

COVER SHEET

for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

P	E	T	R	O	G	E	N	I	N	S	U	R	A	N	C	E	C	O	R	P	O	R	A	T	I	O	N	
(A	W	H	O	L	L	Y	-	O	W	N	E	D	S	U	B	S	I	D	I	A	R	Y	O	F			
P	E	T	R	O	N	C	O	R	P	O	R	A	T	I	O	N)											

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

S	M	C	H	E	A	D	O	F	F	I	C	E	C	O	M	P	L	E	X									
4	0	S	A	N	M	I	G	U	E	L	A	V	E	N	U	E												
M	A	N	D	A	L	U	Y	O	N	G	C	I	T	Y														

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's email Address

NA

Company's Telephone Number/s

886-3888

Mobile Number

NA

No. of Stockholders

6

Annual Meeting (Month / Day)

March 8

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Dennis S. Janson

Email Address

dsjanson@petron.com

Telephone Number/s

886 - 3888

Mobile Number

NA

CONTACT PERSON'S ADDRESS

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Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

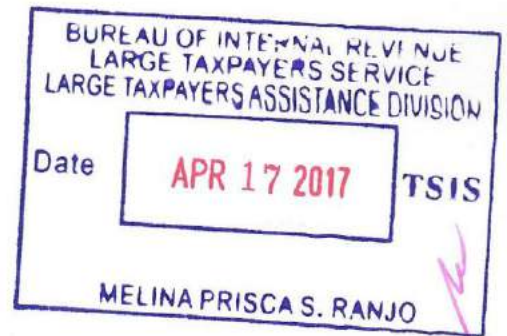
Note 2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)

FINANCIAL STATEMENTS
December 31, 2016 and 2015



R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph



REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Petrogen Insurance Corporation
SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Petrogen Insurance Corporation (a wholly-owned subsidiary of Petron Corporation)(the "Company"), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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



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

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

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

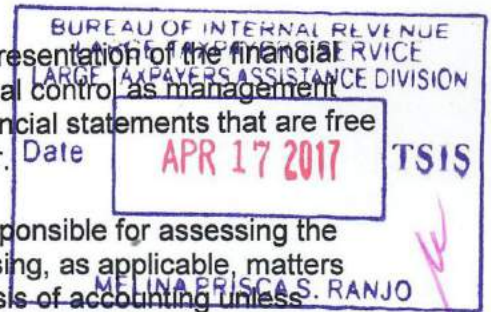
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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





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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

D. M. M. D.

DINDO MARCO M. DIOSO

Partner

IC Accreditation No. SP-2014/024-R, valid until August 26, 2017

CPA License No. 0095177

SEC Accreditation No. 1387-A, Group A, valid until April 30, 2017

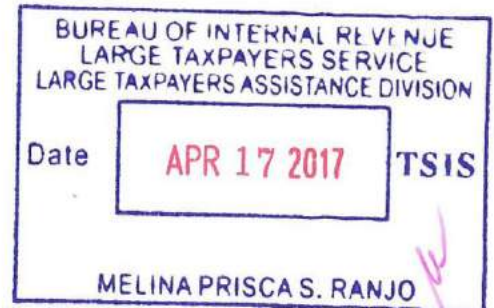
Tax Identification No. 912-365-765

BIR Accreditation No. 08-001987-30-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. 5904925MD

Issued January 3, 2017 at Makati City



March 13, 2017

Makati City, Metro Manila



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6787 Ayala Avenue, Makati City
Philippines 1226
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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE
SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders
Petrogen Insurance Corporation
SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City

We have audited the accompanying financial statements of Petrogen Insurance Corporation (a wholly-owned subsidiary of Petron Corporation) (the "Company") as at and for the year ended December 31, 2016, on which we have rendered our report dated March 13, 2017.

In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

R.G. MANABAT & CO.

DINDO MARCO M. DIOSO
Partner
IC Accreditation No. SP-2014/024-R, valid until August 26, 2017
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March 13, 2017
Makati City, Metro Manila



Petrogen Insurance Corporation

SMC Head Office Complex, # 40 San Miguel Avenue,
Mandaluyong City 1550
Tel.No.: (632) 886-3888 / 884-9200
Fax No.: (632) 884-9163 / 884-0959
VAT Reg. TIN No.: 005-034-674-000

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

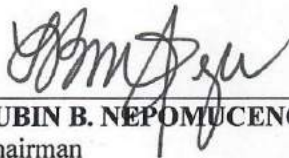
The Management of **Petrogen Insurance Corporation** (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



LUBIN B. NEPOMUCENO
Chairman



EMMANUEL E. ERAÑA
President / CEO



ALBERTITO S. SARTE
Treasurer



DENNIS S. JANSON
Controller

Signed this 13th day of March 2017.

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)

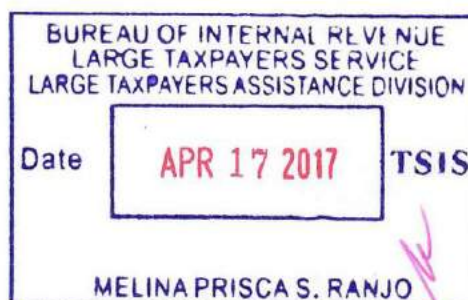
STATEMENTS OF FINANCIAL POSITION



December 31

	<i>Note</i>	2016	2015
ASSETS			
Cash and cash equivalents	6	P254,504,075	P208,242,473
Insurance receivables	7	128,715,809	92,011,379
Available-for-sale (AFS) financial assets	8	304,026,467	289,094,932
Deferred reinsurance premiums	9	39,635,217	41,367,680
Property and equipment - net	10	39,788	103,193
Other assets	11	19,137,979	16,863,966
		P746,059,335	P647,683,623
LIABILITIES AND EQUITY			
Liabilities			
Insurance liabilities	12	P108,505,404	P81,003,427
Due to reinsurers - net	13	20,983,664	25,599,808
Accrued expenses and other liabilities	14	14,937,720	13,637,486
Deferred reinsurance commission	15	1,266,913	2,765,788
Deferred tax liabilities - net	20	12,737	451,127
		145,706,438	123,457,636
Equity			
Capital stock	16	270,000,000	250,000,000
Contributed surplus		25,000,000	25,000,000
Revaluation reserves on AFS financial assets	8	659,358	3,064,656
Retained earnings		304,693,539	246,161,331
		600,352,897	524,225,987
		P746,059,335	P647,683,623

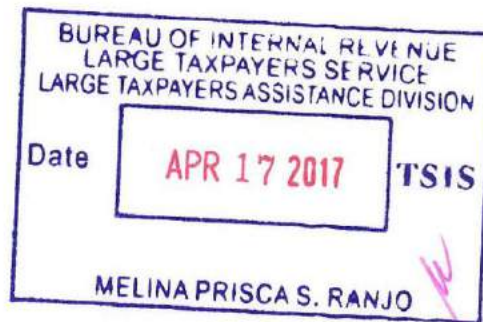
See Notes to the Financial Statements.



PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF INCOME

		Years Ended December 31	
	Note	2016	2015
UNDERWRITING INCOME			
Gross premiums written	12, 17	P607,778,706	P527,333,668
Premiums ceded	9, 17	(577,163,438)	(497,074,305)
Net premiums retained		30,615,268	30,259,363
Decrease (increase) in reserve for unearned premiums - net of change in deferred reinsurance premiums	17	1,120,905	(18,070)
Net premiums earned		31,736,173	30,241,293
Reinsurance commission	15	41,871,922	37,533,006
Other underwriting income		289,218	-
GROSS UNDERWRITING INCOME		73,897,313	67,774,299
UNDERWRITING EXPENSES		10,031,722	11,115,693
NET UNDERWRITING INCOME		63,865,591	56,658,606
INVESTMENT AND OTHER INCOME	18	28,392,356	22,920,334
INCOME AFTER INVESTMENT AND OTHER INCOME		92,257,947	79,578,940
GENERAL AND ADMINISTRATIVE EXPENSES	19	19,079,430	20,219,669
INCOME BEFORE INCOME TAX		73,178,517	59,359,271
INCOME TAX EXPENSE	20	14,546,309	11,462,484
NET INCOME		P58,632,208	P47,896,787

See Notes to the Financial Statements.



PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	Note	2016	2015
NET INCOME		P58,632,208	P47,896,787
OTHER COMPREHENSIVE LOSS - Net of tax			
Item that may be reclassified to profit or loss			
Net change in fair value of AFS financial assets	8	(3,630,086)	(1,356,088)
Net change in fair value of AFS financial assets transferred to profit or loss	8	1,224,788	1,269,396
		(2,405,298)	(86,692)
TOTAL COMPREHENSIVE INCOME		P56,226,910	P47,810,095

See Notes to the Financial Statements.



PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Capital Stock (Note 16)	Contributed Surplus	Revaluation Reserve on AFS Financial Assets (Note 8)	Retained Earnings	Total Equity
Balance at January 1, 2016	P250,000,000	P25,000,000	P3,064,656	P246,161,331	P524,225,987
Net income	-	-	-	58,632,208	58,632,208
Other comprehensive loss	-	-	(2,405,298)	-	(2,405,298)
Total comprehensive income (loss)	-	-	(2,405,298)	58,632,208	56,226,910
Issuance of capital stock	20,000,000	-	-	-	20,000,000
Documentary stamp tax on issuance of capital stock	-	-	-	(100,000)	(100,000)
Balance at December 31, 2016	P270,000,000	P25,000,000	P659,358	P304,693,539	P600,352,897
Balance at January 1, 2015	P250,000,000	P25,000,000	P3,151,348	P198,264,544	P476,415,892
Net income	-	-	-	47,896,787	47,896,787
Other comprehensive loss	-	-	(86,692)	-	(86,692)
Total comprehensive income (loss)	-	-	(86,692)	47,896,787	47,810,095
Balance at December 31, 2015	P250,000,000	P25,000,000	P3,064,656	P246,161,331	P524,225,987

See Notes to the Financial Statements.



APR 17 2017

TSIS

MELINA PRISCA S. RANJO

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF CASH FLOWS

Years Ended December 31

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P73,178,517	P59,359,271
Adjustments for:			
Depreciation	10, 19	63,405	62,398
Increase (decrease) in reserve for unearned premiums - net of change in deferred reinsurance premiums		(1,120,905)	18,070
Decrease in deferred reinsurance commission		(1,498,875)	(539,902)
Unrealized foreign exchange gain		(1,868,496)	(1,349,693)
Interest income	18	(15,769,989)	(14,991,843)
Operating income before working capital changes		52,983,657	42,558,301
Changes in operating assets and liabilities			
Decrease (increase) in:			
Insurance receivables		(36,704,430)	25,513,234
Other assets		(2,274,013)	(2,545,351)
Increase (decrease) in:			
Claims and losses payable		30,355,345	(551,084)
Due to reinsurers - net		(4,616,144)	(4,490,366)
Accrued expenses and other liabilities		1,300,234	478,229
Cash generated from operations		41,044,649	60,962,963
Income taxes paid		(13,953,858)	(12,391,825)
Net cash provided by operating activities		27,090,791	48,571,138
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of AFS financial assets	8	70,000,000	130,000,000
Interest received		17,984,487	17,823,533
Acquisitions of property and equipment	10	-	(27,315)
Acquisitions of AFS financial assets	8	(90,582,172)	(162,588,376)
Net cash used in investing activities		(2,597,685)	(14,792,158)
CASH FLOWS FROM A FINANCING ACTIVITY			
Issuance of capital stock		20,000,000	-
Payment of DST on issuance of capital stock		(100,000)	-
Net cash provided by a financing activity		19,900,000	-
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		1,868,496	1,349,693
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		46,261,602	35,128,673
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		208,242,473	173,113,800
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	6	P254,504,075	P208,242,473

See Notes to the Financial Statements.

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
NOTES TO THE FINANCIAL STATEMENTS

APR 17 2017

TSIS

MELINA PRISCA S. RANJO

1. Reporting Entity

Petrogen Insurance Corporation (the "Company") was incorporated in the Philippines on August 23, 1996. The Company is presently engaged in the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company is a wholly-owned subsidiary of Petron Corporation (Petron), a company incorporated and domiciled in the Philippines and whose shares are listed in the Philippine Stock Exchange.

The Company's ultimate parent is Top Frontier Investments Holdings, Inc.

On January 1, 2016, the Insurance Commission granted the Company a Certificate of Authority, effective January 1, 2016 until December 31, 2018.

The Company's principal and registered office address is SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

2. Basis of Preparation

Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. PFRS consists of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The accompanying financial statements of the Company as at and for the year ended December 31, 2016 were authorized for issue by the Board of Directors (BOD) on March 13, 2017.

Basis of Measurement

The financial statements of the Company have been prepared on a historical cost basis, except for financial assets classified as available-for-sale (AFS) financial assets, which is stated at fair value.

Functional and Presentation Currency

The financial statements are presented in Philippine peso (PHP), which is the Company's functional currency. All financial information is rounded off to the nearest peso, except when otherwise indicated.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in the financial statements, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company has adopted the following amendments to standards starting January 1, 2016 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Company's financial statements.

- *Disclosure Initiative (Amendments to PAS 1, Presentation of Financial Statements)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:
 - Information should not be obscured by aggregating or by providing immaterial information.
 - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.
 - The list of line items to be presented in the statements of financial position and statements of income and other comprehensive income (OCI) can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.
 - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing these financial statements. Unless otherwise indicated, none of these are expected to have a significant effect on the Company's financial statements.

Effective January 1, 2017

- *Disclosure initiative (Amendments to PAS 7, Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the statements of financial position for liabilities arising from financing activities.

The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. When the entity first applies the amendment, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes)*. The amendments clarify that:
 - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
 - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
 - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
 - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

Effective January 1, 2018

- *PFRS 9, Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of PFRS 9.

- *PFRS 15, Revenue from Contracts with Customer*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standards Interpretations Committee 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is currently assessing the potential impact of PFRS 15 on its financial statements.

- *Applying PFRS 9 with PFRS 4, Insurance Contracts (Amendments to PFRS 4)*. The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39 if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and OCI the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at fair value through profit or loss under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

Effective January 1, 2019

- *PFRS 16, Leases supersedes PAS 17, Leases, and the related Philippine Interpretations.* The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

The Company is currently assessing the potential impact of PRFS 15 on its financial statements.

Financial Assets and Financial Liabilities

Date of Recognition

Financial instruments are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of non-derivative financial assets that will be delivered within the timeframe generally established by regulation or convention in the market concerned are recognized on the date on which the Company commits to the transaction (the trade date).

Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs.

Classification of Financial Instruments

The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables and AFS financial assets. The Company classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate re-evaluates such designation at the end of each reporting period.

As at December 31, 2016 and 2015, the Company has no HTM investments and financial assets and financial liabilities at FVPL.

