
HELD-TO-MATURITY INVESTMENTS	7	1,094,191,839	-
LOANS AND RECEIVABLES	8	201,594,127	464,887,025
PROPERTY AND EQUIPMENT - Net	9	71,219,461	65,978,125
REINSURANCE RECOVERABLE ON UNPAID LOSSES	10	4,106,523,796	4,200,404,577
DEFERRED ACQUISITION COSTS	11	229,095,170	258,617,319
DEFERRED REINSURANCE PREMIUMS	12	223,815,255	394,816,767
OTHER ASSETS	13	590,154,815	567,104,396
TOTAL ASSETS		P 14,571,483,203	P 14,175,743,861
LIABILITIES AND EQUITY			
REINSURANCE BALANCES PAYABLE	14	P 1,050,950,265	P 1,086,930,932
ACCOUNTS PAYABLE & ACCRUED EXPENSES	15	129,728,751	128,792,280
LOSSES AND CLAIMS PAYABLE	16	6,781,624,285	6,728,805,241
PREMIUM RESERVES	17	1,517,160,467	1,337,254,844
DEFERRED REINSURANCE COMMISSIONS	18	8,618,644	41,201,206
TOTAL LIABILITIES		9,488,082,412	9,322,984,503
EQUITY	22	5,083,400,791	4,852,759,358
TOTAL LIABILITIES & EQUITY		P 14,571,483,203	P 14,175,743,861

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME (Unaudited)
FOR THE SIX-MONTH ENDED JUNE 30, 2017 AND 2016
(Amounts in Philippine Peso)

	Notes	2017	2016
REINSURANCE PREMIUM INCOME			
Gross Premims Written , net of returns		**P 1,669,693,304**	P 1,709,903,337
Retroceded premiums		**(340,610,259)**	(828,299,483)
Net Premiums Written		**1,329,083,045**	881,603,854
Increase in premium reserves - net		**(350,907,137)**	(293,386,542)
		978,175,908	588,217,312
UNDERWRITING DEDUCTIONS			
Share in claims & losses - net	20.1	**(732,398,669)**	(447,396,372)
Commissions - net	20.2	**(274,765,227)**	(157,427,339)
		(1,007,163,896)	(604,823,711)
NET UNDERWRITING LOSS		**(28,987,988)**	(16,606,399)
INVESTMENT AND OTHER INCOME - Net	19	**162,636,575**	121,707,460
PROFIT AFTER INVESTMENT AND OTHER INCOME		**133,648,587**	105,101,061
GENERAL AND ADMINISTRATIVE EXPENSES	21	**(117,873,557)**	(98,666,954)
PROFIT BEFORE TAX		**15,775,030**	6,434,107
TAX EXPENSE		**(31,310,779)**	(25,214,583)
NET LOSS		**(P 15,535,749)**	(P 18,780,476)
Earnings (Loss) Per Share - Basic and diluted	25	**(P 0.01)**	(P 0.01)

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME (Unaudited)
FOR THE THREE-MONTH ENDED JUNE 30, 2017 AND 2016
(Amounts in Philippine Peso)

	Notes	2017	2016
REINSURANCE PREMIUM INCOME			
Gross Premims Written , net of returns		**P 841,459,739**	914,335,718
Retroceded premiums		**(132,521,769)**	(452,693,541)
Net Premiums Written		**708,937,970**	461,642,177
Increase in premium reserves - net		**(90,539,589)**	(177,225,519)
		618,398,381	284,416,658
UNDERWRITING DEDUCTIONS			
Share in claims & losses - net		**(486,690,529)**	(254,405,148)
Commissions - net		**(159,467,584)**	(81,076,147)
		(646,158,113)	(335,481,295)
NET UNDERWRITING LOSS		**(27,759,732)**	(51,064,637)
INVESTMENT AND OTHER INCOME - Net		**95,473,416**	83,352,062
PROFIT AFTER INVESTMENT AND OTHER INCOME		**67,713,684**	32,287,425
GENERAL AND ADMINISTRATIVE EXPENSES		**(59,568,953)**	(38,464,617)
PROFIT (LOSS) BEFORE TAX		**8,144,731**	(6,177,192)
TAX EXPENSE		**15,456,634**	(13,465,320)
NET PROFIT (LOSS)		**P 23,601,365**	(19,642,512)
Earnings (Loss) Per Share - Basic and diluted		**P 0.01**	(P 0.01)

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
FOR THE SIX-MONTH ENDED JUNE 30, 2017 AND 2016
(Amounts in Philippine Peso)

	Notes	2017	2016
NET LOSS		**(P 15,535,749)**	(P 18,780,476)
Items that are and will be reclassified subsequently to profit or loss			
AFS Financial Asset - Net Change in Fair Value	6	**276,396,289**	364,717,697
Held-to-maturity investment Fair value Reserve - net of amortization	7	**4,366,123**	-
AFS Financial Asset - reclassified to profit or loss	6	**(34,585,230)**	1,786,326
		246,177,182	**366,504,023**
TOTAL COMPREHENSIVE INCOME		**P 230,641,433**	P 347,723,547

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
FOR THE THREE-MONTH ENDED JUNE 30, 2017 AND 2016
(Amounts in Philippine Peso)

	Notes	2017	2016
NET PROFIT (LOSS)		**P 23,601,365**	(P 19,642,512)
Items that are and will be reclassified subsequently to profit or loss			
AFS Financial Asset - Net Change in Fair Value	6	**169,164,341**	218,772,778
Held-to-maturity investment Fair value Reserve - net of amortization	7	**4,366,123**	-
AFS Financial Asset - reclassified to profit or loss	6	**(30,227,346)**	(3,290,670)
		143,303,118	**215,482,108**
TOTAL COMPREHENSIVE INCOME		**P 166,904,483**	P 195,839,596

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY (Unaudited)
FOR THE SIX-MONTH ENDED JUNE 30, 2017 AND 2016
(Amounts in Philippine Peso)

	Notes	Capital Stock No. of Shares	Capital Stock Amount	Additional Paid-in Capital	Treasury Shares - At Cost	Remeasurement of defined Benefit liability	Revaluation Reserves Available-for-sale Financial Assets	Revaluation Reserves Held-to-Maturity Financial Assets	Retained Earnings (Deficit)	Total Equity
Balance as at January, 1 2017		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 100,525,432)	(P 75,147,148)	(P 186,392,779)	-	P 13,651,659	P 4,852,759,358
Appropriated for contingencies										-
Fair Value Gain							246,586,664			246,586,664
Reclassified to held-to-matutrity investments							(4,775,605)	4,775,605		-
Amortization of fair value reserve to profit or loss								(409,481)		(409,481)
Net loss during the period	6,7					-			(15,535,749)	(15,535,749)
Total Equity as at June 30, 2017		**2,181,954,600**	**P 2,181,954,600**	**P 3,019,218,458**	**(P 100,525,432)**	**(P 75,147,148)**	**P 55,418,280**	**P 4,366,123**	**(P 1,884,090)**	**P 5,083,400,791**
Balance as at January, 1 2016 (restated)		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 65,639,038)	(P 64,402,298)	P 4,841,599,378
Appropriated for contingencies										-
Total comprehensive income (loss) for the period	6					-	366,504,023	-	(18,780,476)	347,723,547
Total Equity as at June 30, 2016		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 100,525,432)	(P 63,367,874)	P 300,864,985	(P 65,639,038)	(P 83,182,774)	P 5,189,322,925

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE SIX-MONTH ENDED JUNE 30, 2017 AND 2016
(Amounts in Philippine Peso)

	Notes	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 15,775,030**	P 6,434,107
Adjustments for:			
Interest income	19	**(94,148,439)**	(97,526,336)
Dividend income	19	**(33,453,787)**	(26,554,496)
Impairment recovery		**-**	(16,119,761)
Increase in reserve for net premium reserves-net	12,17	**350,907,137**	293,386,542
Increase in deferred acquisition costs	11,18	**(3,060,412)**	(61,005,562)
Unrealized foreign currency gain	19	**(1,351,292)**	(5,482,159)
(Gain)/loss on sale of AFS financial assets	19	**(34,585,231)**	1,786,326
Gain on disposal of property and equipment	19	**(34,176)**	(33,706)
Depreciation & amortization	21	**6,878,798**	11,268,794
Operating income (loss) before working capital changes		**206,927,628**	106,153,749
Increase in reinsurance balances receivable		**(301,836,028)**	(156,217,613)
(Increase)/decrease in RI recoveries on unpaid losses		**104,817,804**	(266,194,707)
Increase in other assets		**(33,163,638)**	(15,681,577)
Decrease(Increase) in loans and receivable		**(26,657,265)**	7,959,211
Decrease in reinsurance balances payable		**(21,996,351)**	(149,051,553)
Increase in Losses & claims payable		**31,083,607**	508,142,872
Increase in accounts payable		**905,894**	9,851,679
Cash generated from (used in) operations		**(39,918,349)**	44,962,061
Cash paid for income taxes		**(17,948,002)**	(25,214,583)
Net Cash From (Used in) Operating Activities		**(57,866,351)**	19,747,478
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal/maturities of:			
Available-for-sale financial assets	6	**1,307,880,223**	1,146,639,255
Property and equipment	9	**2,860,816**	561,442
Other Investments	8	**290,045,827**	-
Interest received		**96,030,150**	96,778,647
Dividends received		**31,589,653**	26,262,890
Acquisitions of:			
Available-for-sale financial assets	6	**(965,649,361)**	(1,227,119,523)
Intangible assets	13	**(1,132,000)**	-
Property and equipment	9	**(14,531,234)**	(2,048,910)
Net Cash (Used in) From Investing Activities		**747,094,074**	41,073,801
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends		**-**	-
Net Cash From Financing Activities		**-**	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		**689,227,723**	60,821,279
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		**2,333,799**	(649,172)
CASH AND CASH EQUIVALENTS - January 1		**920,425,229**	1,047,472,576
CASH AND CASH EQUIVALENTS - June 30		**P 1,611,986,750**	P 1,107,644,683

