Caritas Financial Plans, Inc.

(A Wholly-owned Subsidiary of Caritas Health Shield, Inc.)

Financial Statements
As at and for the years ended December 31, 2016 and 2015

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Isla Lipana & Co.

Caritas Financial Plans, Inc.
(A Wholly-owned Subsidiary of Caritas Health Shield, Inc.)

Notes to Financial Statements
As at and for the Years Ended December 31, 2016 and 2015
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

1 General information

Caritas Financial Plans, Inc. (the Company) was incorporated and registered with the Securities and Exchange Commission (SEC) on October 31, 1993. The Company is primarily engaged to market and sell pension plans under which the savings of professionals, officers, directors and other personnel of corporations, firms, or entities, and self-employed can be pooled together, accumulated, and invested in profitable placements and productive enterprises so as to build a retirement estate for each individual participant or planholder and provide maternity benefit program. The Company temporarily ceased its commercial operations in March 1996.

On September 21, 2005, the Company was acquired by Caritas Health Shield, Inc. (CHSI), the Company's immediate and ultimate parent company. CHSI is a domestic corporation registered with the SEC on March 5, 1995 with registered address at the 3rd Floor, Katipunan Building, 95 E. Rodriguez Sr. Blvd., Quezon City.

On March 8, 2007, the Company changed its corporate name from Vantage Pension and Educational Plans, Inc. to Caritas Financial Plans, Inc. (CFPI) and resumed its commercial operations in July 2007.

The Company's registered office address and its principal place of business is located at the 3rd Floor, Katipunan Building, 95 E. Rodriguez Sr. Blvd., Quezon City.

The financial statements were approved and authorized for issue by Mr. Ronnie U. Collado, President of the Company, as authorized by the Board of Directors (BOD), on June 30, 2017. There were no material events that occurred between June 30, 2017 and August 10, 2017.

2 Cash and cash equivalents

This account at December 31 consists of:

	2016	2015
Cash on hand	190,000	742,183
Cash in banks	7,060,674	10,131,648
Cash equivalents	24,102,631	22,024,955
	31,353,305	32,898,786

Interest profile of cash in banks and short-term placements are discussed in Note 21.3.1(b).

Cash equivalents pertain to short-term placements which include time deposits and investments in Bangko Sentral ng Pilipinas special deposit accounts which are under Investment Management Account (IMA) agreement, with average maturity of 30 days in 2016 and 2015.

3 Trust funds

The account balance pertains to the net asset value of the trust funds set up for the estimated cost of benefits or services to be rendered in accordance with the plan contracts sold. In accordance with existing Insurance Commission (IC) rules and regulations, the Company is required to deposit a certain portion of the collections from planholders with trustee banks to ensure future payments of pension to planholders upon maturity of the plans. Deposits made based on applicable rules and regulations of the IC are adjusted annually to conform to the actuary's study and evaluation.

The Company's trust funds are administered and managed by two local universal banks.

In compliance with the Amended Pre-need Rule 31, the net asset value of the trust funds shall be at least equal to the required pre-need reserves as determined by a qualified actuary using the method prescribed by the IC in this Rule. The reconciliation of the trust fund balance with the aggregate balance of pre-need and other reserves as at December 31 is shown below:

	Note	2016	2015
Net asset value of trust funds		785,089,762	638,867,806
Actuarial reserve liability	9	(817,597,834)	(650,549,150)
Deficit of trust funds over actuarial liability		(32,508,072)	(11,681,344)

In January, May and June 2017, the Company made additional contributions to the trust fund amounting to P32.6 million that were sourced from the collections with planholders in December 2016 (2015 - P18.0 million).

Trust fund assets and liabilities and net asset value as at December 31 consist of:

	2016	2015
TRUST FUND ASSETS		
Cash and cash equivalents	183,809,543	90,563,832
Loans and receivables	3,224,646	5,675,830
Available-for-sale (AFS) financial assets		
Government securities	358,505,497	356,766,676
Listed equity securities	216,114,285	149,920,734
Corporate bonds	26,333,872	28,321,441
Unit Investment Trust Fund	-	2,467,937
Held-to-maturity (HTM) government securities	4,870,000	6,120,000
	792,857,843	639,836,450
TRUST FUND LIABILITIES		
Accrued expenses and other liabilities	7,768,081	968,644
NET ASSET VALUE	785,089,762	638,867,806

Government securities comprise various government fixed-term notes and retail treasury bonds with maturity of two to 20 years. Corporate bonds pertain to fixed rate bonds of various private corporations. Interest profiles are discussed in Note 21.3.1(b).

The movements in the trust fund balance are summarized as follows:

	2016	2015
As at January 1	638,867,806	531,123,535
Contributions	140,453,326	112,917,707
Trust fund income, net of trust fees and final taxes	34,110,376	15,082,491
Change in unrealized fair value loss on AFS financial assets	(28,341,746)	(20,255,927)
As at December 31	785,089,762	638,867,806

Trust fund income is automatically restricted for the payment of benefits of planholders. The details of trust fund income, net of trust fees and final taxes, follow:

	Note	2016	2015
Investment income from trust fund assets		41,810,742	20,773,676
Less: Trust fees		2,326,460	1,504,761
Trust fund income, net		39,484,282	19,268,915
Less: Final taxes	18	5,373,906	4,186,424
Trust fund income, net		34,110,376	15,082,491

Section 34 of the Pre-Need Code establishes the limitations on the investment portfolio mix for trust funds.

To ensure the liquidity of the trust fund to guarantee the delivery of the benefits provided for under the plan contract and likewise obtain sufficient capital growth to meet the growing actuarial reserve liabilities, all investments of the trust fund/s of a pre-need company shall be subject to limitations as follows:

(a) Fixed income instruments

These may be classified into short-term and long-term instruments. The instrument is short-term if the maturity period is 365 days or less. This category includes:

(i) Government securities which shall not be less than ten percent (10%) of the trust fund amount.

(ii) Savings/time deposits and unit investment trust funds maintained and managed by a duly authorized bank with satisfactory examination rating as of the last examination by the Bangko Sentral ng Pilipinas.

(iii) Commercial papers duly registered with the IC with a credit rating of "1" for short-term and "AAA" for long-term based on the rating scale of an accredited Philippine Rating Agency or its equivalent at the time of investment.

(iv) Direct loans to corporations which are financially stable, profitable for the last three years and have a good track record of paying their previous loans. These loans shall be fully secured by a real estate mortgage up to the extent of sixty percent (60%) of the zonal valuation of the property at the time the loan was granted. The property shall be covered by a transfer certificate of title registered in the name of the mortgagor and free from liens and encumbrances. The maximum amount to be allocated for direct loans shall not exceed five percent (5%) of the total trust fund amount while the amount to be granted to each corporate borrower shall not exceed ten percent (10%) of the amount allocated. The maximum term of the loan should be no longer than four years. Direct loans to planholders are exempt from the limitations set forth; provided, that such loans to planholders shall not exceed ten percent (10%) of the total trust fund amount.

(b) Equities

Investment in equities shall be limited to stocks listed on the main board of a local stock exchange. Investments in duly registered collective investment instruments such as mutual funds are allowed; provided, that such funds are invested only in fixed income instruments and blue chips securities, subject to the limitations prescribed by laws, rules and regulations. These investments shall include stocks issued by companies that are financially stable, actively traded, possess good track record of growth and have declared dividends for the past three years. Notwithstanding the prohibition against transactions with directors, officers, stockholders and related interests, the trustee may invest in equities of companies related to the trustee provided these companies comply with the foregoing criteria provided in this paragraph for equity investments.