Reclassification of Financial Instruments

Financial instruments are reclassified at its fair value on the date of reclassification. For financial assets at FVPL, any gain or loss already recognized in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

For debt instruments reclassified out of the AFS financial assets category, the gain or loss shall be amortized to profit or loss over the remaining life of instruments using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount.

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories.

Subsequent to initial recognition, AFS financial assets are measured at fair value. Fair value changes are recognized in OCI. Interest income is recognized under the effective interest method, with the effective interest rate (EIR) being calculated based on the instrument's initial recognition. The EIR is the rate that exactly discounts the estimated stream of future cash payments or receipts, without consideration of future credit losses, over the expected life of the financial instrument or through to the next market-based repricing date, to the net carrying amount of the financial asset or financial liability on initial recognition. Impairment losses and foreign exchange gains and losses on AFS financial assets are recognized in profit or loss as they arise.

Where the Company holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. When the relevant asset is derecognized, on sale or other disposal, or is impaired, the cumulative fair value changes recognized in OCI are reclassified from equity to profit or loss. For a partial disposal, a proportionate share of the fair value gains and losses previously recognized in OCI is reclassified from equity to profit or loss. Such gains and losses include all fair value changes until the date of disposal.

The Company's investments which consist of government securities and other debt securities included under "AFS financial assets" account are classified under this category (Note 8).

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as financial assets at FVPL, AFS financial assets or HTM investments.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees that are integral part of the EIR of the asset. Any interest earned on loans and receivables is recognized in profit or loss on an accrual basis. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

Included in this category are: (a) cash and cash equivalents; (b) insurance receivables, which arise primarily from premiums due from policyholders and recoverable from reinsurers; (c) interest receivables under "Other assets" account in the statements of financial position; and (d) due from reinsurers, net of allowance for impairment losses, under "Due to reinsurers - net" account in the statements of financial position (Notes 6, 7, 11 and 13).

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

Other Financial Liabilities

This category pertains to financial liabilities that are not designated or classified at FVPL.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered integral part of the EIR of the liability.

Included in this category are: (1) claims and losses payable presented as part of "Insurance liabilities" account in the statements of financial position; (2) due to reinsurers (gross of due from reinsurers); and (3) "Accrued expenses and other liabilities" excluding payable to regulatory agents and deferred credits (Notes 12, 13 and 14).

Fair Value Measurements

Determination of Fair Values

The fair values of financial instruments traded in active markets at reporting date are based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair values are determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flows method, price comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

'Day 1' Profit

Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit.

Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., 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).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the financial liability simultaneously. This is not generally the case with master netting agreements, and the related financial assets and financial liabilities are presented gross in the statements of financial position.

Impairment of Financial Assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

Assets Carried at Amortized Cost

For financial assets carried at amortized cost such as loans and receivables, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Company includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that not have been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Where loans and receivables have been ascertained to be worthless, the related amount is written-off against the corresponding allowance for impairment.

AFS Financial Assets

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

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

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

- the contractual rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its right to receive cash flows from the asset and either has:
 - (a) transferred substantially all the risks and rewards of the asset; or
 - (b) neither transferred nor retained substantially the risks and rewards of the financial asset but has transferred the control of the financial asset.

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

Financial Liabilities

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

Classification of Financial Instruments between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Property and Equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the cost of day-to-day servicing.

The initial cost of property and equipment comprises of its construction cost or purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period these costs are incurred. Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the items can be measured reliably.

Depreciation, which commences when the assets are available for their intended use, is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Office equipment	10
Electronic data processing (EDP) equipment	3

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

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

Fully depreciated assets are retained in the accounts until they are no longer in use.

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

Impairment of Non-financial Assets

The carrying amounts of non-financial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs to sell. Value in use is the present value of future cash flows expected to be derived from an asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment loss is recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

As at December 31, 2016 and 2015, no impairment loss has been recognized on the Company's property and equipment (Note 10).

Insurance Contracts

Insurance contract is an agreement whereby one party called the insurer undertakes, for a consideration paid by the other party called the insured, promises to pay money, or its equivalent or to do some act valuable to the latter, upon happening of a loss, liability or disability arising from an unknown or contingent event.

Classification of Insurance and Investment Contracts

The Company issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes the possibility of having to pay benefits on the occurrence of an insured event. The Company may also transfer insurance risk in insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10.00% more than the benefits payable if the insured event did not occur. Insurance contracts can also expose the insurer to financial risks. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

In 2016 and 2015, the Company has no outstanding investment contracts.

Insurance Contract Receivables and Payables

Insurance contract receivables and payables are recognized when contracts are entered into and premiums are charged. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes that impairment loss in profit or loss.

Claims and Losses Payable

Liabilities for unpaid claims and losses and claim adjustment expenses relating to insurance contracts are accrued when insured events occur. The liability is derecognized when the contract is discharged or cancelled.

The liabilities for claims are based on the estimated ultimate cost of settling the claims. The method of determining the expected ultimate cost of claims reported at reporting date are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and difference between estimates and payments for claims are recognized as income or expense in the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in profit or loss in the period the recoveries are determined. Recoverable amounts from reinsurers are presented as part of "Insurance receivables" account in the statements of financial position.

Liability Adequacy Test

At each reporting date, liability adequacy test is performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of future cash flows, claims handling cost and policy administrative expenses. 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 arising from the test is immediately charged to profit or loss by establishing an unexpired risk provision for losses.

Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets primarily include balances due from reinsurance companies. Amounts due from reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amount due to it under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged to profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligation to the policyholders.

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

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

Equity

Capital Stock

Capital stock is composed of common shares, determined using the nominal value of shares that have been issued.

Contributed Surplus

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

Revaluation Reserves on AFS Financial Asset

Revaluation reserves comprise cumulative gains and losses due to the revaluation of AFS financial assets.

Retained Earnings

Retained earnings include all current and prior period results as disclosed in the statements of income. Retained earnings may also include effect of changes in accounting policy as may be required by the transitional provision of the standards. Any transaction costs associated with the issuance of shares are deducted from retained earnings.

Revenue Recognition

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

Premium Income

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

Premiums from insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired periods of the policies at the reporting date is accounted for as "Reserve for unearned premiums" account and presented under "Insurance liabilities" in the statements of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at each reporting date is accounted for as "Deferred reinsurance premiums" and shown in the assets section of the statements of financial position. The net changes in these accounts between reporting dates are credited to or charged against income as "Increase or decrease in reserve for unearned premium - net of change in deferred reinsurance premiums" account in the statements of income.

Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

Reinsurance Commissions

Reinsurance commissions earned from reinsurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as "Deferred reinsurance commission" and presented in the liabilities section of the statements of financial position.

Interest Income

Interest income for all interest-bearing financial instruments is recognized in profit or loss using the effective interest method.

Realized Gains and Losses

Realized gains and losses include gains and losses on the sale of AFS financial assets, which are calculated as the difference between net sales proceeds and the net carrying value.

Realized gains and losses are recognized in the statements of income when the sales transaction occurred.

Cost and Expense Recognition

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

Underwriting Expenses

Underwriting expenses consists of benefits and claims paid to policyholders, which includes changes in the valuation of insurance liabilities, except for changes in the reserve for unearned premiums which are recorded as increase or decrease in reserve for unearned premiums. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Leases

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

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

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

Operating Lease

Company as Lessee

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over lease term.

Foreign Currency Transactions and Translation

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates at reporting date; income and expenses are translated using the average rate for the year. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in OCI.

Taxes

Current Tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - excess of Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of excess of MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The measurement of deferred tax reflects the tax consequences that would follow 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.