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE THREE-MONTH ENDED JUNE 30, 2017 AND 2016
(Amounts in Philippine Peso)

	Notes	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) profit before tax		**P 8,144,730**	(P 6,177,192)
Adjustments for:			
Interest income	19	**(46,583,988)**	(48,908,599)
Dividend income	19	**(15,738,051)**	(16,668,824)
Impairment recovery		**-**	(16,119,761)
Increase in reserve for net premium reserves-net	12,17	**90,539,590**	177,225,518
(Increase)/decrease in deferred acquisition costs	11,18	**32,202,763**	(31,253,025)
Unrealized foreign currency gain	19	**(7,003,540)**	(18,324,295)
Gain on sale of AFS financial assets	19	**(30,227,347)**	(3,290,670)
(Gain)Loss on disposal of property and equipment	19	**327,117**	(33,706)
Depreciation & amortization	21	**3,212,871**	6,942,795
Operating income (loss) before working capital changes		**34,874,145**	43,392,241
Increase in reinsurance balances receivable		**(91,128,908)**	(499,535,074)
(Increase)/decrease in RI recoveries on unpaid losses		**(3,379,562)**	25,671,177
Increase in other assets		**(28,973,586)**	(9,102,514)
Decrease(Increase) in loans and receivable		**(23,743,042)**	8,377,733
Increase in reinsurance balances payable		**63,822,486**	223,741,037
(Increase)/decrease in Losses & claims payable		**(845,808)**	212,861,454
Increase/(decrease) in accounts payable		**(5,090,877)**	19,173,335
Cash generated from (used in) operations		**(54,465,152)**	24,579,389
Cash paid for income taxes		**(8,771,309)**	(13,465,321)
Net Cash From (Used in) Operating Activities		**(63,236,461)**	11,114,069
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal/maturities of:			
Available-for-sale financial assets	6	**1,035,619,727**	716,446,994
Property and equipment	9	**2,499,523**	480,489
Other Investments	8	**98,000,783**	-
Interest received		**32,959,034**	27,749,139
Dividends received		**19,353,885**	16,377,218
Acquisitions of:			
Available-for-sale financial assets	6	**(579,209,157)**	(1,006,228,693)
Intangible assets	13	**-**	-
Property and equipment	9	**(13,457,639)**	(1,368,542)
Net Cash (Used in) From Investing Activities		**595,766,156**	(246,543,394)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends		**-**	-
Net Cash From Financing Activities		**-**	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		**532,529,695**	(235,429,325)
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		**2,848,787**	10,299,573
CASH AND CASH EQUIVALENTS - April 1		**1,076,608,268**	1,332,774,435
CASH AND CASH EQUIVALENTS - June 30		**P 1,611,986,750**	P 1,107,644,683

See Notes to Financial Statements

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

National Reinsurance Corporation of the Philippines (the Company) was incorporated on June 7, 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. The 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.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(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 their functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2017

There are new PFRS and amendments to existing standards effective in 2017, 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:

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

(b) Effective subsequent to 2017 but not Adopted Early

(iii) PFRS 4 (Amendments), *Insurance Contracts* (effective from January 1, 2018). The amendments address the temporary accounting consequences of the different effective dates of PFRS 9, *Financial Instruments*, and the anticipated new insurance contracts standard by introducing the following options: (a) overlay approach, which is an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of PFRS 9; or, (b) an optional temporary exemption from applying PFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of PAS 39, *Financial Measurements: Recognition and Measurement.*

(iv) PFRS 9 (2014) (effective from January 1, 2018). This new standard on financial instruments will 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 plans to exercise the second option provided by the PFRS 4 (Amendments) effectively deferring application of PFRS 9 (2014) to periods beyond January 1, 2018. Consequently, the Company will continue to apply the existing financial instrument requirements of PAS 39.

(v) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its financial statements.

2.3 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, *Financial Instruments: Presentation*. 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: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) 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 the statement of income. 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, Loans and Receivables, and Funds at Lloyd's (presented under Other Assets account 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 (3) 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 subject to any impairment loss.

(ii) HTM Investments

These investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, and that the Company has the positive intention and ability to hold to maturity other than: (a) those that Company designates at FVPL upon initial recognition; (b) those that the Company designates as AFS; and (c) those that meet the definition of loans and receivables. This category includes corporate bonds which the Company has the intent to hold until maturity.

HTM investments are subsequently measured at amortized cost using the effective interest method subject to any impairment loss.

(iii) AFS Financial Assets

This category includes non-derivative financial assets that are designated as AFS financial assets or are not classified as loans and receivables, HTM investments or financial assets at FVTPL. The Company's AFS financial assets include listed and unlisted equity securities, mutual funds, and government and corporate bonds.

All financial assets within this category are subsequently measured at fair value, except for certain 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 any impairment loss. Fair value 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 the statement of income.

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 statement of income 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, and HTM Investments

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

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 statement of income.

(ii) 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 the statement of income 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 the statement of income when earned, regardless of how the related carrying amount of financial assets is measured.

(d) Derecognition 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.

2.4 Deferred Acquisition Costs

Deferred acquisition costs represent the unamortized portion of commission expense from premiums written as at report date. Subsequent to initial recognition, these costs are amortized using the 24th method [see Note 2.15(a)] over the term of the policy. Amortization is charged against the statement of income. The unamortized acquisition costs are presented as part of asset in the statement of financial position.

2.5 Deferred Reinsurance Premiums

Deferred reinsurance premiums represent the part of the premiums that pertain to the unexpired portion of the policy and are presented as Deferred Reinsurance Premiums in the statement of financial position. Subsequent to initial recognition, these deferred reinsurance premiums are recognized in the statement of income using the 24th method.

2.6 Reinsurance Recoverable on Unpaid Losses

Reinsurance recoverable on unpaid losses represents the amount recoverable from retrocessionaires under reinsurance agreements as their share on unpaid, including unreported, losses and loss adjustment expenses, net of salvage of recoveries.

2.7 Property and Equipment

Property and equipment represent tangible items that are held for use in the Company's business operations or for administrative purposes and are expected to be used during more than one (1) period. An item of property and equipment that qualifies for recognition as an asset shall be measured at its cost less any accumulated depreciation, and any accumulated impairment losses.

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, while 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, estimated useful lives and method of depreciation 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income in the year the item is derecognized.

2.8 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. They may include the following accounts:

(a) *Investment Properties*

Investment properties are 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 properties comprise their 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 10 years.

The carrying amount of investment properties are 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 properties are 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 the investment properties are recognized in the statement of income in the year of retirement or disposal.

(b) Intangible Assets

Intangible assets 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 the asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over five (5) 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 the statement of income 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 the statement of income.

(c) Creditable Withholding Tax

Creditable withholding tax (CWT) mainly arises from taxes withheld by the ceding companies upon payment of reinsurance premiums to the Company.

CWT is recorded at cost. It can either be used to offset against future income tax liabilities or claimed as a tax refund from the Bureau of Internal Revenue (BIR).

(d) Input Value-added Tax

The input value-added tax (VAT) pertains to the 12% tax paid by the Company on commissions and local purchase of goods or services.

The input VAT is recorded at cost. It is used to offset against output VAT due to the BIR. Excess input VAT is recorded under the Other Assets account in the statement of financial position.

(e) Deferred Input VAT

Deferred input VAT pertains to the 12% tax arising from commissions payable and acquisition of capital assets exceeding P1,000,000. Deferred input VAT arising from capital assets is amortized to input VAT over the useful lives of the capital assets or 60 months, whichever is lower.

(f) Deferred Withholding VAT

Deferred withholding VAT pertains to the unapplied input VAT on unpaid premiums from a certain government entity.