The amount to be allocated for this purpose shall not exceed thirty percent (30%) of the total trust fund while the investment in any particular issue shall not exceed ten percent (10%) of the allocated amount. The investment shall be recorded at the aggregate of the lower of cost or market.

Existing investments which are not in accordance herewith shall be disposed of within three years from the effectivity of RA 9829.

(c) Real estate

These shall include real estate properties located in strategic areas of cities and first class municipalities. The transfer certificate of title (TCT) shall be in the name of the seller, free from liens and encumbrances and shall be transferred in the name of the trustee in trust for the planholders unless the seller/transferor is the pre-need company wherein an annotation to the TCT relative to the sale/transfer may be allowed. It shall be recorded at acquisition cost. However, the real estate shall be appraised every three years by a licensed real estate appraiser, accredited by the Philippine Association of Real Estate Appraisers, to reflect the increase or decrease in the value of the property. In case the appraisal would result in an increase in the value, only sixty percent (60%) of the appraisal increase is allowed to be recorded in the books of the trust fund but in case of decline in value, the entire decline shall be recorded. Appraisal increment should not be used to cover-up the required monthly contribution to the trust fund.

The total recorded value of the real estate investment shall not exceed ten percent (10%) of the total trust fund amount of the pre-need company. In the event that the existing real estate investment exceeds the aforesaid limit, the same shall be leveled off to the prescribed limit within three years from the effectivity of RA 9829.

There are no investments in real estate properties as at December 31, 2016 and 2015.

Investment of the trust fund, which is not in accordance with the preceding paragraphs, shall not be allowed unless the prior written approval of the IC had been secured; *Provided, further*, That no deposit or investment in any single entity shall exceed fifteen percent (15%) of the total value of the trust fund; *Provided, finally*, That the IC is authorized to adjust the percentage allocation per category set forth herein not in excess of two percentage (2%) points upward or downward and no often than once every five years. The first adjustment hereunder may be made no earlier than five years from the effectivity of this Act. The pre-need company shall not use the trust fund to extend any loan to or to invest in its directors, stockholders, officers or its affiliates.

(d) Liquidity Reserve Fund

The trust fund balance also includes the Liquidity Reserve Fund amounting to P758.4 million as at December 31, 2016 (2015 - P597.3 million) which comprise cash and cash equivalents, government securities and listed equity securities.

As provided by SEC Memorandum Circular No. 4, Guidelines on the Management of the Trust Fund of Pre-Need Corporations (SEC Memo Circular 4- 2007), no less than twenty percent (20%) of the net asset value of the trust fund assets per type of plan shall be set aside as a liquidity reserve to cover the pre-need benefits due to the planholders unless actuary determines otherwise. The liquidity reserve fund shall consist of cash or assets in the trust fund that is easily convertible to cash. The qualified investments for the Liquidity Reserve Fund are evidence of indebtedness of the Republic of the Philippines (ROP), savings and/or time deposits, and equities listed on a local Stock Exchange.

As at December 31, 2016 and 2015, the Company is in compliance with the implementing guidelines of the foregoing circular.

4 Insurance premium fund; insurance premium reserve

Insurance premium fund, which is at least equal to the amount of the reserve determined by an IC-accredited actuary, consists of a portion of the Company's listed equity securities classified as AFS financial assets.

The insurance premium fund amounted to P12.0 million as at December 31, 2016 (2015- P12.9 million).

Insurance premium reserve (IPR) was set up for the cost of insurance premiums to be paid after the installment paying period with respect to pre-need plans with insurance coverage.

The movements of insurance premium reserve are as follows:

	2016	2015
As at January 1	11,700,521	12,492,722
Charged (credited) to profit or loss (included in cost of contracts issued)	257,102	(792,201)
As at December 31	11,957,623	11,700,521

5 Available-for-sale financial assets

AFS financial assets are managed by local banks and financial institutions under IMA undertaken by the Company for the management and custodianship of its investible funds subject to the terms and conditions of the said agreement.

The details of this account are as follows:

	2016	2015
Listed equity securities, net of insurance premium fund	39,031,277	103,109,765
Government securities and commercial papers	4,930,488	-
	43,961,765	103,109,765

The movements of AFS financial assets are summarized as follows:

	2016	2015
As at January 1	103,109,765	168,202,842
Additions	37,698,801	175,789,796
Disposals	(89,017,799)	(230,436,756)
Fair value gains transferred to profit or loss	(6,309,413)	(3,393,187)
Unrealized fair value losses	(1,519,589)	(7,052,930)
As at December 31	43,961,765	103,109,765

6 Receivables

This account at December 31 consists of:

	Note	2016	2015
Receivables from related parties	17	107,679,336	63,120,897
Advances to employees		3,621,861	2,894,749
Other receivables		1,260,794	2,459,608
		112,561,991	68,475,254

The Company's receivables are expected to be collected within 12 months from the reporting dates.

7 Property and equipment, net

The details of the Company's property and equipment are as follows:

	Leasehold Improvements	Transportation Equipment	Office Equipment	Furniture and Fixtures	Building	Total
Cost						
As at January 1, 2015	6,422,048	7,673,208	3,886,985	4,198,213	16,631,042	38,811,496
Additions	939,010	1,041,545	845,335	1,816,411	-	4,642,301
Disposals	-	(1,944,216)	-	(10,000)	-	(1,954,216)
As at December 31,2015	7,361,058	6,770,537	4,732,320	6,004,624	16,631,042	41,499,581
Additions	424,403	1,400,000	49,776	446,715	361,700	2,682,594
Disposals	-	(1,756,842)	-	-	-	(1,756,842)
As at December 31, 2016	7,785,461	6,413,695	4,782,096	6,451,339	16,992,742	42,425,333
Accumulated depreciation and amortization						
As at January 1, 2015	5,872,986	4,032,996	1,656,230	2,005,972	410,893	13,979,077
Depreciation and amortization	793,035	1,803,714	734,393	901,892	554,368	4,787,402
Disposals	-	(1,031,372)	-	(5,000)	-	(1,036,372)
As at December 31, 2015	6,666,021	4,805,338	2,390,623	2,902,864	965,261	17,730,107
Depreciation and amortization	555,700	976,924	761,466	948,985	565,420	3,808,495
Disposals	-	(808,234)	-	-	-	(808,234)
As at December 31, 2016	7,221,721	4,974,028	3,152,089	3,851,849	1,530,681	20,730,368
Carrying amount						
As at December 31, 2015	695,037	1,965,199	2,341,697	3,101,760	15,665,781	23,769,474
As at December 31, 2016	563,740	1,439,667	1,630,007	2,599,490	15,462,061	21,694,965

In 2016, CFPI transferred certain transportation equipment with carrying amounts of P79,684 and P7,031 to CHSI and CLIC, respectively (Note 17).

Details of disposal of property and equipment follow:

	Note	2016	2015
Proceeds from sale		891,418	942,925
Net book value		861,893	917,844
Gain on disposal	13	29,525	25,081

8 Prepayments and other assets

This account as at December 31 consists of:

	Note	2016	2015
Refundable lease deposits	19	2,936,970	4,088,897
Prepaid registration fees		1,633,204	2,959,113
Prepaid rent		-	35,688
Others		2,670,490	3,018,209
		7,240,664	10,101,907

Others include deposits for renovation of offices amounting to P2.4 million as at December 31, 2016 (2015 - P2.8 million).