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

In determining the amount of current, final and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

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

Final Tax

Interest income from cash on hand and in banks and financial assets, which is subject to final withholding tax, is presented at gross amounts while taxes paid or withheld are included in "Income tax expense" account in the statements of income.

Value-added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

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

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

Related Parties

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

Provisions

Provisions are recognized when: a) the Company has a present obligation (legal or constructive) as a result of past event; b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments, estimates and assumptions 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. Revisions are recognized in the period in which the judgments, estimates and assumptions are revised and in any future period affected.

Judgments

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

Determination of Fair Values of Financial Instruments

Where the fair values of financial assets and liabilities recorded in the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Company uses judgment to select from a variety of valuation models and makes assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

Impairment of AFS Financial Assets

The Company considers that investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share/market price. The Company generally regards fair value decline as being significant when decline exceeds 20.00% and prolonged when it persists for nine months or more.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Company's AFS financial assets, management concluded that no assets are impaired as at December 31, 2016 and 2015. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Determination of Functional Currency

Based on the economic substance of the underlying circumstance relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the income and costs arising from the Company's operations.

Operating Lease - Company as Lessee

The Company has entered into a lease agreement for its office space with Petron. Judgment was exercised by management to distinguish the lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the property covered by the agreement. The Company has determined that the lessor retains significant risks and rewards of ownership for the leased office space. Therefore, the lease is classified as an operating lease.

Taxes

Beginning July 2008, in the determination of the Company's current taxable income, the Company has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. The Company, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. In 2016 and 2015, the Company opted to use OSD for its annual income tax return (Note 20).

Estimates and Assumptions

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 material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimation of Allowance for Impairment of Insurance Receivables

Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers and counterparties, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease assets.

As at December 31, 2016 and 2015, the Company has not recognized provision for impairment loss on its insurance receivables.

As at December 31, 2016 and 2015, the carrying amount of insurance receivables amounted to P128.72 million and P92.01 million, respectively (Note 7).

Estimation of Allowance for Impairment of AFS Financial Assets

The Company carries AFS financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of AFS financial assets would affect OCI.

As at December 31, 2016 and 2015, the Company assessed that there are no impairment indicators for its AFS financial assets.

As at December 31, 2016 and 2015, the carrying amount of AFS financial assets amounted to P304.03 million and P289.09 million, respectively (Note 8).

Estimated Useful Lives of Property and Equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment 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.

In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation expense and decrease property and equipment.

There is no change in estimated useful lives of property and equipment based on management's review at the reporting dates.

As at December 31, 2016 and 2015, property and equipment net of accumulated depreciation amounted to P0.04 million and P0.10 million, respectively (Note 10).

Impairment of Non-financial Assets

PFRS requires that an impairment review be performed on property and equipment when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed 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 amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

As at December 31, 2016 and 2015, management has assessed that no indications exist that the property and equipment are impaired.

Liability Arising from Claims Made under Insurance Contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimation of the ultimate cost of claims is a complex process and can be evaluated with the aid of the adjuster's estimates.

The Company considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the ultimate liability arising from claims made under insurance contracts as the major uncertainties may differ significantly. With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected including reserve for outstanding losses and related insurance balances.

As at December 31, 2016 and 2015, Claims and losses payable amounted to P64.91 million and P34.55 million, respectively (Note 12).

Realizability of Deferred Tax Assets

The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets is based on the projected taxable income in the following periods.

As at December 31, 2016 and 2015, deferred tax assets amounted to P0.83 million and P1.27 million, respectively (Note 20).

5. Insurance and Financial Risks Management Objectives and Policies

Objectives and Policies

The primary objective of the Company's insurance and financial risk management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of the financial performance objectives, including failing to exploit opportunities.

Governance

Key management recognizes the critical importance of having efficient and effective risk management system.

The Company's risk management involves the close cooperation of the Company's BOD in developing objectives, policies and processes on insurance, liquidity, credit and market risks and the Company's management of capital.

Regulatory Framework

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

The risks and the way the Company manages insurance and financial risks are set out below:

Insurance Risk

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

The risk under insurance contracts is the possibility of occurrence of an insured event and uncertainty of the amount and timing of resulting claims. The principal risk the Company faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

- *Occurrence Risk* - the possibility that the number of insured events reported in a particular period will differ from those expected.
- *Severity Risk* - the possibility that the cost of the events will differ from those expected.
- *Development Risk* - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The Company's exposure to insurance risk as at December 31, 2016 and 2015 is as follows:

	<i>Note</i>	2016	2015
Claims and losses payable	12	P64,906,961	P34,551,616
Less reinsurance recoverable on unpaid losses	7	61,489,490	26,837,467
		P3,417,471	P7,714,149

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

The business of the Company comprises short-term nonlife insurance contracts. For general insurance contracts, claims are often affected by natural disasters, calamities, etc. These risks currently do not vary significantly in relation to the location of the risk insured by the Company while undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company has an objective to control and minimize insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security; and
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented as part of "Insurance receivables" in the statements of financial position.

The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. Amounts of estimates at the accident year are based from adjusters' report. Other estimates are based on reasonable approximation after an evaluation of reported claims. Adjustment to the loss reserves is made on the year the ultimate cost of claim becomes more certain. Reserves are either decreased or increased depending on the estimates.

Key Assumptions

The principal assumptions underlying the estimates made by the Company depends on the past claims experience and industry levels. This includes assumptions in respect to average claims costs, inflation factor and handling cost. Judgment is used to assess the extent to which external factors such as judicial decision and government legislation affect the estimates.

Sensitivity Analysis

The Company's claims provision is sensitive to the previous key assumptions. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, among others is not possible to quantify.

In accordance with the claims development methodology, claims and losses over a period of time on a gross and net reinsurance basis were developed as follows:

Accident Year	2016					Total
	All Years Prior to 2013	2013	2014	2015	2016	
Estimate of ultimate claims costs:						
At the end of accident year	P104,914,035	P196,929,772	P10,805,744	P8,729,373	P69,104,909	P69,104,909
One year later	8,606,280	222,302,054	4,394,577	2,078,998	-	2,078,998
Two years later	2,184,073	32,053,490	4,206,647	-	-	4,206,647
Three years later	1,308,386	1,084,088	-	-	-	1,084,088
Four years later	7,086	-	-	-	-	7,086
Current estimate of cumulative claims	7,086	1,084,088	4,206,647	2,078,998	69,104,909	76,481,728
Claims and losses paid	2,951	11,481	4,061,042	1,843,397	5,655,896	11,574,767
Liability recognized in the statements of financial position, gross of reinsurance	4,135	1,072,607	145,605	235,601	63,449,013	64,906,961
Reinsurance recoverable on unpaid losses	-	857,316	-	-	60,632,174	61,489,490
Net exposure	P4,135	P215,291	P145,605	P235,601	P2,816,839	P3,417,471

Accident Year	2015					Total
	All Years Prior to 2012	2012	2013	2014	2015	
Estimate of ultimate claims costs:						
At the end of accident year	P97,842,132	P7,071,903	P196,929,772	P10,805,744	P8,022,736	P8,022,736
One year later	6,351,068	2,255,212	222,302,054	4,394,577	-	4,394,577
Two years later	2,018,089	165,984	32,173,768	-	-	32,173,768
Three years later	1,137,899	71,363	-	-	-	71,363
Four years later	137,741	-	-	-	-	137,741
Current estimate of cumulative claims	137,741	71,363	32,173,768	4,394,577	8,022,736	44,800,185
Claims and losses paid	26,645	67,228	145,251	4,185,350	5,824,095	10,248,569
Liability recognized in the statements of financial position, gross of reinsurance	111,096	4,135	32,028,517	209,227	2,198,641	34,551,616
Reinsurance recoverable on unpaid losses	94,432	-	26,743,035	-	-	26,837,467
Net exposure	P16,664	P4,135	P5,285,482	P209,227	P2,198,641	P7,714,149