(g) Prepayments

Prepayments pertain to expenditure paid for in one (1) accounting period, but for which the underlying asset will not be consumed until a future period. When the asset is eventually consumed, it is charged to expense. If consumed over multiple periods, there may be a series of corresponding charges to expense.

2.9 Financial Liabilities

Financial liabilities, which include Reinsurance Balances Payable, and Accounts Payable and Accrued Expenses (excluding deferred output VAT 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 initially recognized at their fair value and subsequently measured at amortized cost, using the effective interest method for those with maturities beyond one (1) year, less settlements.

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 statement of income.

2.10 Losses and Claims Payable

(a) Losses and Claims Payable is 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. This includes Margin for Adverse Deviation (MfAD) as percentage of the total outstanding losses, estimate for incurred but not reported (IBNR) losses and loss adjustment expenses payable, to allow for inherent uncertainty of the best estimate of the policy reserve.

(b) 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 the statement of income. The reinsurance contract liability is increased to the extent that the future claims and expense in respect of current insurance contracts exceed future premiums.

2.11 Premium Reserves

Premium Reserves 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 24^{th} 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. In determining the URR, the Company has allocated different percentages of net earned premium as claims handling expense, reinsurance cost and on-going maintenance in order to ensure that the estimated premium reserves would be sufficient to meet future financial obligations related to the future claims payments for these unexpired risks. These expense ratio assumptions are calculated by conducting internal analysis on the management expenses for the latest reporting period.

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

2.12 Deferred Reinsurance Commissions

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

2.13 Other Liabilities

These represent other liabilities which cannot be appropriately classified under the foregoing liability accounts. These comprise, among others, the following accounts:

(a) *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.

(b) *Deferred Output VAT*

Deferred output VAT, presented as part of Accounts Payable and Accrued Expenses, represents the 12% tax due on commission income on retroceded premiums and other goods based on amounts still to be collected from counterparties. Such amounts are still not due for remittance to the BIR until the receivables are collected.

2.14 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.

2.15 Revenue Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Company; and, the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria as described below 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. 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 Reserves 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 Reserves and Deferred Reinsurance Premiums between the end of the reporting periods are recognized in the statement of income.

(b) *Commission on retrocession* – Revenue is deferred and is subjected to the same amortization as the retroceded reinsurance premiums. Deferred portion is presented in the statement of financial position as Deferred Reinsurance Commissions.

(c) *Interest income* – Interest income for all interest-bearing financial instruments are recognized using the effective interest rate method.

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

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

2.16 Expense Recognition

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

(a) *Claims and Losses Recognition*

Share in claims and losses relating to insurance contracts are accrued when insured events occur. These arise from events that have occurred up to reporting date even if these have not yet been reported to the Company. The share in claims (including those for IBNR losses) 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 claims and losses 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 aggregate share of the retrocessionaire on the claims and losses and adjustment expenses of the Company on business ceded under reinsurance arrangements. Recoveries on settled and unsettled claims are recognized in statement of income in the period the claims are made. Uncollected balances are presented as part of Reinsurance Balances Receivable account in the statement of financial position (see Note 2.3).

(b) *Acquisition Costs*

Costs that vary with and are primarily related to the acquisition of new and renewal reinsurance contracts such as commissions and certain underwriting costs, are recognized as expense over the period of the contracts using the 24th method. Unamortized acquisition costs are presented in the statement of financial position as Deferred Acquisition Costs (see Note 2.4).

(c) *General and Administrative Expenses*

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

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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income as part of Investment and Other Income (see Note 19).

2.19 Impairment of Non-Financial Assets

The Company's property and equipment, investment properties, intangible assets and other non-financial assets 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 amount 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.

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, non-contributory and administered by a trustee.

The asset recognized in the statement of financial position for a defined benefit plan is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation (asset) is calculated annually by an independent actuary 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 Corp., 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.

Remeasurements, 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 statement of income in the period of a plan amendment and curtailment.

(b) Compensated Absences

Compensated absences are recognized for the number of paid leave days remaining at the end of the reporting period. These are included in the Accounts Payable and Accrued Expenses account in the statement 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 the statement of income.

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 the statement of income, 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, directly or indirectly, 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 funded 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.

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 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 remeasurements of defined benefit plan.

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. The appropriated portion of the retained earnings is intended as additional reserve for contingencies (see Note 22.2).

2.24 Earnings Per Share

Basic earnings per share is determined by dividing net profit 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 per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

2.25 Segment Reporting

For purposes of segment reporting, the Company does not have other reportable segments. The Company has one reportable business segment which is the reinsurance market. The financial information about the sole business segment is presented in the financial statements.

The management monitors the operating results of its business segment for the purpose of making decisions about resource allocation and performance assessment. The segment performance is evaluated based on operating profit or loss and is measured consistently with the income before income tax in the financial statements.

2.26 Events After the End of the Reporting Period

Any post-year-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-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the 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 no AFS financial assets are impaired as at June 30, 2017, while certain AFS financial assets are impaired as at December 31, 2017 (see Note 6). Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(b) 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 2.13(a) and relevant disclosures are presented in Note 26.

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, Loans and Receivables, and HTM Investments

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 values of HTM investments, and loans and receivables are shown in Notes 7 and 8, respectively.

(b) Fair Value Measurement of Financial Assets Other than those at Amortized Cost

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 Properties and Intangible Assets

The Company estimates the useful lives of property and equipment, investment properties 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 properties 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 9, and of investment properties and intangible assets in Note 13. Based on management's assessment as at June 30, 2017 and December 31, 2016, 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 2017 and 2016.

(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.

(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 an independent actuary 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.

(g) Valuation of Reinsurance Contract Liabilities

The Company estimates the cost of IBNR losses 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 losses, with IBNR losses calculated as the estimated ultimate loss multiplied by the percentage of loss that is unreported. The Company also included 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 June 30, 2017 and December 31, 2016, the carrying values of provision for claims reported and IBNR losses are recognized as Losses and Claims Payable account in the statements of financial position (see Note 16).

4. CASH AND CASH EQUIVALENTS

This account consists of:

		June 30, 2017		December 31, 2016
Short-term placements	**P**	**1,372,854,540**	P	838,326,387
Cash on hand and in banks		**239,132,210**		82,098,842
	P	**1,611,986,750**	P	920,425,229

Cash in banks generally, earn interest at rates based on daily bank deposit rates. Interest income recognized are presented as part of Investment and Other Income account in the statement of income (see Note 19).

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.

		June 30, 2017		December 31, 2016
Philippine Peso		**0.50%-2.625%**		0.25%-2.625%
U.S. Dollar		**0.50% to 1.375%**		1.50%-1.60%
U.S. Dollar denominated cash	**$**	**5,513,107**	$	3,434,850
U.S. Dollar denominated cash in Philippine Peso	**P**	**278,224,452**	P	170,602,071

5. REINSURANCE BALANCES RECEIVABLE

The details of Reinsurance Balances Receivable are as follows:

		June 30, 2017		December 31, 2016
Due from ceding companies	**P**	**1,864,934,544**	P	1,524,450,005
Reinsurance recoverable on paid losses		**500,954,730**		535,884,883
Funds held by ceding companies		**102,357,800**		114,758,277
		2,468,247,074		2,175,093,165
Allowance for impairment		**(729,153,843)**		(729,153,842)
	P	**1,739,093,231**	P	1,445,939,323

The movements in these accounts are as follows:

	Due from ceding companies	Reinsurance recoverable on paid losses	Funds held by ceding companies	Total
June 30, 2017				
Balance at beginning of year	P 1,524,450,006	P 535,884,884	P 114,758,276	P 2,175,093,166
Loss recoveries during the period	-	101,536,033	-	101,536,033
Premiums written gross of funds held during the year	1,682,468,755	-	-	1,682,468,755
Funds held during the period	-	-	39,187,193	39,187,193
Funds released during the period	-	-	(51,962,644)	(51,962,644)
Collections during the period	(1,341,874,250)	(139,353,076)	-	(1,481,227,326)
Revaluation adjustment	(109,967)	2,886,889	374,975	3,151,897
	1,864,934,544	**500,954,730**	**102,357,800**	**2,468,247,074**
Allowance for impairment	(314,314,943)	(390,840,600)	(23,998,300)	(729,153,843)
Balance at end of period	P **1,550,619,601**	**P 110,114,130**	**P 78,359,500**	**P 1,739,093,231**
December 31, 2016				
Balance at beginning of year	P 1,231,923,154	P 794,903,982	P 144,000,408	P 2,170,827,544
Loss recoveries during the year	-	481,922,480	-	481,922,480
Premiums written gross of funds held during the year	3,279,248,249	-	-	3,279,248,249
Funds held during the year	-	-	104,692,128	104,692,128
Funds released during the year	-	-	(135,101,805)	(135,101,805)
Collections during the year	(2,986,670,153)	(623,549,426)	-	(3,610,219,579)
Write-off during the year	-	(129,050,882)	-	(129,050,882)
Revaluation adjustment	(51,244)	11,658,730	1,167,545	12,775,031
	1,524,450,006	535,884,884	114,758,276	2,175,093,166
Allowance for impairment	(314,314,943)	(390,840,600)	(23,998,300)	(729,153,843)
Balance at end of period	P 1,210,135,063	P 145,044,284	P 90,759,976	P 1,445,939,323