9 Pre-need reserves (PNR); other reserves

Based on the computation of an internal qualified actuary accredited by IC, the required PNR amounted to P811.6 million as at December 31, 2016 (2015 - P645.6 million).

In addition, other reserve was set up to cover the administrative expenses that will be incurred by the Company after the installment paying period. Other reserves amount to P6.0 million as at December 31, 2016 (2015 - P4.9 million).

The movements of pre-need and other reserves are as follows:

	PNR	Other Reserves	Total
As at January 1, 2015	499,894,610	4,138,170	504,032,780
Charged to profit or loss	145,733,788	782,582	146,516,370
At December 31, 2015	645,628,398	4,920,752	650,549,150
Charged to profit or loss	166,009,106	1,039,578	167,048,684
As at December 31, 2016	811,637,504	5,960,330	817,597,834

The details of the pre-need plans that were considered in the computation of the actuarial PNR are as follows:

	2016	2015
Total premium collections	P220,562,109	P223,189,148
Contract price of lapsed plans, net of reinstatements	820,439,100	726,325,600
Contract price of cancelled plans	454,310,000	170,189,900
Number of lapsed plans, net of reinstatements	15,172	13,910
Number of cancelled plans	7,238	2,458

Principal assumptions used in determining the PNR based on the actuarial valuation report are as follows:

Status of pre-need product	PNR using the attainable interest rate	
	Rate (%)	Amount
2016		
Currently-being-paid plans	5.0 - 6.5	227,613,742
Fully-paid plans	5.0 - 6.5	575,069,565
Lapsed and cancelled plans	5.0 - 6.5	8,954,197
2015		
Currently-being-paid plans	5.0 - 6.5	254,435,313
Fully-paid plans	5.0 - 6.5	385,425,399
Lapsed and cancelled plans	5.0 - 6.5	5,767,686

The Company is considering other factors in arriving at the assumptions that are used in the computation of PNR, which may change over time. Based on these, the Company makes amendments and submits such amendments to IC.

10 Other liabilities

This account at December 31 consists of:

	Note	2016	2015
Planholders' deposits		24,314,135	24,860,195
Agents' provident fund contributions		6,301,367	5,603,010
Agents' bond reserve		6,272,333	5,654,942
Retirement liability	16	2,215,505	3,553,697
Statutory liabilities		1,610,819	2,796,994
Others		602,071	559,811
		41,316,230	43,028,649

Maturities of other liabilities as at December 31 are as follows:

	2016	2015
Within 12 months	26,527,035	28,217,000
Over one year	14,789,195	14,811,649
	41,316,230	43,028,649

Planholders' deposits pertain to payment on new plan application not yet issued, excess fractional payments of a regular installment and collections for policies that have yet to be identified and applied.

Agents' provident fund contributions pertain to amounts withheld on agents' commissions which will be paid upon their resignation.

Agents' bond reserve pertains to the required bond for the Company's agents. Bond reserve will be used to cover any outstanding liability of agents upon resignation, termination or expiration of license.

11 Share capital; Contingency surplus; Other comprehensive income (loss)

The details of the Company's share capital at P100 par value a share as at December 31, 2016 and 2015 are as follows:

	Number of Shares	Amount
Authorized	3,000,000	300,000,000
Issued and outstanding	1,500,000	150,000,000

The contingency surplus of P67.3 million represents additional capital contribution of the Company's shareholders.

The details and movements of other comprehensive income (loss) for the years ended December 31 are as follows:

	Note	2016	2015
Fair value reserve on AFS securities, net of tax			
As at January 1		4,685,559	36,221,297
Unrealized fair value losses		(30,038,242)	(28,041,793)
Fair value gain recycled to profit or loss		(6,309,413)	(3,393,187)
Income tax effect		(790)	(100,758)
As at December 31		(31,662,886)	4,685,559
Remeasurements on defined benefit plan, net of tax			
As at January 1		(657,890)	(651,106)
Remeasurements gain (loss)		2,044,252	(9,691)
Income tax effect		(613,276)	2,907
As at December 31	16	773,086	(657,890)
		(30,889,804)	4,027,669

Accumulated net trust fund income included in the Company's deficit account amounted to P143.9 million as at December 31, 2016 (2015-P109.8 million), which are restricted for the payment of benefits of planholders (Note 3).

12 Investment income

The details of the account for the years ended December 31 are as follows:

	2016	2015
Interest income from:		
Fixed-income securities	178,643	679,521
Cash in banks	141,674	32,675
Advances to employees	55,320	198,021
Short-term placements	13,353	57,387
	388,990	967,604
Dividend income	2,049,918	3,933,383
	2,438,908	4,900,987

Interest income arising from advances to employees pertains to the interest earned on the car loans provided by the Company.

13 Other income

The details of the account for the years ended December 31 are as follows:

	Note	2016	2015
Service fees and loading income		12,054,351	12,846,008
Policy fees		1,023,036	1,289,682
Gain on sale of transportation equipment	7	29,525	25,081
Others		265,059	1,622,483
		13,371,971	15,783,254

Service fees and loading income pertain to additional fees charged to planholders who avail of the installment payment scheme.

Independent Auditor's Report

To the Board of Directors and Shareholder of
Caritas Financial Plans, Inc.
(A wholly-owned subsidiary of Caritas Health Shield, Inc.)
3rd Floor, Katipunan Building
95 E. Rodriguez Sr. Blvd.
Quezon City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Caritas Financial Plans, Inc. (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 the financial reporting standards in the Philippines for pre-need companies as described in Note 22 to the financial statements.

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2016 and 2015;
- the statements of total comprehensive income for the years ended December 31, 2016 and 2015;
- the statements of changes in equity for the years ended December 31, 2016 and 2015;
- the statements of cash flows for the years ended December 31, 2016 and 2015; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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14 Other direct costs and expenses

The details of the account for the years ended December 31 are as follows:

	Note	2016	2015
Commissions			
Basic commissions		29,083,941	31,785,294
Overriding commissions		12,858,265	16,970,730
Renewal commissions		2,788,970	3,018,154
Collecting commissions		1,215,986	1,328,761
Bonuses and incentives		341,291	577,853
		46,288,453	53,680,792
Insurance	17	5,234,920	5,262,762
		51,523,373	58,943,554

15 General and administrative expenses

The details of the account for the years ended December 31 are as follows:

	Notes	2016	2015
Salaries and wages		18,321,546	26,478,748
Office rental	19	13,711,835	19,089,802
Depreciation and amortization	7	3,808,495	4,787,402
Seminars and trainings		3,335,794	4,283,211
Utilities		3,253,313	5,437,192
Travel		3,153,717	3,965,102
Directors' fees	17	2,480,000	1,908,000
Advertising		2,235,794	2,108,043
Professional and management fees		1,761,800	8,846,639
Taxes and licenses		1,723,266	1,771,270
SSS, HDMF and Philhealth contributions		1,206,050	1,709,376
Retirement expense	16	706,060	830,325
Office supplies		690,182	864,521
Repairs and maintenance		210,943	281,583
Insurance		81,216	182,351
Miscellaneous		4,556,562	2,017,528
		61,236,573	84,561,093

16 Retirement plan

In the absence of a formal retirement plan, the Company provides for retirement benefits in accordance with the provisions of R.A. No. 7641, *Retirement Pay Law* (the Act). Retirement benefit under the said Act is equivalent to 50% of the monthly pay for every year of credited service based on the salary at the time of retirement, provided that the employee is 60 years old and has rendered at least five years of service. Actuarial valuation of the retirement benefits was sought from an independent actuary.