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

The concentration of claims and losses by type of contract is as follows:

	2016		
	Gross Liabilities (Note 12)	Reinsurers' Share of Liabilities (Note 7)	Net Liabilities
Fire	P62,608,607	P61,489,490	P1,119,117
Motor	2,298,354	-	2,298,354
	P64,906,961	P61,489,490	P3,417,471

	2015		Net Liabilities
	Gross Liabilities (Note 12)	Reinsurers' Share of Liabilities (Note 7)	
Fire	P31,964,517	P26,740,245	P5,224,272
Marine	111,096	97,222	13,874
Motor	2,476,003	-	2,476,003
	P34,551,616	P26,837,467	P7,714,149

Financial Risk

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Company regulates and extends credit only to qualified and credit-worthy related entities and other counterparties, and continuously monitors defaults of its counterparties, identified either individually or by group, and incorporate this information into its credit risk controls.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below:

	Note	2016	2015
Cash and cash equivalents	6	P254,454,075	P208,192,473
Insurance receivables*	7	67,226,319	65,173,912
AFS financial assets	8	304,026,467	289,094,932
Interest receivable**	11	1,817,525	1,852,498
Due from reinsurers***	13	16,675,031	3,775,030
		P644,199,417	P568,088,845

*excluding reinsurance recoverable on unpaid losses

**included under "Other assets" account

***included under "Due to reinsurers - net" account

The credit risk for cash and cash equivalents and AFS financial assets is considered negligible, since the counterparties are reputable entities with high quality external credit ratings. The credit quality of these financial assets is therefore considered as high grade. For the determination of credit risk, cash and cash equivalents do not include cash on hand amounting to P0.05 million as at December 31, 2016 and 2015.

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

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

debt service record and a moderate use of leverage.

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

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

2016					
Neither Past-Due nor Impaired					
	Investment High Grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and/or Impaired	Total
Cash and cash equivalents	P254,454,075	P -	P254,454,075	P -	P254,454,075
Insurance receivables*	67,226,319	-	67,226,319	-	67,226,319
AFS financial assets	304,026,467	-	304,026,467	-	304,026,467
Interest receivable**	1,817,525	-	1,817,525	-	1,817,525
Due from reinsurers***	16,675,031	-	16,675,031	41,566	16,716,597
	P644,199,417	P -	P644,199,417	P41,566	P644,240,983

*excluding reinsurance recoverable on unpaid losses

**included under "Other assets" account

***included under "Due to reinsurers - net" account

2015					
Neither Past-Due nor Impaired					
	Investment High Grade	Non-investment Grade - Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and/or Impaired	Total
Cash and cash equivalents	P208,192,473	P -	P208,192,473	P -	P208,192,473
Insurance receivables*	65,173,912	-	65,173,912	-	65,173,912
AFS financial assets	289,094,932	-	289,094,932	-	289,094,932
Interest receivable**	1,852,498	-	1,852,498	-	1,852,498
Due from reinsurers***	3,775,030	-	3,775,030	41,566	3,816,596
	P568,088,845	P -	P568,088,845	P41,566	P568,130,411

*excluding reinsurance recoverable on unpaid losses

**included under "Other assets" account

***included under "Due to reinsurers - net" account

The aging of the insurance receivables (excluding Reinsurance recoverable on unpaid losses) is as follows:

	<i>Note</i>	2016	2015
Premiums Receivables			
Current		P17,792,994	P7,502,207
Past due but not impaired:			
31 - 60 days		8,811	1,293,542
61 - 90 days		81,380	8,660
More than 90 days		102,186	1,087,639
	7	17,985,371	9,892,048
Reinsurance Recoverable on Paid Losses			
Current		3,119,328	-
Past due but not impaired:			
31 - 60 days		-	-
61 - 90 days		-	-
More than 90 days		46,121,620	55,281,864
	7	49,240,948	55,281,864
	7	P67,226,319	P65,173,912

The Company provides allowance for impairment on a specific and collective basis. The allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies individually significant accounts that are to be provided with allowance on a regular basis.

Liquidity Risk

Liquidity risk pertains to the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The Company manages its liquidity needs by carefully monitoring scheduled debt serving payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and 1-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits or short-term marketable securities.

Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2016 and 2015, the contractual maturities of the Company are all due in one year or less.

	<i>Note</i>	2016	2015
Financial Liabilities			
Claims and losses payable	12	P64,906,961	P34,551,616
Due to reinsurers	13	37,658,695	29,374,838
Accrued expenses and other liabilities *	14	4,520,043	5,235,337
		P107,085,699	P69,161,791

*excluding payable to regulatory agencies and deferred credits

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

Market Risk

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

Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine peso, its functional currency. Exposures to currency exchange rates arise from the Company's cessions to Overseas Ventures Insurance Corporation Ltd. (OVINCOR) and collection on fire and marine insurance premiums from Petron, which are primarily denominated in US dollar.

The Company also holds US dollar-denominated cash and cash equivalents.

To mitigate the company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency denominated financial assets and liabilities, translated into Philippine peso at the closing rate are as follows:

	2016		2015	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Financial assets	1,921,031	95,513,656	1,930,315	90,840,639
Financial liabilities	(180,165)	(8,957,782)	(153,829)	(7,239,215)
Net exposure	1,740,866	86,555,874	1,776,486	83,601,424

The Company reported net foreign exchange gains of P2.95 million and P5.11 million in 2016 and 2015, respectively (Note 18), with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar. As at December 31, 2016 and 2015, the closing rate of US dollar to peso is P49.72 and P47.06, respectively.

The management of foreign currency risk is also supplemented by monitoring the sensitivity of financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity through the retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to income before tax and equity as at December 31:

	Change in US Dollar Exchange Rate	Effect on Income before Income Tax	Effect on Equity
2016	+1.43%	P1,237,749	P866,424
	-1.43%	(1,237,749)	(866,424)
2015	+2.42%	P2,023,154	P1,416,208
	-2.42%	(2,023,154)	(1,416,208)

In 2016, the peso volatility, as measured by the coefficient of variation of peso's daily closing rates, decreased to 1.43% from 2.42% in 2015. The Company determined that this will best represent the movement of foreign exchange rate until the next reporting date.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's currency risk.

Interest Rate Risk

The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration on the maturity profile of the financial instruments.

The Company's exposure to such instruments is not significant as most of the investments have fixed interest rates and maturities.

Price Risk

As at December 31, 2016 and 2015, the Company's exposure to price risk was assessed by management to be insignificant since the Company does not have investments in equity securities.

Fair Value of Financial Instruments

The fair value of cash and cash equivalents, insurance receivables, interest receivables, due from a related party, claims and losses payable, due to reinsurers, and accrued expenses and other liabilities, approximate their carrying amounts due to relatively short-term nature.

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities (Note 3).