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

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

A reconciliation of the allowance for impairment at the beginning and end of June 30, 2017 and December 31, 2016 is shown below:

		Due from Ceding companies		Reinsurance recoverable on paid losses		Funds held by ceding companies		Total
June 30, 2017								
Balance at beginning of year	P	314,314,943	P	390,840,600	P	23,998,300	P	729,153,843
Impairment loss during the period		-		-		-		-
Balance at end of period	P	**314,314,943**	P	**390,840,600**	P	**23,998,300**	P	**729,153,843**
December 31, 2016								
Balance at beginning of year	P	245,455,569	P	578,515,996	P	105,270	P	824,076,835
Impairment loss during the period		80,966,699		18,021,142		23,893,030		122,880,871
Write-off during the period		-		(129,050,882)		-		(129,050,882)
Reversal during the period		(12,107,325)		(76,645,656)		-		(88,752,981)
Balance at end of period	P	314,314,943	P	390,840,600	P	23,998,300	P	729,153,843

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

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account is composed of the following:

		June 30, 2017		December 31, 2016
Bonds	**P**	**2,709,154,334**	P	3,689,501,733
Equity securities - net		**1,941,979,540**		2,136,666,156
Investment in ARC shares		**32,901,568**		31,335,823
Treasury bills		**19,773,317**		-
Various funds		**-**		67,388
	P	**4,703,808,759**	P	5,857,571,100

Bonds include investments in corporate and government bonds. These also include government bonds amounting to P500,000,000 in June 30, 2017 and December 31, 2016, which are deposited with the IC as security for the benefit of cedants and creditors of the Company in accordance with the provisions of the Insurance Code.

Bonds earn interest at annual rates ranging from 2.125% to 8.00% in June 30, 2017 and 1.63% to 9.13% in December 31, 2016. Interest income is presented as part of Investment and Other Income account in the statement of income (see Note 19).

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

		June 30, 2017		December 31, 2016
Due within one year	P	**24,852,613**	P	159,522,861
Due after one year through five years		**624,983,103**		849,633,928
Due after five years through ten years		**1,776,658,608**		2,367,382,106
Due after ten years		**282,660,010**		312,962,838
	P	**2,709,154,334**	P	3,689,501,733

The balance of equity securities classified as AFS financial assets consists of:

		June 30, 2017		December 31, 2016
Cost:				
Quoted in the stock exchange	P	**1,775,884,702**	P	2,165,094,045
Not quoted in the stock exchange		**34,296,008**		34,296,008
		1,810,180,710		2,199,390,053
Fair value gains (losses):				
Quoted in the stock exchange		**148,162,164**		(46,210,562)
Not quoted in the stock exchange		**(16,363,334)**		(16,513,335)
		131,798,830		(62,723,897)
	P	**1,941,979,540**	P	2,136,666,156

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

Dividend income from these equity securities is presented under Investment and Other Income account in the statement of income (see Note 19).

The shares of ARC 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 ARC, 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 P32,901,568 and P31,335,823 as at June 30, 2017 and December 31, 2016, respectively.

The reconciliation of the carrying amounts of AFS financial assets is as follows:

		June 30, 2017		December 31, 2016
Cost				
Balance at beginning of year	**P**	**6,043,963,879**	P	5,794,014,626
Additions		**965,649,361**		2,733,008,190
Reclassification		**(1,090,076,980)**		(165,246,880)
Disposals/maturities		**(1,273,294,992)**		(2,333,403,213)
Foreign currency gains		**2,149,211**		15,591,156
		4,648,390,479		6,043,963,879
Fair value adjustment				
Balance at beginning of year		**(186,392,779)**		(65,639,038)
Changes in fair value		**281,171,893**		(98,495,832)
Fair value gains on disposal		**(34,585,230)**		(25,561,793)
Impairment losses		**-**		3,303,884
Reclassification		**(4,775,604)**		-
		55,418,280		(186,392,779)
Balance at end of period	**P**	**4,703,808,759**	P	5,857,571,100

Changes in fair value of AFS financial assets recognized in the statements of comprehensive income amounted to 281,171,893 fair value gains in 2017, and P98,495,832 fair value loss in 2016.

The Company reclassified certain investments classified under AFS financial assets account to Other assets and Loans and Receivables account amounting to P 138,010 in 2017 and P165,246,880 in 2016. In addition, some portion of its corporate bonds were reclassified out of AFS financial assets to HTM investments account amounting to P1,094,714,574 to reflect the Company's intention to hold these until maturity (see Note 7).

In 2016, the Company recognized an impairment loss amounting to P3,303,884 which pertains to certain investments with significant and prolonged decline in fair values. This was recorded as part of Impairment losses under General and Administrative Expenses. There were no impairment losses recognized in 2017.

The Company sold AFS financial assets with carrying amount of P1,270,295,272 in 2017 and P 773,141,922 in 2016. Accordingly, the Company recognized gain on sale of AFS Financial Assets amounting to P34,585,231, and loss on sale of AFS Financial Assets amounting to P 1,786,326 in 2017 and 2016, respectively. These are presented under Investment and Other Income account in the statement of income (see Note 19).

Fair value gains reclassified to profit or loss, as presented in the statements of comprehensive income, amounted P34,585,231 gains and P1,786,326 loss in 2017 and 2016, respectively.

The fair values of majority of the AFS financial assets have been determined directly by reference to published prices in active market (see Note 28).

7. HELD-TO-MATURITY INVESTMENTS

On May 18, 2017, the Board of Directors approved the reclassification of certain investments in corporate bonds classified as available-for-sale financial assets to held-to-maturity investments as these investments were purchased with the intent of collecting interest coupons until maturity. New effective interest rates at the date of reclassification range from 2.36% to 6.24%.

The amount reclassified out of the AFS financial assets amounted to P1,094,714,574 on May 2017. Carrying amounts and fair values of the reclassified assets are presented as follows:

		Carrying Amount		Fair Value
June 30, 2017	**P**	**1,094,191,839**	**P**	**1,084,761,237**
December 31, 2016		1,072,347,652		1,072,347,652
December 31, 2017		978,262,572		978,262,572

The Company recognized interest income of P409,481 and nil fair value gain or loss as a result of the reclassification. If the reclassification had not been made, interest income (calculated using the original effective interest rate) amounting to P28,292,258 would have been recognized in profit or loss, and a decrease of P5,067,531 on the fair value of the bonds would have been recognized directly in other comprehensive income.

As at June 30, 2017, the corporate bonds have face amounts amounting to P1,084,500,000 with coupon rates ranging from 3.92% to 6.94%.

There were no disposals or allowance for impairment for HTM investments in 2017.

The following presents the carrying values of corporate bonds by contractual maturity dates:

		June 30, 2017
Due within one year	**P**	**73,333,943**
Due after one year through five years		**623,051,147**
Due after five years through ten years		**397,806,749**
	P	**1,094,191,839**

8. LOANS AND RECEIVABLES

This account is comprised of the following:

		June 30, 2017		December 31, 2016
Current:				
Loans and notes receivable	**P**	**39,811,369**	P	253,245,751
Dividend & interest receivable		**41,064,718**		40,969,038
Time Deposit		**65,024,242**		65,070,069
		145,900,329		359,284,858
Non-current:				
Loans and notes receivable		**5,693,798**		55,602,167
Time Deposit		**50,000,000**		50,000,000
		55,693,798		105,602,167
	P	**201,594,127**	P	464,887,025

Loans and notes receivable mainly pertains to the Company's participation in syndicated loans of other companies. These loans are unsecured, interest-bearing and with original maturities ranging from two to five years. The annual effective interest rate of these loans range from 3.80% to 5.86% in 2017 and 2016, respectively. Loans and notes receivable also includes car loans extended to certain officers as part of their benefits. These loans are collected through salary deductions for a period of five (5) years with annual effective interest rate of 8.00%.

Time deposits refer to time deposits of the Company in a particular bank for purposes of earning higher interest compared to savings deposits. These deposits which are not subject to any restrictions or covenants have original maturity of five (5) years. Annual effective interest rates range from 5.00% to 5.25% in 2017 and 2016.

Interest income on time deposits and loans and notes receivable are presented as part of Investment and Other Income account in the statements of income (see Note 19).

The carrying value of these financial assets approximate their fair value as these are short-term in nature and the interest rates approximate the prevailing market interest rates. No impairment loss was recorded for loans and receivables in 2017 and 2016.

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of June 30, 2017 and December 31, 2016 are shown below.