Retirement benefit cost recognized in the statements of total comprehensive income for the years ended December 31 is as follows:

	Note	2016	2015
Current service cost		630,549	694,156
Interest cost		75,511	136,169
	15	706,060	830,325

Retirement liability is included as part of "Other liabilities" account recognized in the statement of financial position.

Movements in present value of the defined benefit obligation for the years ended December 31 are summarized as follows:

	2016	2015
As at January 1	3,553,697	5,506,784
Remeasurements		
Effect of experience adjustments	(2,042,841)	(32,857)
Effect of changes in financial assumptions	(1,411)	42,548
Current service cost	630,549	694,156
Interest cost	75,511	136,169
Benefits paid	-	(2,793,103)
As at December 31	2,215,505	3,553,697

The movements in the actuarial remeasurements on retirement liability, net of tax, presented as part of "Other comprehensive income (loss)" account for the years ended December 31 are as follows:

	Note	2016	2015
Actuarial remeasurement losses on retirement liability			
As at January 1		(939,843)	(930,152)
Actuarial gains (losses)		2,044,252	(9,691)
As at December 31		1,104,409	(939,843)
Deferred tax asset on actuarial losses			
As at January 1		281,953	279,046
Income tax relating to actuarial gains (losses) on retirement liability		(613,276)	2,907
As at December 31		(331,323)	281,953
Remeasurements on retirement liability, net of tax	11	773,086	(657,890)

The principal actuarial assumptions used in determining the retirement liability for the years ended December 31 are shown below:

	2016	2015
Discount rate	5.38%	5.00%
Salary increase rate	5.00%	5.00%
Average remaining working lives of employees	15 years	14 years

Discount rate

The discount rate was determined in accordance with the PIC - approved Q&A 2008-01 (Revised), which mandates that discount rates reflect benefit cash flows and use of zero coupon rates, even though theoretically derived.

The bootstrapping method was applied to the PDST-R2 benchmark government bonds to arrive at the theoretical zero coupon yield curve. These derived rates were then used to compute the present value of the expected future benefit cash flows across valuation years.

Finally, the single-weighted discount rate was calculated as the uniform discount rate that produced the same present value.

Future salary increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding future mortality and disability rates are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the Company to a number of risks such as interest rate risk and salary risk. The most significant of which relate to interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Company.

The projected maturity analysis of undiscounted retirement benefit payments as at December 31, 2016 is as follows:

	Less than one year	One - Five years	Six - 10 years	11 - 20 years	Over 20 years
Retirement liability	-	782,487	1,440,526	15,556,921	86,886,355

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions at December 31 follows:

	Impact on defined benefit obligation			
	2016		2015	
	Amounts	%	Amounts	%
Discount rate				
Increase by 100 bps	(269,465)	6%	(423,460)	6%
Decrease by 100 bps	328,457	4%	498,304	4%
Salary increase rate				
Increase by 100 bps	338,570	6%	468,831	6%
Decrease by 100 bps	(274,847)	4%	(407,933)	4%

		Impact on retirement liability	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by P269,465	Increase by P328,457
Salary increase rate	1%	Increase by P338,570	Decrease by P274,847

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized in the statements of financial position.

17 Related party transactions

In the normal course of business, the Company has transactions with CHSI and Caritas Life Insurance Corporation (CLIC) relating to the sale of life insurance contracts to their health card members and/or pension planholders and advances for working capital requirements.

The table below summarizes the Company's transactions and balances with its related parties.

2016	Transactions	Outstanding balance [Receivable from (payable to) related parties]	Outstanding balance's terms and conditions
Office rental			
CHSI - Parent company	2,915,165	-	- Unsecured
Insurance			- Noninterest-bearing
Entity under common control			- Payable in cash on demand
CLIC	399,356	(3,944,869)	
	3,314,521	(3,944,869)	
Advances from			
Parent company - CHSI	14,385,175	-	- These consist of premium collections by the Company on behalf of CLIC.
Entity under common control			
CLIC	432,190	(32,834)	- Unsecured
			- Noninterest-bearing
			- Payable in cash on demand
	14,817,365	(32,834)	
Advances to			
Parent company			- Advances to CHSI consist of premium collections for the account of the Company.
CHSI	44,121,302	104,527,315	
Entities under common control			Advances made to CLIC, TFCI and CRPC were used for its normal operating activities.
TFCI	-	520,818	
CLIC	437,136	2,619,613	
Caritas-Rubrics Stone And Prostate Center of Asia, Inc. (CRPC)			- Unsecured
			- Noninterest-bearing
	-	11,590	- Payable in cash on demand
	44,558,438	107,679,336	

2015	Transactions	Outstanding balance [Receivable from (payable to) related parties]	Outstanding balance's terms and conditions
Office rental			
CHSI - Parent company	2,826,825	-	- Unsecured
Insurance expense			- Noninterest-bearing
Entity under common control			- Payable in cash on demand
CLIC	1,338,408	(3,546,513)	
	4,165,233	(3,546,513)	
Advances from			
Parent company - CHSI	115,567,914	-	- These consist of premium collections by the Company on behalf of CHSI and CLIC.
Entity under common control			
CLIC	28,324	(28,324)	- Unsecured
			- Noninterest-bearing
			- Payable in cash on demand
	115,596,238	(28,324)	
Advances to			
Parent company			- Advances to CHSI consist of premium collections for the account of the Company.
CHSI	47,965,749	60,406,012	
Entities under common control			Advances made to CLIC, TFCI and CRPC were used for its normal operating activities.
TFCI	120,818	520,818	
CLIC	139,197	2,182,477	
CRPC	11,590	11,590	- Unsecured
			- Noninterest-bearing
			- Payable in cash on demand
	48,237,354	63,120,897	

In 2016, CFPI transferred certain transportation equipment with carrying amounts of P79,684 and P7,031 to the CHSI and CLIC, respectively (Note 7).

No provisions were recognized against receivables from related parties in 2016 and 2015 as the accounts are assessed to be fully collectible.

The key management personnel of the Company pertain to the Directors of the Company and Senior Management Team of CHSI tasked to oversee the operation of the Company. Directors' fees amounted to P2.5 million in 2016 (2015 - P1.9 million) (Note 15).

18 Income taxes

Income tax expense for the years ended December 31 consists of:

	2016	2015
Current:		
Final tax	5,435,699	4,348,386
Minimum corporate income tax (MCIT)	107,760	779,411
Deferred	(211,818)	588,833
	5,331,641	5,716,630

The details of the Company's net deferred income tax assets as at December 31 follow:

	2016	2015
Deferred tax assets		
Retirement liability	664,652	1,066,109
Deferred tax liability		
Unrealized fair value reserve on AFS financial assets	(253,950)	(253,160)
Net deferred tax assets	410,702	812,949

The details of the Company's unrecognized deferred income tax assets as at December 31 follow:

	2016	2015
Net operating loss carryover (NOLCO)	37,240,705	43,657,188
Excess MCIT	887,171	779,411
	38,127,876	44,436,599

Deferred income tax assets have not been recognized in respect of NOLCO and MCIT since management does not expect that future taxable profits will be available against which the unused NOLCO and MCIT can be utilized.