As at December 31, AFS financial asset is the only financial asset measured at fair value in the statements of financial position. The fair value hierarchy of the Company's AFS financial asset is as follows:

	2016				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
AFS financial assets:					
Government securities	P140,629,615	P89,918,400	P50,711,215	P -	P140,629,615
Other debt instruments	163,396,852	-	163,396,852	-	163,396,852
	P304,026,467	P89,918,400	P214,108,067	P -	P304,026,467

	2015				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
AFS financial assets:					
Government securities	P123,590,805	P70,464,800	P53,126,005	P -	P123,590,805
Other debt instruments	165,504,127	-	165,504,127	-	165,504,127
	P289,094,932	P70,464,800	P218,630,132	P -	P289,094,932

Other Debt Instruments

Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. The market price reference in determining the market values is derived from Philippine Dealings and Exchange Corporation as at December 29, 2016.

As at December 31, 2016 and 2015, the Company has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

6. Cash and Cash Equivalents

Cash and cash equivalents consists of:

	2016	2015
Cash on hand and in banks	P16,519,708	P14,666,855
Short-term placements	237,984,367	193,575,618
	P254,504,075	P208,242,473

Cash in banks generally earns interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company, and earn annual interest ranging from 0.50% to 2.25% in 2016 and 0.38% to 2.57% in 2015. Interest earned on cash in banks and short-term placements amounted to P3.93 million and P4.08 million in 2016 and 2015, respectively (Note 18). As of December 31, 2016 and 2015, accrued interest on cash and cash equivalents amounted to P0.23 million (Note 11).

7. Insurance Receivables

Insurance receivables consists of:

	2016	2015
Premium receivables	P17,985,371	P9,892,048
Reinsurance recoverable on paid losses	49,240,948	55,281,864
Reinsurance recoverable on unpaid losses	61,489,490	26,837,467
	110,730,438	82,119,331
	P128,715,809	P92,011,379

As at December 31, 2016 and 2015, premium receivable from related parties amounted to P8.45 million and 9.86 million, respectively (Note 21).

As at December 31, 2016 and 2015, reinsurance recoverable from related parties amounted to P8.52 million and P13.79 million, respectively (Note 21).

All of the Company's insurance receivables have been reviewed for indicators of impairment. No receivables were found to be impaired.

A reconciliation of changes in reinsurance recoverable on paid and unpaid losses is as follows:

	2016	2015
Balance at beginning of year	P82,119,331	P93,972,512
Recoveries from reinsurers during the year	-	(11,627,833)
Reinsurer's share on paid losses during the year	3,119,328	-
Reinsurer's share on unpaid losses during the year	60,368,000	-
Reversal of prior years' claims	(34,876,221)	(225,348)
Balance at end of year	P110,730,438	P82,119,331

8. AFS Financial Assets

AFS financial assets consists of:

	2016	2015
Government securities	P140,629,615	P123,590,805
Other debt securities	163,396,852	165,504,127
	P304,026,467	P289,094,932

This account is comprised of investments in government and private securities. Government securities consists of bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of Government-owned and controlled corporations, including the BSP, which are lodged with the Bureau of Treasury, in accordance with the provisions of the Insurance Code for the benefit and security of policyholders and creditors of the Company.

This account bears fixed interest rates ranging from 2.13% to 7.75% and 4.47% to 7.75% in 2016 and 2015, respectively. In 2016 and 2015, interest income on these investments amounted to P11.79 million and P10.91 million, respectively (Note 18). As at December 31, 2016 and 2015, accrued interest on these investments amounted to P1.59 million and P1.62 million, respectively (Note 11).

The maturity profile of this account is as follows:

	2016	2015
Due in one year or less	P70,753,015	P70,464,800
Due after one year through five years	233,273,452	218,630,132
	P304,026,467	P289,094,932

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

	2016	2015
Balance at beginning of year	P289,094,932	P259,462,093
Additions	90,582,172	162,588,376
Maturity	(70,000,000)	(130,000,000)
Fair value loss	(3,436,139)	(123,846)
Amortization of premium	(2,214,498)	(2,831,691)
Balance at end of year	P304,026,467	P289,094,932

The reconciliation of revaluation reserve on AFS financial assets is as follows:

	2016	2015
Balance at beginning of year	P3,064,656	P3,151,348
Net change in fair value of AFS financial assets	(3,630,086)	(1,356,088)
Net change in fair value of AFS financial assets transferred to profit or loss	1,224,788	1,269,396
Balance at end of year	P659,358	P3,064,656

9. Deferred Reinsurance Premiums

Deferred reinsurance premiums pertains to the portion of insurance premiums ceded out and that relates to the unexpired period of the policies at reporting dates.

The movement of this account for the years ended December 31 is as follows:

	<i>Note</i>	2016	2015
Balance at beginning of year		P41,367,680	P37,291,252
Premiums ceded		577,163,438	497,074,305
Premiums ceded related to expired periods		(578,895,901)	(492,997,877)
	17	(1,732,463)	4,076,428
Balance at end of year		P39,635,217	P41,367,680

10. Property and Equipment - net

Property and equipment - net consists of:

	Note	2016		Total
		Office Equipment	EDP Equipment	
Cost				
January 1, 2016		P3,016,326	P2,012,866	P5,029,192
Disposals		-	(315,360)	(315,360)
		3,016,326	1,697,506	4,713,832
Accumulated Depreciation				
January 1, 2016		3,016,326	1,909,673	4,925,999
Depreciation	19	-	63,405	63,405
Disposals		-	(315,360)	(315,360)
		3,016,326	1,657,718	4,674,044
Carrying amount December 31, 2016		P -	P39,788	P39,788
	Note	2015		Total
		Office Equipment	EDP Equipment	
Cost				
January 1, 2015		P3,016,326	P1,985,551	P5,001,877
Additions		-	27,315	27,315
		3,016,326	2,012,866	5,029,192
Accumulated Depreciation				
January 1, 2015		3,016,326	1,847,275	4,863,601
Depreciation	19	-	62,398	62,398
		3,016,326	1,909,673	4,925,999
Carrying amount December 31, 2015		P -	P103,193	P103,193

11. Other Assets

Other assets consists of:

	Note	2016	2015
Creditable withholding tax		P16,366,273	P14,101,587
Interest receivable	6, 8	1,817,525	1,852,498
Deferred input VAT		621,824	589,316
Security fund		180,733	180,733
Others		151,624	139,832
		P19,137,979	P16,863,966

Security fund was created under Section 378 of the Amended Insurance Code (R.A. No. 10607), to be used for payment of claims against insolvent insurance companies. As at December 31, 2016 and 2015, the balance of the fund amounting to P0.18 million represents the Company's contribution to the fund and it earns interest at rates determined by the IC annually.

12. Insurance Liabilities

Insurance liabilities consist of:

	<i>Note</i>	2016	2015
Claims and losses payable	21	P64,906,961	P34,551,616
Reserve for unearned premiums		43,598,443	46,451,811
		P108,505,404	P81,003,427

The movement in claims and losses payable is accounted for as follows:

	2016	2015
Balance at beginning of year	P34,551,616	P35,102,700
Claims and losses incurred during the year	73,481,475	10,914,852
Claims and losses paid	(11,574,767)	(10,248,569)
Reversal of estimated claims and losses	(31,551,363)	(1,217,367)
Balance at end of year	P64,906,961	P34,551,616

In 2016 and 2015, the Company reversed the excess accrual on estimated claims and losses over actual claims and losses paid.

A reconciliation of reserve for unearned premiums is as follows:

	<i>Note</i>	2016	2015
Balance at beginning of year		P46,451,811	P42,357,313
Gross premiums written		607,778,706	527,333,668
Gross earned premiums		(610,632,074)	(523,239,170)
	17	(2,853,368)	4,094,498
Balance at end of year		P43,598,443	P46,451,811

13. Due to Reinsurers - net

Due to reinsurers - net consists of:

	2016	2015
Due to reinsurers	P37,658,695	P29,374,838
Due from reinsurers	16,716,597	3,816,596
Less allowance for impairment loss	(41,566)	(41,566)
	16,675,031	3,775,030
	P20,983,664	P25,599,808

Due to reinsurers pertains to the premiums payable to the reinsurers while due from reinsurers pertains to the Company's reinsurance commissions receivable and loss adjustment expense recoverable.