	Condominiu m Units	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	Total
June 30, 2017						
Cost	P 101,310,361	P 22,696,676	P 8,556,572	P 8,307,412	P 39,654,467	P 180,525,488
Accumulated depreciation	(59,660,546)	(5,649,573)	(7,967,021)	(2,922,556)	(33,106,331)	(109,306,027)
Net Carrying amount	**P 41,649,815**	**P 17,047,103**	**P 589,551**	**P 5,384,856**	**P 6,548,136**	**P 71,219,461**
December 31, 2016						
Cost	P 101,310,361	P 10,027,229	P 9,038,741	P 10,472,603	P 41,620,695	P 172,469,629
Accumulated depreciation	(59,660,546)	(5,649,573)	7,967,021	(2,761,543)	(32,055,590)	(106,491,504)
Balance at end of period	P 43,338,321	P 4,865,588	P 498,051	P 7,711,060	P 9,565,105	P 65,978,125

A reconciliation of the carrying amounts at the beginning and end of June 30, 2017 and December 31, 2016, of property and equipment is shown below.

June 30, 2017

	Condominium Units	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	- Total
Cost						
Balance at beginning of period	P 101,310,361	P 10,027,229	P 9,038,741	P 10,472,603	P 41,620,695	P 172,469,629
Addition	-	12,669,447	254,333	1,601,741	5,713	14,531,234
Transferred to Intangible	-	-	-	-	(1,971,941)	(1,971,942)
Disposal/retirement	-	-	(736,502)	(3,766,932)	-	(4,503,434)
Balance at end of period	**101,310,361**	**22,696,676**	**8,556,572**	**8,307,412**	**39,654,467**	**180,525,488**
Accumulated depreciation						
Balance at beginning of period	57,972,040	5,161,641	8,540,690	2,761,543	32,055,590	106,491,504
Transferred to Intangible	-	-	-	-	(390,046)	(390,046)
Depreciation	1,688,506	487,932	159,495	1,104,643	1,440,787	4,881,363
Disposal/retirement	-	-	(733,164)	(943,630)	-	(1,676,794))
Balance at end of period	59,660,546	5,649,573	7,967,021	2,922,556	33,106,331	109,306,027
Net Book Value	P **41,649,815**	P **17,047,103**	P **589,551**	P **5,384,856**	P **6,548,136**	P **71,219,461**

December 31, 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		-		222,821		82,030		4,108,209		2,670,764		7,083,824
Disposal/retirement		-		(1,021,857)		(1,299,437)		(4,793,820)		(1,458,784)		(8,573,898)
Balance at end of period		101,310,361		10,027,229		9,038,741		10,472,603		41,620,695		172,469,629
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		3,377,012		1,089,234		479,568		1,994,803		4,060,399		11,001,016
Disposal/retirement		-		(529,961)		(1,299,436)		(3,640,184)		(1,132,299)		(6,601,880)
Balance at end of period		57,972,040		5,161,641		8,540,690		2,761,543		32,055,590		106,491,504
Net Book Value	P	43,338,321	P	4,865,588	P	498,051	P	7,711,060	P	9,565,105	P	65,978,125

The Company sold certain fully deprecated assets and recognized gain, which is presented as part of Investment and Other Income in the statement of income (see Note 19), amounting to P34,176 and 33,706 in June 2017 and June 2016, respectively.

The cost of fully depreciated property and equipment recorded in the books that are still in use amounted to P22,957,773 and P28,842,300 as at June 30, 2017 and December 31, 2016, respectively.

10. REINSURANCE RECOVERABLE ON UNPAID LOSSES

The details of Reinsurance Recoverable on Unpaid Losses are as follows:

		June 30, 2017		December 31, 2016
Reinsurance recoverable on unpaid losses	**P**	**3,514,621,034**	P	3,682,008,078
Reinsurance recoverable on IBNR losses		**591,902,762**		518,396,499
Balance at the end of year	**P**	**4,106,523,796**	P	4,200,404,577

The movements in reinsurance recoverable on unpaid losses are as follows:

		Reinsurance recoverable on unpaid losses		Reinsurance recoverable on IBNR losses		Total
June 30, 2017						
Balance at beginning of year	P	3,682,008,078	P	518,396,499	P	4,200,404,577
Decrease on unpaid losses during the period		(76,788,033)		-		(76,788,033)
Reclassified to RI recoverable on paid		(101,536,033)		-		(101,536,033)
Recoverable on IBNR losses during the period		-		73,506,263		73,506,263
Transferred to recoverable on unpaid		-		-		-
Revaluation adjustment		10,937,022		-		10,937,022
Balance at end of period	P	**3,514,621,034**	**P**	**591,902,762**	**P**	**4,106,523,796**
December 31, 2016						
Balance at beginning of year	P	3,597,573,220	P	399,092,704	P	3,996,665,924
Recoverable on unpaid losses during the period		415,158,671		-		415,158,671
Reclassified to RI recoverable on paid		(481,922,480)		-		(481,922,480)
Recoverable on IBNR losses during the period		-		236,896,589		236,896,589
Transferred to recoverable on unpaid		117,592,794		(117,592,794)		-
Revaluation adjustment		33,605,873		-		33,605,873
Balance at end of period	P	3,682,008,078	P	518,396,499	P	4,200,404,577

11. DEFERRED ACQUISITION COSTS

The movements in Deferred Acquisition Costs follow:

		June 30, 2017		December 31, 2016
Deferred acquisition costs:				
Balance at beginning of period	**P**	**258,617,319**	P	147,743,688
Cost deferred		**276,317,500**		604,099,693
Cost recognized		**(305,839,649)**		(493,226,062)
Balance at end of period	**P**	**229,095,170**	P	258,617,319

The increase or decrease of Deferred Acquisition Costs for the year is presented as part of Commissions – net under Underwriting Deductions in the statements of income (see Note 20.2).

12. DEFERRED REINSURANCE PREMIUMS

The movements in Deferred Reinsurance Premiums follow:

		June 30, 2017		December 31, 2016
Deferred acquisition costs:				
Balance at beginning of year	P	**394,816,767**	P	386,743,932
Premiums retroceded during the year		**340,610,259**		1,690,722,077
Premiums amortized during the year		**(511,611,771)**		(1,682,649,242)
Balance at end of period	P	**223,815,255**	P	394,816,767

The increase or decrease in Deferred Reinsurance Premiums for the year is presented as part of Increase in Premium Reserves account in the statements of income.

13. OTHER ASSETS

The Other Assets account is composed of the following:

		June 30, 2017		December 31, 2016
Funds at Lloyds		**188,139,051**		149,439,000
Input VAT		**148,461,093**		142,366,220
Creditable withholding tax	P	**139,545,156**	P	147,723,611
Deferred input VAT		**76,083,847**		77,933,665
Define benefit asset		**9,847,882**		14,068,874
Deferred withholding VAT		**9,202,886**		9,202,886
Intangible assets - net		**6,945,295**		6,228,834
Deferred Creditable Tax		**6,704,639**		8,085,990
Investment property - net		**2,824,909**		2,824,909
Prepayments		**907,323**		7,762,079
Deposit		**848,809**		824,403
Security fund		**643,925**		643,925
	P	**590,154,815**	P	567,104,396

Funds at Lloyd's

In December 2016, the Company entered into a quota share reinsurance treaty contract with a member of the Lloyd's effective January 1, 2017, whereby the Company was required to establish its share of the Funds at Lloyd's amounting to U.S. $3,000,000.

In June 2017, the Company increases its funds as a result of Reinsured's solvency calculations amounting to U.S. $728,036, this is driven by expenses and reinsurance cost paid at the onset of the underwriting contract

Prepayments

Prepayments include substantially software licenses and support maintenance costs and prepaid health and group life insurance of the Company.

Intangible Assets

Intangible assets pertain to acquired computer software licenses used in operation and administration. The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of June 30, 2017 and December 31, 2016 follow:

		June 30, 2017		December 31, 2016
Cost	**P**	**119,526,687**	P	116,422,745
Accumulated amortization		**(112,581,392)**		(110,193,911)
Balance at end of period	**P**	**6,945,295**	P	6,228,834

A reconciliation of the carrying amounts at the beginning and end June 30, 2017 and December 31, 2016 of intangible assets is shown below.

		June 30, 2017		December 31, 2016
Balance at beginning of period net of accumulated amortization	**P**	**6,228,834**	P	12,229,660
Additions		**1,132,000**		1,598,014
Transfer		**1,581,897**		-
Amortization charges for the period		**(1,997,436)**		(7,598,840)
Balance at end of period	**P**	**6,945,295**	P	6,228,834

Investment properties consist mainly of land, with improvements, which are owned for capital appreciation. The changes to the carrying amounts of the investment properties can be summarized as follows:

		June 30, 2017		December 31, 2016
Balance at beginning of year	**P**	**2,824,909**	**P**	2,829,909
Depreciation and amortization charges for the year		**-**		(5,000)
Balance at end of period	**P**	**2,824,909**	**P**	2,824,909

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 amount to P5,880,000 as at June 30, 2017 and December 31, 2016 (see Note 28.4).