The movements in net deferred income tax assets for the years ended December 31 are as follows:

	2016	2015
As at January 1	812,949	1,499,633
Credited (charged) to profit or loss	211,818	(588,833)
Charged to other comprehensive income	(614,065)	(97,851)
As at December 31	410,702	812,949

Details of the Company's NOLCO are as follows:

Year of incurrence	Year of expiry	2016	2015
2012	2015	-	27,366,194
2013	2016	38,354,089	38,354,089
2014	2014	57,038,173	57,038,173
2015	2018	50,131,699	50,131,699
2016	2019	16,965,810	-
		162,489,771	172,890,155
Expired		(38,354,089)	(27,366,194)
		124,135,682	145,523,961
Tax rate		30%	30%
Unrecognized deferred income tax asset		37,240,705	43,657,188

Details of the Company's MCIT as at December 31, 2015 follow:

Year of incurrence	Year of expiry	Amount
2015	2019	779,411
2016	2020	107,760
		887,171

The reconciliation between income tax computed at statutory rate and the income tax at effective tax rate is shown below:

	2016	2015
Income tax at the statutory tax rate	(502,178)	(7,365,950)
Tax effects:		
Expired NOLCO	11,506,227	8,209,858
Nondeductible expenses	9,653,802	347,352
Changes in unrecognized deferred income tax assets	(6,416,483)	7,609,062
Income subjected to other taxes, net	(6,401,927)	(885,721)
Income exempt from tax	(2,507,800)	(2,197,971)
Effective income tax expense	5,331,641	5,716,630

19 Leases

The Company has various lease agreements with related and non-related parties for the lease of commercial spaces with lease terms ranging from one to 10 years from September 15, 2011 to May 1, 2023. Certain leases have escalation clauses.

Total refundable lease deposits arising from these lease agreements amounting to P2.9 million (2015 - P4.1 million) are presented under prepayments and other assets in the statements of financial position (Note 8). Total rent expense recognized in profit or loss amounted to P13.7 million (2015 - P19.1 million) are presented under "General and administrative expenses" account (Note 15).

Refundable lease deposits are recoverable as follows:

	2016	2015
Within one year	560,259	2,163,376
More than one year	2,376,711	1,925,521
	2,936,970	4,088,897

Future minimum annual lease payments with respect to non-cancellable leases are as follows:

	2016	2015
Not more than one year	10,457,604	13,112,311
More than one year but not beyond five years	24,373,243	26,342,298
More than five years	1,246,740	9,735,288
	36,077,587	49,189,897

20 Critical accounting estimates, assumptions and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates, assumptions and judgments 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. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

20.1 Critical accounting estimates and assumptions

a) *PNR, IPR and other reserves of the Company (Notes 4 and 9)*

The Company determines its pre-need reserves in accordance with the requirements of the Amended Pre-need Rule.

Statutory valuation requires the use of a prospective method and assumptions based on Company experience.

The actuarial assumptions in 2016 and 2015, which are being reviewed and adjusted annually to reflect current and projected experience, are summarized in the table below:

Investment rate of return on trust funds	5.0% to 6.5% per annum
Annual insurance premiums (per 1000 coverage)	0.68-6.00 (2015 - 3.01 - 7.13)
Lapse rate	No lapse rate were assumed
Withdrawal rate	No withdrawal rates were assumed
Termination value rate	Termination value during the paying period is a percentage of the installments paid as of plan anniversary. Termination value of fully paid plans is a percentage of the maturity benefit

(i) Investment rate of return on trust funds

The Company's actual experience for 2016 (net of final withholding tax) is 4.64% (2015 - 2.60%) Realized investment income from trust fund assets (net of trust fees and final taxes) for the year amounts to P34.1 million (2015 - P15.1 million) (Note 3). In addition, unrealized loss due to decrease in market value of AFS financial assets amounted to P24.5 million (2015 - P3.8 million - gain) (Note 3).

(ii) Annual insurance premiums

The Company purchases group insurance benefits from a related insurance company. Since the pre-need plans have limited paying period, the Company sets aside an insurance premium reserve to be able to pay for the insurance premiums due after the paying period. Annual insurance premiums pertain to the estimated amount of premiums to be paid after the paying period.

As at December 31, 2016, insurance premium reserve amounted to P12.0 million (2015 - P11.7 million).

(iii) Lapse, withdrawal and reinstatement rates

The lapse and reinstatement rate assumptions are based on the latest persistency study and are set equal to zero after the premium paying period. For active plans, withdrawal rates are assumed to be zero for all durations.

(iv) Termination value rate

Termination value rate pertains to the amount to be recovered by the planholder, as prescribed by the IC, upon surrender of the plan, expressed as a percentage of the gross contract price of the plan during the paying period, based on the premiums paid by the planholder, and a percentage of the maturity benefit after the paying period.

As at December 31, 2016, pre-need reserve and insurance premium and other reserves amounted to P811.6 million (2015 - P645.6 million) and P17.9 million (2015 - P16.6 million), respectively.

It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions above could require a material adjustment to the carrying amounts of the pre-need, insurance premium and other reserves. The Company considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the actuarial assumptions at the reporting date. One or more of the actuarial assumptions may differ significantly and as a result, the actuarial present value of pre-need and other reserves estimated at the reporting date may differ significantly from the amount reported.

b) *Estimated useful lives of property and equipment (Note 7)*

The Company reviews annually the estimated useful lives of its property and equipment based on expected asset utilization and market behavior. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned. The Company considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the assumptions at the reporting date.

As at December 31, 2016 and 2015, the carrying value of property and equipment amounted to P21.7 million (2015 - P23.8 million).

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting standards in the Philippines for pre-need companies as described in Note 22 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

d) Principal assumptions and estimation of retirement liability (Note 16)

The present value of the retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for retirement include the discount rate and salary increase rate. Any changes in these assumptions will impact the carrying amount of retirement liability.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liability. In determining the appropriate discount rate, the Company considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related obligation. Sensitivity analyses of these actuarial assumptions are presented in Note 16.

Other key assumptions for retirement liability are based in part on current market conditions.

As at December 31, 2016, retirement liability recognized in the statements of financial position amounted to P2.2 million (2015 - P3.5 million) while retirement expense recognized in profit or loss amounted to P706,060 (2015 - P830,325).

e) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, discounted cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Inputs used in these models are from observable data and quoted market prices in respect of similar financial instruments.

All models are approved by the BOD before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments. The Company considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

20.2 Critical judgment

Recognition of deferred income tax assets (Note 18)

Recognition of deferred income tax assets depends on management's assessment of the probability of available future taxable income against which the temporary differences can be applied. This assessment, which is based on the Company's past results and future expectations on revenues and expenses, is reviewed at each reporting date.

DIT assets amounted to P410,702 as at December 31, 2016 (2015 - P812,949). Management assessed that there will not be enough taxable income in the future from which the deferred tax asset may be applied prior to its expiration.

Unrecognized deferred income tax assets as at December 31, 2016 amounted to P38.1 million (2015 - P44.4 million) (Note 18).

21 Insurance and financial risk and capital management

The Company's activities expose it to a variety of financial risks. The BOD has overall responsibility for the Company's financial risk management, which includes establishment and approval of risk strategies, policies and limits. The BOD monitors and evaluates the Company's financial risk in line with the strategies, policies and limits set by the BOD. The overall objective of risk management is to minimize the potential adverse effects of these risks on the financial condition and results of operations of the Company. The Company recognizes the importance of having efficient and effective risk management systems in place.

21.1 Pre-need plan

The Company sells pension plans with fixed maturity benefit at plan maturity. In compliance with the rules and regulations, the Company has set up trust funds for pension plans. The Security Bank and Trust Company and Union Bank Trust Company act as the trustees for these funds and manage the contributions to the funds, ensure that the funds are properly invested in order to get the appropriate yield and disburse benefits as they become due and payable.