All of the Company's receivables from reinsurers have been reviewed for indicators of impairment. As at December 31, 2016 and 2015, no additional receivables were found to be impaired.

14. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of:

	<i>Note</i>	2016	2015
Payable to regulatory agencies		P10,386,591	P8,371,065
Unclaimed check		2,103,981	3,268,449
Due to a related party	21	1,885,857	1,632,889
Accrued expenses		441,445	263,814
Accounts payable		88,760	70,185
Deferred credits		31,086	31,084
		P14,937,720	P13,637,486

15. Deferred Reinsurance Commission

A reconciliation of deferred reinsurance commission is as follows:

	2016	2015
Balance at beginning of year	P2,765,788	P3,305,690
Reinsurance commissions for the year	40,373,047	36,993,104
Reinsurance commissions earned for the year	(41,871,922)	(37,533,006)
Balance at end of year	P1,266,913	P2,765,788

16. Capital Stock

As at December 31, capital stock consists of:

	2016		2015	
	Number of Shares	Amount	Number of Shares	Amount
Authorized capital stock:				
Common shares at P1,000 par value	400,000	P400,000,000	400,000	P400,000,000
Issued and outstanding	270,000	P270,000,000	250,000	P250,000,000

On August 24, 2016 the BOD authorized the issuance of the additional capital stock from the Company's 150,000 unissued capital stock, with P1,000 par value.

On December 22, 2016 Petron Corporation subscribed and paid for 20,000 common shares amounting to P20.00 million. The Company paid P0.10 million to the Bureau of Internal Revenue for the documentary stamps tax on the issuance of shares, which was recognized as a direct deduction to retained earnings.

17. Premiums Earned

The reconciliation of movement in net premiums is as follows:

	<i>Note</i>	2016	2015
Gross Earned Premiums			
Gross premiums written		P607,778,706	P527,333,668
Decrease (increase) in reserve for unearned premiums		2,853,368	(4,094,498)
	12	610,632,074	523,239,170
Reinsurer's Share of Gross Earned Premiums			
Reinsurer's share of gross premiums		577,163,438	497,074,305
Decrease (increase) in deferred reinsurance premiums		1,732,463	(4,076,428)
	9	578,895,901	492,997,877
		P31,736,173	P30,241,293

18. Investment and Other Income (Expense)

Investment and other income consists of:

	<i>Note</i>	2016	2015
Interest income on:			
AFS financial assets	8	P11,788,874	P10,912,687
Cash and cash equivalents	6	3,932,409	4,079,156
Security fund	11	48,706	-
		15,769,989	14,991,843
No claim bonus		10,223,002	-
Foreign exchange gain		2,951,381	5,113,958
Profit commission		2,019,731	1,984,339
Other income (expense)		(2,571,747)	830,194
		P28,392,356	P22,920,334

Other income (expense) includes mainly the difference between the accrual of the estimated claims and estimated recoveries over actual losses paid and actual loss recoveries.

19. General and Administrative Expenses

General and administrative expenses consists of:

	<i>Note</i>	2016	2015
Outside services	21	P16,185,091	P16,803,718
Professional fees		608,220	471,450
Taxes and licenses		497,409	1,282,158
Association dues		451,975	322,994
Rent	21, 23	415,670	452,151
Advertising		186,248	157,094
Representation		185,629	200,706
Transportation and travel		142,660	135,604
Communication		130,332	152,000
Office supplies		123,131	106,329
Depreciation	10	63,405	62,398
Training		60,808	34,029
Miscellaneous		28,852	39,038
		P19,079,430	P20,219,669

20. Income Taxes

Income tax expense consists of:

	2016	2015
Current income tax	P10,543,054	P9,201,396
Deferred income tax	592,451	(929,341)
Final tax	3,410,804	3,190,429
	P14,546,309	P11,462,484

The reconciliation between the statutory income tax rate on income before income tax and the Company's effective income tax rate is as follows:

	2016	2015
Income before income tax	P73,178,517	P59,359,271
Income tax computed at statutory income tax rate of 30%	P21,953,555	P17,807,781
Tax effect of excess of OSD over deductible expenses	(6,087,053)	(5,038,174)
Decrease in income tax rate resulting from interest income subjected to final tax	(1,320,193)	(1,307,123)
Tax expense reported in the statements of income	P14,546,309	P11,462,484

Deferred tax liabilities - net arises from the following:

	2016	2015
Amount Charged to Profit or Loss		
Provisions for loss reserves	P437,850	P424,998
Deferred reinsurance commissions	380,074	829,736
Allowance for impairment loss	12,470	12,470
Unrealized foreign exchange gain	(560,549)	(404,908)
	269,845	862,296
Amount Charged to OCI		
Changes in fair value of AFS financial assets	(282,582)	(1,313,423)
	(P12,737)	(P451,127)

The movements of deferred tax liabilities - net are accounted for as follows:

	2016	2015
Amount charged to profit or loss	P592,451	(P929,341)
Amount charged to OCI	(1,030,841)	(37,155)
	(P438,390)	(P966,496)

The Company is subject to MCIT which is computed at 2.00% of gross income, as defined under tax regulations. No MCIT was reported in 2016 and 2015 as the RCIT was higher than MCIT in both years.

Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40.00% of gross income. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.

The Company opted to use OSD for its annual income tax return in 2016 and 2015.

21. Related Party Disclosures

The Company's related parties include its parent company, affiliates and others as described below. Details of related party transactions in 2016 and 2015 are as follows:

Category/Transaction	Year	Amount of the Transaction	Outstanding Balance		Terms	Conditions
			Due from Related Parties	Due to Related Parties		
Parent Company						
Premiums written	2016	P548,735,259	P8,446,425	P -	On-demand;	Unsecured;
	2015	464,611,447	9,864,708	-	non-interest bearing	no impairment
Service fee income	2016	29,080,169	-	-	On-demand;	Unsecured
	2015	26,171,413	-	-	non-interest bearing	
Claims	2016	61,708,000	-	82,608,607	On-demand;	Unsecured
	2015	636,814	-	32,075,613	non-interest bearing	
Management fee	2016	16,112,970	-	1,885,857	On-demand;	Unsecured
	2015	16,884,737	-	1,632,889	non-interest bearing	
Entities under Common Control						
Premiums ceded	2016	34,108,851	-	9,706,609	On-demand;	Unsecured
	2015	34,992,579	-	7,239,215	non-interest bearing	
Commissions earned	2016	2,523,802	748,826	-	On-demand;	Unsecured;
	2015	2,055,799	646,176	-	non-interest bearing	no impairment
Reinsurance recoverable	2016	8,008,000	8,524,325	-	On-demand;	Unsecured;
	2015	-	13,791,058	-	non-interest bearing	no impairment
TOTAL	2016		P17,719,576	P74,201,073		
TOTAL	2015		P24,301,942	P40,947,717		

In the normal course of business, the Company provides insurance cover to its parent company, Petron, and obtains certain reinsurance coverage from OVINCOR, a wholly-owned subsidiary of Petron and incorporated under the laws of Bermuda.