Security fund represents amount deposited with the IC, as required by the IC, and in instances of the Company becoming insolvent, can be used as payment for valid claims against the Company. The balance of the fund earns interest at rates determined by the IC annually.

14. REINSURANCE BALANCES PAYABLE

The details of Reinsurance Balances Payable follows:

		June 30, 2017		December 31, 2016
Due to retrocessionaires	**P**	**1,014,224,759**	P	1,029,493,913
Funds held for retrocessionaires		**36,725,506**		57,437,019
	P	**1,050,950,265**	P	1,086,930,932

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 reinsurance 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 movements in these accounts are shown below.

		Due to retrocessionaires		Funds held for retrocessionaires		Total
June 30, 2017						
Balance at beginning of year	P	1,029,493,913	P	57,437,019	P	1,086,930,932
Retroceded premiums during the period		319,898,746		-		319,898,746
Funds held during the period		-		13,064,191		13,064,191
Funds released during the period		-		(33,775,704)		(33,775,704)
Payments made during the period		(333,630,292)		-		(333,630,292))
Revaluation adjustment		(1,537,608)		-		(1,537,608)
Balance at end of period	P	**1,014,224,759**	P	**36,725,506**	P	**1,050,950,265**
December 31, 2016						
Balance at beginning of year	P	970,742,419	P	89,524,120	P	1,060,266,539
Retroceded premiums during the period		1,613,204,524		-		1,613,204,524
Funds held during the year		-		77,517,553		77,517,553
Funds released during the year		-		(109,604,654)		(109,604,654)
Payments made during the period		(1,559,249,048)		-		(1,559,249,048)
Revaluation adjustment		4,796,018		-		4,796,018
Balance at end of period	P	1,029,493,913	P	57,437,019	P	1,086,930,932

15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

		June 30, 2017		December 31, 2016
Accounts payable	**P**	**19,848,371**	P	10,088,520
Deferred output VAT		**26,009,367**		38,842,259
Accrued expenses		**77,025,359**		73,081,850
Withholding taxes payable		**4,303,118**		4,245,424
Other liabilities		**2,542,536**		2,534,227
	P	**129,728,751**	P	128,792,280

Accrued expenses include amounts pertaining to accruals of outside services, utilities, uniforms, membership dues and meeting expenses.

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.

16. LOSSES AND CLAIMS PAYABLE

The details of Losses and Claims Payable are as follows:

		June 30, 2017		December 31, 2016
Outstanding loss reserves	**P**	**5,518,070,330**	P	5,685,539,491
Reserves for IBNR losses		**1,263,553,955**		1,043,265,750
	P	**6,781,624,285**	P	6,728,805,241

Losses and Claims Payable are losses due to ceding companies under reinsurance agreements inclusive of reserves for IBNR losses, loss adjustment expenses payable and MfAD as shown below.

		Outstanding loss reserves		Reserves for IBNR losses		Total
June 30, 2017						
Balance at beginning of year	P	5,685,539,491	P	1,043,265,750	P	6,728,805,241
Claims incurred during the period		417,077,181		-		417,077,181
IBNR losses during the period		-		312,039,717		312,039,717
IBNR losses transferred to outstanding loss reserves		91,751,512		(91,751,512)		-
Claims paid during the period		(698,033,291)		-		(698,033,291)
Revaluation adjustment		21,735,437		-		21,735,437
Balance at end of period	P	**5,518,070,330**	**P**	**1,263,553,955**	**P**	**6,781,624,285**
December 31, 2016						
Balance at beginning of year	P	5,703,387,502	P	674,431,025	P	6,377,818,527
Claims incurred during the period		748,989,872		-		748,989,872
IBNR losses during the period		-		657,493,848		657,493,848
IBNR losses transferred to outstanding loss reserves		288,659,123		(288,659,123)		-
Claims paid during the period		(1,113,003,952)		-		(1,113,003,952)
Revaluation adjustment		57,506,946		-		57,506,946
Balance at end of period	P	5,685,539,491	P	1,043,265,750	P	6,728,805,241

17. PREMIUM RESERVES

The movements in Premium Reserves are as follows:

		June 30, 2017		December 31, 2016
Balance at beginning of year	P	**1,337,254,844**	P	924,871,533
Premium written		**1,669,693,304**		3,383,940,377
Premiums earned		**(1,489,787,681)**		(2,971,557,066)
Balance at year end	P	**1,517,160,467**	P	1,337,254,844

The increase or decrease in Premiums Reserves for the year is presented as part of Increase in Premium Reserves account in the statements of income.

18. DEFERRED REINSURANCE COMMISSIONS

The movements in Deferred Reinsurance Commissions are as follows:

		June 30, 2017		December 31, 2016
Balance at beginning of year	P	**41,201,206**	P	44,225,101
Income deferred		**(1,508,139)**		125,862,189
Income recognized		**(31,074,423)**		(128,886,084)
Balance at year end	P	**8,618,644**	P	41,201,206

The increase or decrease of Deferred Reinsurance Commissions for the year is presented as part of Commissions – net under Underwriting Deductions in the statements of income (see Note 20.2).

19. INVESTMENT AND OTHER INCOME

The details of this account follow:

		June 30, 2017		June 30, 2016
Interest Income	P	**94,148,439**	P	97,526,336
Gain(loss) on sale of AFS		**34,585,231**		(1,786,326))
Dividend income		**33,453,787**		26,554,496
Foreign exchange gain		**4,223,931**		3,220,521
Gain on sale of property & equipment		**34,176**		33,706
Other charges		**(3,808,989)**		(3,841,273)
	P	**162,636,575**	P	121,707,460

20. UNDERWRITING DEDUCTIONS

20.1 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 reinsurance agreements.

		June 30, 2017		June 30, 2016
Gross claims paid	P	698,033,292	P	712,271,160
Retrocessionaires' share in losses paid		(101,536,033)		(359,644,818)
Gross change in provision for claims reported		(189,204,599)		133,866,152
Retrocessionaires' share in change in provision for claims reported		178,324,066		(132,071,590)
Gross change in provision for IBNR		220,288,206		374,276,720
Retrocessionaires' share in change in provision for IBNR		(73,506,263)		(281,301,252)
Balance at end of the period	P	732,398,669	P	447,396,372

20.2 Commissions – net

This account consists of the following (see Notes 11 and 18):

		June 30, 2017		June 30, 2016
Commission expense	P	305,839,650	P	225,070,452
Commission income		(31,074,423)		(67,643,113)
	P	274,765,227	P	157,427,339

Commission expense refers to fees deducted by ceding companies from reinsurance premiums assumed under reinsurance agreements, while commission income pertains to fees charged by the Company related to reinsurance premiums retroceded under retrocession agreements.

21. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

		June 30, 2017		June 30, 2016
Salaries and employee benefits	P	**59,480,684**	P	55,887,032
Professional fees		**18,815,991**		10,471,693
Outsourced functions		**7,736,965**		9,404,090
Depreciation and amortization		**6,878,798**		11,268,794
Taxes, licenses and fees		**5,604,055**		2,997,692
Repairs and maintenance		**3,871,808**		3,311,378
Tools		**3,735,158**		7,441,175
Communication and postages		**1,751,103**		392,403
Association and pool expense		**1,520,087**		2,156,215
Insurance		**1,206,935**		348,246
Light and water		**1,072,947**		1,060,520
Rental		**1,064,773**		1,451,273
Meetings, conferences & conventions		**667,317**		820,673
Advertising and publicity		**647,117**		227,278
Printing and office supplies		**290,556**		597,600
Representation and entertainment		**281,167**		286,243
Recovery of impairment		**-**		(16,119,761)
Miscellaneous		**1,486,926**		5,990,055
	P	**117,873,557**	P	98,666,954

21.1 Salaries and Employee Benefit Expense

Expenses recognized for salaries and employee benefits are presented below.

		June 30, 2017		June 30, 2016
Short-term employee benefits	P	**52,602,249**	P	50,006,168
Post-employment defined benefit		**4,524,879**		3,285,458
Compensated absences		**2,353,556**		2,595,406
	P	**59,480,684**	P	55,887,032

22. EQUITY

22.1 Capital Stock

As at June 30, 2017 and December 31, 2016, 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 Securities and Exchange Commission (SEC) approved the listing of the Company's shares totalling 741,902,600. The shares were initially issued at an offer price of P3.80 per share.

As at June 30, 2017 and December 31, 2016, there are 277 & 280 holders of the listed shares. Such listed shares closed at P0.91 and P0.74 per share, as at those dates, respectively.

As at June 30, 2017 and December 31, 2016, 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 shares transactions in 2017 and 2016.

22.2 Appropriation for Contingencies

On April 18, 1989, the Company's BOD 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 December 31 of each year where there is profit, provided there is no cumulative retained deficits, 10% of profit is set aside as additional reserve for contingencies. As at June 30, 2017 and December 31, 2016, the Company did not appropriate any amount since it has incurred deficit.