The Company also provides insurance benefits, which will pay for the plan installments to the Company upon the death or total disability of the planholder.

21.2 Insurance risk

Insurance risk is the risk, other than financial risk, transferred from the holder of a contract to the issuer. The Company is exposed to insurance risk thru its contracts with its planholders that provide life coverage.

Insurance risk is generally managed at the Parent Company level. The Parent Company's BOD meets regularly to approve policies on any commercial, regulatory and organizational requirements. These policies define the identification of risk, provide guidance on the assessment of the insurability of potential policyholders and ensure the alignment of underwriting strategy to the corporate goals, among others.

21.3 Financial risks

The more important types of financial risk that the Company manages include market risk (including price risk and interest rate risk), credit risk and liquidity risk.

21.3.1 Market risk

Market risk is the possibility that changes in equity prices, foreign currency exchange rates or interest rates will adversely affect the value of the Company's assets, liabilities or expected future cash flows. At December 31, 2016 and 2015, the Company is not exposed to currency risk as it has no assets and liabilities denominated in foreign currency.

(a) Price risk

The Company is exposed to equity price risk because of investments in equity securities held by the Company and the trust funds. Equity price risk arises because of fluctuations in market prices of equity securities. The Company is not exposed to commodity price risk.

Listed equity securities and investment in unit investment trust funds (UITF) whose underlying assets consist of equities are carried at quoted close price and at net asset value per unit (NAVPU) of UITF, respectively, at the reporting date.

At December 31, 2016 and 2015, the impact of 17.49% (2015 - 14.30%) increase/decrease in the close share price of listed equity securities, with all other variables held constant, would have been an increase/decrease of P46.7 million (2015 - P38.0 million) in the Company's total comprehensive income and equity for the year. The Company's sensitivity analysis takes into account the historical performance of the stock market.

(b) Interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates, while fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is managed by targeting a desired return, which is reviewed periodically, based on the Company's long-term view on interest rates. Strict investment guidelines, as approved by the SEC, are in place and reviewed regularly to provide the general direction for the investment funds and to monitor the risk undertaken.

The following table shows the interest profile of interest-bearing financial assets as at December 31:

2016	Interest rate (%)	Within 12 months	Over one year	Total
Cash in banks and cash equivalents	0.10-0.80	31,163,305	-	31,163,305
AFS debt securities	3.25-4.20		4,930,488	4,930,488
Trust funds				
Cash and cash equivalents	0.38-2.50	183,809,543	-	183,809,543
AFS debt securities	3.25-9.25	12,873,666	371,965,703	384,839,369
HTM securities	4.47-5.36	-	4,870,000	4,870,000
		227,846,514	381,766,191	609,612,705

2015	Interest rate (%)	Within 12 months	Over one year	Total
Cash in banks and cash equivalents	0.10-0.80	32,156,603	-	32,156,603
Trust funds				
Cash and cash equivalents	0.38-2.50	90,563,832	-	90,563,832
AFS debt securities	2.25-6.63	17,390,614	367,697,503	385,088,117
HTM securities	4.47-6.00	1,250,000	4,870,000	6,120,000
		141,361,049	372,567,503	513,928,552

The Company's interest rate risk arises from investments in corporate bonds, government securities and commercial papers including trust fund debt securities amounting to P367.7 million (2015 - P385.1 million). As these instruments are classified as AFS securities carried at fair value, the Company is exposed to fair value interest rate risk. The Company is not exposed to cash flow interest rate risk as there are no variable-interest-bearing financial assets.

Based on the sensitivity analysis performed by the Company, after taking into consideration the reasonable possible shift in interest rates of the debt securities (including trust fund debt securities), an increase/decrease of 100 basis points (2015 - 100 basis points), with all other variables held constant, would result on a decrease by P29.9 million (2015 - P32.1 million) or increase by P31.7 million (2015 - P37.1 million) in the Company's total comprehensive income and equity for the year. The Company's sensitivity analysis takes into account the historical volatilities of market interest rates.

21.3.2 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises from cash and cash equivalents (excluding cash on hand), investments in trust funds (excluding AFS equity securities), AFS debt securities, receivables and refundable lease deposits (under prepayments and other assets).

The Company's financial assets are actively monitored to avoid significant concentrations of credit risk.

The following tables provide information regarding credit risk exposure of the Company as at December 31:

	2016	2015
Cash in banks and cash equivalents	31,163,306	32,156,603
AFS debt securities	4,930,488	-
Trust funds		
Cash and cash equivalents	183,809,543	90,563,832
Loans and receivables	3,224,646	5,675,830
AFS debt securities	384,839,369	385,088,117
HTM securities	4,870,000	6,120,000
Receivables	112,561,991	68,475,254
Other assets		
Refundable lease deposits	2,936,970	4,088,897
	728,336,312	592,168,533

All of the above financial assets are classified as neither past due nor impaired. There are no past due and impaired financial assets. The carrying amounts of the above assets represent the maximum credit risk exposure of the Company. There are no collaterals held as security for these assets.

Cash in banks and cash equivalents are deposited/placed with banks that qualify as universal and commercial banks as defined by the Philippine Banking System to minimize credit risk exposure.

Under investments in trust funds, cash in banks and cash equivalents are likewise deposited/placed with universal banks. Loans and receivables under trust funds pertain to time deposits with original maturities of five years and are placed with universal and commercial banks. AFS and HTM debt securities under trust funds mainly pertain to government securities denominated in Philippine Peso with credit rating of BBB in 2016 (2015 - BBB) according to Standard & Poor's Financial Services LLC (S&P).

AFS debt securities under IMA are likewise mainly invested in Philippine government securities denominated in Philippine Peso with credit rating of BBB (2015 - BBB) according to Standard & Poor's.

The credit quality of receivables can be assessed by reference to historical information about the counterparties' default rates. As at December 31, 2016 and 2015, the Company's main counterparty is CHSI, its immediate and ultimate parent company, having no history of defaults. Advances to employees do not contain balances with resigned employees and are not considered to be impaired since continuous collections are made through monthly salary deductions.

Refundable lease deposits, which are presented as part of prepayments and other assets, are considered by the Company as highly recoverable as the counterparties are assessed to have strong capacities to meet their obligations.

21.3.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations when due. Through the Company's trustee banks, the Company is able to manage its trust funds' liquidity by close monitoring of the trust funds' cash flows and ensuring that the operation maintains optimum levels of liquidity which is at all times sufficient to meet contractual obligations as and when they fall due.

It is also the Company's policy to maintain adequate liquidity to meet its cash flow requirements. Accordingly, each portfolio is structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities is consistent with the cash requirements in order to avoid the forced sale of securities prior to maturity.

The tables below summarize the maturity profile of the financial liabilities of the Company as at December 31.