Premiums written and ceded amounted to P548.74 million and P34.11 million in 2016, respectively, and P464.61 million and P34.99 million in 2015, respectively. Commission income related to reinsurance contracts with OVINCOR amounted to P2.52 million and P2.06 million in 2016 and 2015, respectively. The amount of premiums written, claims, premiums ceded and commissions earned are presented in the statements of income.

Outstanding balances relating to Petron and OVINCOR which include premiums written and reinsurance recoverable are presented as part of "Insurance receivables" account in the statements of financial position, while outstanding balances of premiums ceded and commissions earned are presented at net amount under "Due to reinsurers" account in the statements of financial position. Outstanding balances of claims, advances to and from Petron are presented as part of "Insurance liabilities," "Other assets," "Accrued expenses" and "Other liabilities" accounts, respectively, in the statements of financial position. The outstanding balances are unsecured, due and payable under normal payment terms and settled in the normal course of business.

Management Agreement

The Company entered into a management agreement with Petron for the latter to provide necessary manpower and office space facilities to support its operations for a period of four years. Total amount charged to operations as part of outside services, rent, and communication, from such management agreement amounted to P16.11 million and P16.88 million for the years ended December 31, 2016 and 2015, respectively. This agreement is effective from January 1, 2013 until either Petron or the Company provides a written notice of termination of the management agreement.

Key Management Compensation

There is no compensation for key management personnel in 2016 and 2015 since the key management roles are held by employees of Petron.

22. Capital Management and Regulatory Requirements

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders by applying with the capital requirements and limitation enforced by the IC and aligning the Company's operation strategy to its corporate goals.

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

The Company manages capital through a process that determines future projected capital requirements through the development of long-term financial plans and projections that consider the impact of surplus of new business, profitability of in-force business and other major corporate initiatives that will affect capitalization levels.

The IC is interested in protecting the rights of the policyholders and maintaining close vigil to ensure that the Company is satisfactorily managing the affairs for policyholders' benefits.

The Company considers capital stock, contributed surplus, revaluation reserve for AFS financial assets and retained earnings as capital it manages.

There were no changes made to its capital base, objectives, policies and processes from previous years.

Net Worth Requirements

Under the new Insurance Code (Republic Act 10607) which was approved on August 15, 2013, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

Net Worth	Compliance Date
P250,000,000	On or before June 30, 2013
550,000,000	On or before December 31, 2016
900,000,000	On or before December 31, 2019
1,300,000,000	On or before December 31, 2022

As at December 31, 2016 and 2015, the Company has complied with the net worth requirements, based on internal calculations.

RBC Requirements

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

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

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

The Company has complied with the externally imposed capital requirements, based on internal calculations.

New Regulatory Requirements

On December 28, 2016, the IC issued CL No. 2016-69, superseding CL No.2015-31, which gives guidelines on the implementation of its new regulatory requirements, specifically for the Financial Reporting Framework (FRF), Valuation of Life and Non-Life Insurance Policy Reserves and the Amended Risk-Based Capital (RBC2) Framework. The new regulatory requirements shall take effect beginning January 1, 2017. During the initial year of the implementation the new requirements will be relaxed, as set out by CL No. 2016-69.

IC CL No. 2016-65, superseding CL No. 2015-29, provides that FRF includes the economic valuation of assets and liabilities based on internationally accepted accounting, actuarial and insurance core principles. It will be used on the statutory quarterly and annual reporting for net worth requirements as approved by IC.

IC CL No. 2016-67, superseding CL No. 2015-32, provides that the reserves for a non-life insurance policy shall be composed of Premiums Liability and Losses and Claims Payable determined using best estimate assumptions, and appropriate Margin for Adverse Deviation for expected future experience. This new valuation standards is intended to cover both direct and assumed reinsurance business, whether treaty or facultative.

IC CL No. 2016-68, superseding CL No. 2015-30, pursuant to Section 200 and Section 437 of R.A. 10607, the RBC2 Framework is promulgated by the IC. The framework introduced a three (3) pillar risk-based approach to solvency. Pillar 1 pertains to the computation of the Risk-Based Capital ratio, the minimum of which is set at 100%. Quarterly reports on the RBC ratio shall be submitted two (2) months after the end of each reporting period, and an annual report for the period ending December 31 shall be submitted on or before the 30th of April of the succeeding year. The IC is yet to issue separate circulars for the Pillar 2 and 3 of the RBC2 Framework.

As at December 31, 2016, the Company is compliant with RBC 2-QIS, based on internal calculations. The final RBC 2-QIS ratio can be determined only after the accounts of the Company have been examined by IC.

23. Lease Commitments

The Company has determined that the significant risks and rewards for properties leased from a related party are retained by the lessor.

On April 27, 2015, the Company has renewed its noncancelable operating lease agreement for office premises with terms of five (5) years which covered the periods from June 1, 2015 to May 31, 2020. The lease agreement includes escalation clauses that allow a reasonable increase in rates. The lease is renewable under certain terms and conditions.

As at December 31, future minimum rental payments under the new lease agreement are as follows:

	2016	2015
Within one year	P428,140	P415,670
After one year but not more than five years	1,086,780	1,514,920
	P1,514,920	P1,930,590

Rent expense amounting to P0.42 million and P0.45 million in 2016 and 2015, respectively, is presented as "Rent" under the "General and administrative expenses" account in the statements of income (Note 19).

24. Supplementary Information Required Under RR No. 15-2010 of the Bureau of Internal Revenue (BIR)

The BIR has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to the financial statements. The Company presented the required supplementary tax information as a separate schedule attached to its annual income tax return.





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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
Petrogen Insurance Corporation
SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Petrogen Insurance Corporation (a wholly-owned subsidiary of Petron Corporation) (the "Company") as at and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated March 13, 2017.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The supplementary information included in the Schedule of Philippine Financial Reporting Standards is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

DINDO MARCO M. DIOSO

Partner

IC Accreditation No. SP-2014/024-R, valid until August 26, 2017

CPA License No. 0095177

SEC Accreditation No. 1387-A, Group A, valid until April 30, 2017

Tax Identification No. 912-365-765

BIR Accreditation No. 08-001987-30-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. 5904925MD

Issued January 3, 2017 at Makati City

March 13, 2017
Makati City, Metro Manila

PETROGEN INSURANCE CORPORATION
SCHEDULE OF ALL PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRSs)
WHICH CONSIST OF PFRSs, PHILIPPINE ACCOUNTING STANDARDS (PAS) AND
PHILIPPINE INTERPRETATIONS EFFECTIVE AS OF DECEMBER 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts		✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts		✓	
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments			✓
PFRS 9	Financial Instruments		✓	
	Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39			✓
PFRS 9 (2014)	Financial Instruments		✓	
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓

* These standards will be effective subsequent to January 1, 2017 and were not adopted early by the Company.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard			✓
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		✓	
PFRS 16	Leases		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes			✓
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative		✓	
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses		✓*	
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions			✓
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information 'elsewhere in the interim financial report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)			✓
	Amendments to PAS 40: Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01- Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAAE			✓
PIC Q&A 2008-01- Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations			✓
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	✓		
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	✓		
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-01	PAS 1.10(f) - Requirements for a Third Statement of Financial Position			✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations			✓
PIC Q&A 2011-03	Accounting for Inter-company Loans			✓
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares			✓
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?			✓
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013			✓
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015			✓
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016			✓
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓

Legend:

Adopted - means a particular standard or interpretation is relevant to the operations of the entity (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.

Not Adopted - means a particular standard or interpretation is effective but the entity did not adopt it due to either of these two reasons: 1) The entity has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the entity decided otherwise.

Not Applicable - means the standard or interpretation is not relevant at all to the operations of the entity.