22.3 Declaration of Cash Dividends

There was no declaration of cash dividends in 2017 and 2016. The total outstanding dividends payable amounted to P2,542,536 and P2,535,246 as at June 30, 2017 and December 31, 2016, respectively. These are presented as Dividends payable under Accounts Payable and Accrued Expenses account in the statements of financial position (see Note 15).

23. RELATED PARTY TRANSACTIONS

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

23.1 Reinsurance Contracts with Related Parties

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

		June 30, 2017				June 30, 2016		
		Stockholders		**Related Parties Under Common Ownership**		Stockholders		Related Parties Under Common Ownership
Premiums	**P**	**122,520,354**	**P**	**66,448,130**	P	682,465,253	P	25,156,240
Retrocessions		**159,629**		**529,665**		-		257,351
Commission Income		**866**		**-**		-		-
Commission expenses		**26,955,607**		**-**		96,089,032		662,879
Losses paid		**57,486,965**		**-**		264,033,744		6,457,016
Losses recoveries		**147,973**		**-**		68,834,410		1,315,305

As a result of the above transactions, reinsurance balances receivable from and payable to related parties are follows:

		June 30, 2017				December 31, 2016		
		Stockholders		**Related Parties Under Common Ownership**		Stockholders		Related Parties Under Common Ownership
Due from (to) ceding cos.	**P**	**206,184,581**	**P**	**42,773,484**	P	169,028,728	P	(4,153,044)
RI recoverable on losses		**68,757,637**		**410,350**		645,878,289		-
Funds held by ced. cos.		**24,566,060**		**-**		65,893,989		-
Claims payable		**1,203,700,148**		**99,184**		1,393,416,253		99,184
Due to retrocessionaires		**6,999,268**		**1,855,443**		29,440,991		9,579,163
Funds held for retro		**-**		**-**		(895,144)		-

The terms and conditions on these transactions are the same as those with third parties.

The balance of Reinsurance balances receivable is presented net of P144,884,948 allowance for impairment as at June 30, 2017 and December 31, 2016, respectively. There are no other impairment losses recognized on other receivables.

23.2 Other Transactions

The Company's other transactions with related parties follow:

		June 30, 2017		December 31, 2016	
		Amount of Transactions	**Outstanding Balance**	Amount of Transactions	Outstanding Balance
Stockholder:					
Cash & cash equivalent	(a)	**P (68,383,471)**	**P 103,961,811**	P 6,460,064	P 172,345,282
AFS financial assets	(b)	**3,257,257**	**49,354,136**	(20,976,329)	46,096,879
Loans and receivables	(c)	**(80,168)**	**13,772**	6,098	93,940
Interest Income-					
Bank accounts	(a)	**847,731**	**-**	3,130,023	-
Interest Income-AFS					
Financial assets	(b)		**-**	1,715,388	-
Gain on sales of AFS financial assets	(b)	**1,055,068**	**-**	3,026,384	-
Service fees	(d)	**(1,962,075)**	**-**	(4,234,475)	-
Related Party Under Common Ownership					
Cash & Cash equivalent	(a)	**107,817,373**	**1,148,604,687**	477,966,851	1,040,787,314
AFS financial assets	(b)	**(9,472,003)**	**25,580,458**	**(1,474,219)**	**35,052,462**
Loans and receivables	(c)	**(49,293,816)**	**66,354,690**	**(452,306)**	**115,648,506**
Interest Income-					
Bank accounts	(a)	**5,657,934**	**-**	8,939,885	-
Interest Income-AFS					
Financial assets	(b)	**3,173,018**	**-**	7,261,722	-
Loss on sales of AFS financial assets	(b)	**-**	**-**	(2,336,466)	-
Service fees	(d)	**(564,448)**		(1,206,349)	

(a) Cash and Cash Equivalents

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 account in the statements of income (see Note 19).

(b) AFS Financial Assets

The Company has investments in shares of stock of a related party under common ownership classified as AFS financial assets. Relative to these transactions, the Company recognized interest income and trading gains which are presented as part of Investment and Other Income account in the statements of income
(see Note 19).

(c) Loans and Receivables

The Company has long-term negotiable certificate of deposit (LTNCD) and note receivables with certain related parties under common ownership. Relative to this, the Company recognized interest income which is presented as part of Interest income under Investment and Other Income account in the statements of income (see Note 19). The

LTNCD and note receivables are unsecured and earn interest of 5.00% to 5.375% in 2017 and 2016. As at June 30, 2017 and December 31, 31 2016, management assessed that these receivables are not impaired.

(d) Investment Management and Custodianship

The Company has entered into "Investment Management Agreement" and "Custodianship Agreement" with a stockholder and an affiliate bank 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 affiliate bank service fees equivalent to a certain percentage of the market value of the investments. Total service fees paid is charged against Other charges under Investment and Other Income account (see Note 18) in the statements of income. There are no outstanding liabilities from these transactions as at June 30, 2017 and December 31, 31 2016.

23.3 Retirement Fund Investment Management

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

23.4 Transactions with Retirement Fund

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 transactions with its retirement fund in 2016. The retirement fund does not hold any shares of stock of the Company as of June 30, 2017 and December 31, 2016.

23.5 Key Management Personnel Compensation

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

		June 30, 2017		June 30, 2016
Short-term benefits	**P**	**20,411,710**	P	23,008,413
Post-employment benefits		**1,058,153**		1,164,023
	P	**21,469,863**	P	24,172,436

24. SOLVENCY

Under the New Insurance Code, an insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital, and net worth requirements as prescribed by the Commissioner. Such solvency requirements shall be based on internationally accepted solvency frameworks and adopted only after due consultation with the insurance industry associations.

Whenever the aforementioned requirement is found to be less than the required to be maintained, the Commissioner shall direct the Company to make good any such deficiency by cash, to be contributed by all stockholders of record in proportion with their respective interests, and paid to the treasurer of the Company, within 15 days from receipt of the order. Provided, that the Company in the interim shall not be permitted to take any new risk of any kind or character unless and until it makes good any such deficiency.

In case that a stockholder pays the contribution due from another stockholder by reason of failure or refusal of the latter to do so, shall have a lien on the certificates of stock of the Company appearing in its books in the name of the defaulting stockholder on the date of default, as well as on any interests or dividends that have accrued or will accrue to the said certificates of stocks, until the corresponding payment or reimbursement is made by the defaulting stockholder.

25. EARNINGS PER SHARE

The earnings per share amounts are as follows:

		June 30, 2017		June 30, 2016
Net income (loss) available to common shareholders	**P**	**(15,535,749)**	P	(18,780,476)
Divided by the average number of outstanding common shares		**2,123,605,600**		2,123,605,600
	P	**(0.01)**	P	(0.01)

Diluted earnings per share is not determined since the Company does not have dilutive shares as at June 30, 2017 and December 31, 2016.

26. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Company:

26.1 Operating Lease Commitments – Company as Lessee

The Company is a lessee under various operating leases covering warehouse and parking lots having a term of one year with renewal options. The future minimum rentals payable under this non-cancellable operating lease as at June 30, 2017 and December 31, 2016 is P675,683 and P1,351,365, respectively.

Rental expense recognized amounted to P1,064,773 and P1,451,273 in 2017 and 2016, respectively, and is presented in the statements of income as Rental under General and Administrative Expenses section (see Note 21).

26.2 Legal Claims

The Company is currently involved in various legal proceedings. In consultation with the legal counsel, the related risk has been analyzed as to likelihood of occurrence and amount of future obligation. The Company believes that the outcome of these proceedings as of June 30, 2017 will not have a material adverse effect on the Company's financial position.

26.3 Deficiency Tax Assessments

The Company is in receipt of certain final deficiency tax assessment covering taxable period July 1, 2012 to December 31, 2012, pursuant to which the BIR has sought to investigate certain tax period against the Company and consequently examine certain books, records and accounts that relate to transactions in the ordinary course of business. Pursuant to the Company's policy of addressing such actions in line with prudent business practice, the Company has engaged tax counsel in relation to this matter.

As of June 30, 2017, the final deficiency tax assessment is still under protest. Management believes that the Company has enough basis in law and evidence to support their claim; hence, no provisions were recognized in the financial statements.