2016	Up to One year*	Over One up to Three years	Over Three years	Total
Accounts payable and accrued expenses	3,693,670	-	-	3,693,670
Trust fund liabilities	7,768,081	-	-	7,768,081
Payables to related parties	3,977,703	-	-	3,977,703
Other liabilities	12,573,700	-	-	12,573,700
	28,013,154	-	-	28,013,154

2015	Up to One year*	Over One up to Three years	Over Three Years	Total
Accounts payable and accrued expenses	4,405,492	-	-	4,405,492
Trust fund liabilities	968,644	-	-	968,644
Payables to related parties	3,573,837	-	-	3,573,837
Other liabilities	11,257,952	-	-	11,257,952
	20,205,925	-	-	20,205,925

**Up to one year or all commitments which are either due within the timeframe or are payable on demand.*

The components of capital as at December 31 follow:

	2016	2015
Share capital	150,000,000	150,000,000
Contingency surplus	67,300,000	67,300,000
Other comprehensive (loss) income	(30,889,804)	4,027,669
Deficit	(50,633,837)	(43,628,267)
	135,776,359	177,699,402

In accordance with Section 9 of the Pre-Need Code, existing pre-need companies shall comply with the following minimum unimpaired paid-up capital:

(a) P100,000,000 for companies selling at least three types of plan;
(b) P75,000,000 for companies selling two types of plan; and
(c) P50,000,000 for companies selling a single type of plan.

Unimpaired paid-up capital pertains to total paid-up capital less any deficit in the retained earnings account.

As at December 31, 2016 and 2015, the Company has complied with the capital requirements of IC.

22 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

22.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with financial reporting standards in the Philippines for pre-need companies. Financial reporting standards in the Philippines for pre-need companies consist of the Pre-Need Uniform Chart of Accounts (PNUCA) issued by the SEC and Philippine Financial Reporting Standards (PFRS), except for the accounting treatment on revenues and financial liabilities under Philippine Accounting Standard (PAS) 39 and PFRS 4 as prescribed in SEC Notice dated February 27, 2006.

The term PFRS in general includes all applicable PFRS, PAS, and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The financial statements have been prepared under the historical cost convention except for available-for-sale (AFS) financial assets which are measured at fair value.

The preparation of financial statements in conformity with the framework discussed above requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 20.

On December 3, 2009, Republic Act No. 9829, an act establishing the Pre-Need Code of the Philippines (Pre-Need Code), was made effective. Under the Pre-Need Code, the primary and exclusive supervision and regulation of all pre-need companies was given to the Insurance Commission (IC).

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Company

The following relevant standards have been adopted by the Company effective January 1, 2016:

- *Amendments to PAS 1, "Presentation of Financial Statements"*. The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

- *Amendments to PAS 16, "Property, Plant and Equipment" - Clarification of Acceptable Methods of Depreciation*. The amendments add guidance and clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

- Amendment to PAS 19, *Employee Benefits*. The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

- *Amendment to PFRS 7, "Financial Instruments: Disclosures"*. The amendment adds guidance to clarify whether a servicing contract is a continuing involvement in a transferred asset.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2016 are considered not relevant to the Company.

(b) New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these financial statements. None of these standards are expected to have a significant effect on the financial statements of the Company, except the following as set out below:

Effective for annual periods beginning on or after January 1, 2017:

- *Amendments to PAS 7, "Statement of Cash Flows" - Disclosure Initiative*. The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.

- *Amendments to PAS 12, "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses*. The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

Effective for annual periods beginning on or after January 1, 2018:

- *PFRS 9, 'Financial instruments'* addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of PFRS 9 was issued in July 2014. It replaces the guidance in PAS 39 that relates to the classification and measurement of financial instruments. PFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income with no recycling to profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in PAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. PFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under PAS 39. The standard is effective for accounting periods beginning on or after April 1, 2017. Early adoption is permitted.

  The Company is assessing the impact of PFRS 9. Based on its initial assessment, management does not expect a significant impact on the classification and measurement of its financial assets and liabilities given that the business model for holding the financial assets and liabilities will largely remain the same. The Company will make a more detailed assessments of the impact over the next twelve months.

- *PFRS 15, 'Revenue from contracts with customers'* will replace PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied. Key changes to current practice are: (1) Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements; (2) Revenue may be recognized earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, and success of an outcome) – minimum amounts must be recognized if they are not at significant risk of reversal; (3) The point at which revenue is able to be recognized may shift: some revenue which is currently recognized at a point in time at the end of a contract may have to be recognized over the contract term and vice versa; (4) There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few; and (5) As with any new standard, there are also increased disclosures. These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

The Company is assessing the impact of PFRS 15. Based on its initial assessment, management does not expect a significant impact on its financial statements as a result of the adoption of this standard. The Company will make a more detailed impact assessments over the next twelve months.

- *PFRS 16, 'Leases'* will replace the current guidance in PAS 17, 'Leases'. PFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  Based on the initial assessment of management, the standard will result in the recognition of right-of-use asset and lease obligation in its statement of financial position based on the present value of its minimum lease payments for its lease agreements. The Company will make more detailed quantitative assessments of the impact over the next twelve months.

There are no other relevant standards, amendments or interpretations that are issued and effective beginning January 1, 2017 and onwards that have and are expected to have a material impact on the financial statements of the Company.

22.2 Cash and cash equivalents

Cash consists of cash on hand and deposits with local banks and is carried in the statement of financial position at face value or nominal 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 from dates of acquisition and are subject to an insignificant risk of change in value.

22.3 Financial instruments

22.3.1 Classification and reclassification

(a) Classification

The Company classifies its financial assets in the following categories: (a) at fair value through profit or loss; (b) loans and receivables; (c) HTM securities; and (d) AFS financial assets. The Company classifies its financial liabilities in the following categories: (a) at fair value through profit or loss; and (b) at amortized cost. The classification depends on the purpose for which the financial assets and liabilities were acquired or incurred. Management determines the classification of its financial assets and liabilities at initial recognition.

The Company holds financial assets under (b), (c) and (d) categories. As at December 31, 2016 and 2015, the Company does not hold financial assets and liabilities under the fair value through profit or loss category.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's cash and cash equivalents, certain trust fund assets, receivables and refundable lease deposits (under prepayments and other assets) are classified under this category. Trust fund assets which are classified as loans and receivables include cash and cash equivalents and loans and receivables.

(ii) HTM securities

HTM securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of HTM securities, the whole category would be tainted and reclassified as AFS.

(iii) 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 categories. Under this category are the Company's certain trust fund assets, insurance premium fund and AFS financial assets. Trust fund assets which are classified as AFS financial assets include debt and equity securities.

(iv) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost pertain to financial liabilities that are not held for trading or not designated as at fair value through profit or loss upon the inception of the liability. Under this category are accounts payable and accrued expenses, payables to related parties, other liabilities (excluding planholders' deposits, retirement liability, VAT payable, withholding taxes payable and payables to government agencies) and trust fund liabilities.

(b) Reclassification

The Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the AFS category if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

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

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

Reclassifications are made at fair value as at the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables category are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

22.3.2 Recognition and derecognition

(a) Initial recognition and measurement

Regular-way purchases and sales of financial assets are recognized on trade date (the date on which the Company commits to purchase or sell the asset). Financial assets and liabilities are initially recognized at fair value plus transaction costs, except for all financial assets and liabilities carried at fair value through profit or loss.

(b) Subsequent measurement

Loans and receivables and HTM investments are carried at amortized cost using the effective interest method. AFS financial assets are subsequently carried at fair value; changes in the fair value of assets classified as AFS are recognized as fair value reserves on AFS financial assets.

AFS securities are subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as AFS are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative fair value adjustments previously recognized in other comprehensive income should be recognized in profit or loss. However, interest is calculated on these securities using the effective interest method and foreign currency gains and losses on monetary assets classified as AFS are recognized in profit or loss. Dividends on equity instruments are recognized in profit or loss when the Company's right to receive payment is established.

Financial liabilities other than at fair value through profit or loss are subsequently measured at amortized cost using the effective interest method.