26.4 Others

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements. Management believes that losses as at June 30, 2017, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

27. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

27.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	June 30, 2017				December 31, 2016			
		Carrying Values		Fair Values		Carrying Values		Fair Values
Financial assets								
Loans and receivables:								
Cash and cash equivalents	P	1,611,986,750	P	1,611,986,750	P	920,425,229	P	920,425,229
Reinsurance balances receivables		1,739,093,231		1,739,093,231		1,445,939,323		1,445,939,323
Funds at Lloyds		188,139,051		188,139,051		149,439,000		149,439,000
Loans and receivables		201,594,127		201,594,127		464,887,025		464,887,025
	P	3,740,813,159	P	3,740,813,159	P	2,980,690,577	P	2,980,690,577
AFS financial assets:								
Debt securities	P	2,709,154,334	P	2,709,154,334	P	3,689,501,733	P	3,689,501,733
Equity securities		1,941,979,540		1,941,979,540		2,136,666,156		2,136,666,156
Treasury Bills		19,773,317		19,773,317		-		-
Investment in ARC		32,901,568		32,901,568		31,335,823		31,335,823
Various funds		-		-		67,388		67,388
	P	4,703,808,759	P	4,703,808,759	P	5,857,571,100	P	5,857,571,100
Held-to-maturity Investments	P	1,094,191,839	P	1,094,191,839	P	-	P	-
Financial liabilities								
Financial liabilities at amortized cost:								
Reinsurance balances payable	P	1,050,950,265	P	1,050,950,265	P	1,086,930,932	P	1,086,930,932
Accounts payable and other accrued expenses		59,416,266		59,416,266		45,704,597		45,704,597
	P	1,110,366,531	P	1,110,366,531	P	1,132,635,529	P	1,132,635,529

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 2.3 and 2.9 for a description of the accounting policies for each category of financial instrument including the determination of fair values.

27.2 Offsetting of Financial Assets and Financial Liabilities

For financial assets and financial liabilities, particularly, reinsurance balances, subject to enforceable master 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 June 30, 2017 and December 31, 2016 are as follows.

	Notes		June 30, 2017		December 31, 2016
Reinsurance balances receivable	**5**	**P**	**1,739,093,231**	P	1,445,939,323
Reinsurance balances payable	**14**		**1,050,950,265**		1,086,930,932

28. FAIR VALUE MEASUREMENT AND DISCLOSURES

28.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial 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:

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

28.2 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 June 30, 2017 and December 31, 2016 (amounts in thousands Philippine Peso).

		Level 1		Level 2		Level 3		Total
June 30, 2017								
AFS financial assets	**P**	**4,652,975**	**P**	**17,933**	**P**	**32,902**	**P**	**4,703,809**
December 31, 2016								
AFS financial assets	P	5,808,385	P	17,850	P	31,336	P	5,857,571

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

		June 30, 2017		December 31, 2016
Balance at beginning of period	**P**	**31,336**	P	4,445
Fair value gain		**1,239**		24,191
Gain on FX valuation		**327**		2,700
Balance at end of period	**P**	**32,902**	P	31,336

The Company has no financial liabilities measured at fair value as at June 30, 2017 and December 31, 2016.

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 June 30, 2017 and December 31, 2016, 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 PSE 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 company's book value using the most recent available financial data.

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 and is categorized within Level 2.

28.3 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 statements of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
June 30, 2017				
Financial assets:				
Cash and cash equivalents	P 1,611,986,750	P -	P -	P 1,611,986,750
Reinsurance balances receivables	-	-	1,739,093,231	1,739,093,231
Held-to-maturity Investments	1,094,191,839	-	-	1,094,191,839
Loans and receivables	-	-	201,594,127	201,594,127
Funds at Lloyds			188,139,051	188,139,051
	P **2,706,178,589**	**P -**	**P 2,128,826,409**	**P 4,835,004,998**
Financial liabilities:				
Reinsurance balances payable	P -	P -	P 1,050,950,265	P 1,050,950,265
Accounts payable and other accrued expenses	-	-	59,416,266	59,416,266
	P **-**	**P -**	**P 1,110,366,531**	**P 1,110,366,531**
December 31, 2016				
Financial assets:				
Cash and cash equivalents	P 920,425,229	P -	P -	P 920,425,229
Reinsurance balances receivables	-	-	1,445,939,323	1,445,939,323
Loans and receivables	-	-	464,887,025	464,887,025
Funds at Lloyds	-	-	149,439,000	149,439,000
	P 920,425,229	P -	P 2,060,265,348	P 2,980,690,577
Financial liabilities:				
Reinsurance balances payable	P -	P -	P 1,086,930,932	P 1,086,930,932
Accounts payable and other accrued expenses	-	-	45,704,597	45,704,597
	P -	P -	P 1,132,635,529	P 1,132,635,529

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

28.4 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 June 30, 2017 and December 31, 2016, the fair value of the investment properties is P5,880,000, classified as under Level 3 of the fair value hierarchy (see Note 13). 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.

29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are (a) to ensure the Company's ability to continue as a going concern; and, (b) to provide an adequate return to shareholders by complying with the capital requirements and limitation enforced by the IC and by aligning the Company's operational strategy to its corporate goals. The capital requirements and limitations are as follows:

29.1 Minimum Capitalization

Under Section 289 of the RA 10607 (The New Insurance Code), any partnership, association, or corporation authorized to transact solely reinsurance business must have a capitalization of at least P3,000,000,000 paid in cash of which at least 50% is paid-up capital and the remaining portion thereof is contributed surplus, which in no case shall be less than P400,000,000 or such capitalization as may be determined by the Secretary of Finance, upon the recommendation of the Commissioner.

The IC issued Circular Letter No. 2015-02-A dated January 13, 2015, to clarify the minimum capitalization requirements under Sections 194, 197, 200 and 289 of RA 10607. Under the said circular letter, all existing reinsurance companies authorized to transact solely reinsurance business must have a networth of at least P2,250,000,000 by December 31, 2016. The minimum networth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

Minimum Networth	Compliance Date
P 2,500,000,000	December 31, 2019
3,000,000,000	December 31, 2022

As at June 30, 2017, the Company has complied with the minimum capital requirements.

29.2 Risk-Based Capital Requirements

As per Insurance Memorandum Circular No. 7-2006, every non-life insurance company is annually required to maintain a minimum Risk-Based Capital (RBC) ratio of 100%. RBC ratio is computed by dividing the Company's net worth by an RBC requirement prescribed by the IC. The RBC requirement is determined after considering the admitted value of certain financial statement accounts whose final amounts can be determined only after the examination by the IC.

29.3 Limitation on Dividend Declaration

The Company's BOD is authorized to declare dividends. A cash dividend declaration does not require any further approval from the stockholders. However, a stock dividend declaration requires further approval of the stockholders holding or representing not less than two-thirds of the Company's outstanding capital stock. Dividends may be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as and at such times as the BOD may determine and in accordance with law.

Section 201 of the New Insurance Code provides that a domestic insurance company shall declare or distribute dividends on its outstanding stock unless it has met the minimum paid-up capital and net worth requirements under Section 194 and except from profits attested in a sworn statement to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the solvency requirements defined by Section 200;
- the legal reserve fund required by Section 219; and,
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

The Company is required to report such dividend declaration or distribution to the IC within 30 days from the date of such declaration.

Moreover, the SEC, through its Memorandum Circular 11 dated December 5, 2008 has set guidelines in determining the appropriate amount of Retained Earnings available for dividend distribution. This shall be based on the net profit for the year based on the audited financial statements, adjusted for unrealized items which are considered not available for dividend declaration. These unrealized items consist of the following:

- share/equity in net income of the associate or joint venture;
- unrealized foreign currency gains, except those attributable to cash and cash equivalents;
- unrealized actuarial gains arising from the exercise of the option of recognizing actuarial gains or losses directly to the statement of comprehensive income;
- fair value adjustment arising only from marked-to-market valuation which are not yet realized;
- the amount of deferred tax asset that reduced the amount of income tax expense;
- adjustment due to deviation from PFRS/Generally Accepted Accounting Principles which results to gain; and,
- other unrealized gains or adjustments to the retained earnings.

29.4 Non-admitted Assets

Various assets, included on the enumeration of Section 203 of RA 10607 and subject to final determination of the Commissioner, are considered non-admitted assets for the purposes of determining the Company's financial condition. Details of these assets are presented below.

		June 30, 2017		December 31, 2016
Deferred acquisition cost	**P**	**229,095,170**	P	258,617,319
Deferred Reinsurance Premiums		**223,815,255**		394,816,767
Property and equipment - net		**35,219,218**		27,801,445
Other assets		**8,701,427**		14,815,311
Total Non-admitted Assets	**P**	**496,831,070**	P	696,050,842

These assets are measured in accordance with PFRS and are included as part of total assets in the statements of financial position.

30. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic ratios measure the financial performance of the Company:

	June 30, 2017	December 31, 2016
Current ratio	**3:16 : 1.00**	2.47 : 1.00
Asset-to-equity	**2.87 : 1.00**	2.92 : 1.00
Liability-to-equity	**1.87 : 1.00**	1.92 : 1.00

31. 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 June 30, 2017
(In million pesos)

	Total	Below 360 days	Over 360 days	Not Due
Due from Ceding Companies	1,865	345	241	1,279
Reinsurance recoverable on paid losses	501	45	375	81
Funds Held by Ceding companies	102	102	-	-
	2,468	492	616	1,360
Allowance for impairment*	(729)			
	1,739			

*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.