(c) Derecognition

A financial asset is derecognized when the right to receive cash flows has expired or has been transferred and the Company has transferred substantially all risks and rewards of ownership. Gains and losses arising from changes in the fair value of AFS financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time, the cumulative gain or loss previously recognized in other comprehensive income should be recognized in profit or loss.

A financial liability (or a part of a financial liability) is removed from the statement of financial position when, and only when, it is extinguished, i.e., when the obligation is discharged or is cancelled or has expired.

22.3.3 Impairment of financial assets

The carrying values of all financial assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amount is a process of involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market has been significantly below cost for a considerable period of time, are individually reviewed. A distinction shall be made between negative revaluations due to general market fluctuations and due to issuer specific developments. The impairment review shall focus on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Company's long-term investment strategy.

(a) Assets carried at amortized cost

For HTM securities and loans and receivables carried at amortized cost, the amount of loss shall be measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If a variable interest rate was used, the discounted rate for measuring the impairment loss is the current effective interest rate. Impairment loss is recorded in profit or loss.

The Company assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized shall not be included in a collective assessment of impairment.

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

(b) AFS financial assets

In the case of AFS debt instruments, objective evidence of impairment is assessed in the same manner as for assets carried at amortized cost. For AFS equity instruments, a significant or prolonged decline in the fair value shall indicate impairment. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' greater than twelve (12) months. For all AFS financial assets, the impairment loss is the difference between its current fair value and its original cost. Impairment loss is transferred from equity to profit or loss. For AFS equity instruments, reversal of previously recognized impairment losses through profit or loss is not allowed. For AFS debt instruments, reversals of impairment losses shall be reversed through profit or loss, to the extent that the initial impairment loss was transferred from other comprehensive income to profit or loss. The reversal must be objectively supported by an increase in the fair value of the instrument after the impairment loss was recognized.

22.4 Investment in trust funds

Trust funds pertain to the assets held in trust set up for providing for the costs of benefits or services to be rendered in accordance with the plan contracts sold. Trust funds are carried at net asset value, which is determined as trust fund assets less trust fund liabilities. Trust fund assets and liabilities are recognized and measured using the same policies applied to financial instruments as discussed in Note 22.3.

22.5 Insurance premium fund

Insurance premium fund represents financial assets such as investments in equity securities that are restricted to cover the payment of insurance premiums after the paying period for the pre-need plan. This shall be at least equal to the amount computed for the insurance premium reserve (Note 22.9). Insurance premium fund assets are recognized and measured using the same policies applied to financial instruments as discussed in Note 22.3.

22.6 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment losses. The initial cost of property and equipment is comprised of the purchase price and costs directly attributable to bringing the assets to their intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the period in which these are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Asset Type	Number of years
Transportation equipment	4
Office equipment	5
Furniture and fixtures	5
Building	30

Leasehold improvements are amortized on a straight-line basis over their useful lives or the term of the lease, whichever is shorter.

The asset's carrying amount and useful life are reviewed, and adjusted if appropriate, at each reporting date. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

Fully depreciated property and equipment are retained in the books until these are no longer in use.

22.7 Accounts payable and accrued expenses

Accounts payable and accrued expenses are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable and accrued expenses are derecognized when extinguished, i.e. when the obligation is discharged or is cancelled or expired.

22.8 Pre-need reserves

PNR which represent the accrued net liabilities of the Company to its planholders are actuarially computed based on standards and guidelines set forth by the IC (Note 20). The increase or decrease in the account is charged or credited to costs of contracts issued in profit or loss.

PNR is set up for all pre-need benefits guaranteed and payable by the Company as defined in the pre-need plan contracts. The recognition of PNR is based on the general requirements of *PAS 37* on provisioning and specific methodology. The amount recognized as a provision to cover the PNR is the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision.

The amount of provision is the present value of the funding expected to be required to settle the obligation with due consideration of the different probabilities as follows:

(a) On currently-being-paid plans

Liability shall be set up for the portion of currently-being-paid plans that will reach full payment, applying the full payment experience of the Company. It shall be equivalent to the present value of future maturity benefits reduced by the present value of future trust fund contributions required per product model discounted at the prescribed rate by the Insurance Commission.

Currently-being-paid plans pertain to accounts that are up-to-date in payment and include in-force plans as defined in the contract provision, i.e., plans within the 60-day grace period.

(b) On lapsed plans within the allowable reinstatement period

The liability that shall be set up is equivalent to multiplying the reinstatement rate to the calculated present value of future maturity benefits reduced by the present value of future trust fund contributions less the sum unpaid premiums from last unpaid due date to valuation date. The reinstatement rate is based on the experience of the Company.

(c) On fully paid plans

Liability shall be set up for plans that have completed all installment payments. The reserve shall be the present value of future maturity benefits discounted at the interest rate prescribed by the Insurance Commission.

The rates of surrender, cancellation, reinstatement, and inflation, are based on the actual experience of the Company or the industry in the last three years.

22.9 Insurance premium reserve

IPR, which represents the amount that must be set aside by the Company to pay for premiums for insurance coverage of fully paid planholders, is actuarially computed based on standards and guidelines set forth by the IC (Note 20). The increase in the account is charged to insurance expense under other direct costs and expenses in profit or loss.

22.10 Other reserves

Other reserves, which is optional but provided by the Company as a prudent measure, represents the amount set aside by the Company to cover the administrative expense of fully paid plans. The increase or decrease in the account is charged or credited to costs of contracts issued in profit or loss.

22.11 Share capital; Contingency surplus; Deficit

Common shares are classified as share capital.

Any additional capital contribution from the shareholders to comply with minimum capital requirements is credited to contingency surplus.

Deficit represents the cumulative balance of net loss of the Company.

22.12 Revenue recognition

22.12.2 Premium revenue

Premium revenue from sale of pre-need plans are recognized when earned and when collected.

22.12.3 Trust fund income

Income generated by the trust fund is recognized in profit or loss when earned. The portion of retained earnings representing the trust fund income is automatically restricted to payments of benefits of planholders and such other related payments as allowed under the Pre-Need Rules.

22.12.4 Investment income

(a) Interest income

Interest income is recognized in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

(b) Dividend income

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

22.12.5 Commission income

Commission income arising from brokerage activities is recognized in profit or loss as the related services are performed.

22.12.6 Other income

Other income which includes loading and handling fees, surcharges on lapsed plans, income on cancelled plans, reinstatement and amendment fees, and other miscellaneous policy fees, are recognized when collected.

22.13 Costs and expenses

22.13.2 Cost of contracts issued

Cost of contracts issued consists of:

(a) the increase in PNR as at the current year as compared to the provision for the same period of the previous year. If there is a decrease in the PNR as a result of new information or new developments, the amount shall be deducted from the cost of contracts issued of the current period. In case of material prior period errors, the adjustment shall be effected to prior periods; and

(b) documentary stamp tax and SEC registration fees.

22.13.3 Other direct costs and expenses

This account includes basic commissions, other commission such as overrides and bonuses, insurance and other expenses that constitute direct cost of contracts issued.

Commissions are due and payable whenever there are collections on pre-need plans that are credited to premium income. These are paid only to licensed active agents of the Company. Rates of commission vary depending on the product sold and mode of payment in accordance with the product design as approved by the IC.

22.13.4 General and administrative expenses

General and administrative expenses are recognized in profit or loss when incurred.

22.14 Retirement expense

The Company maintains an unfunded defined benefit retirement plan, based on the provisions of R.A. No. 7641. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The liability recognized in the statement of financial position in respect of a defined benefit pension plan is the present value of the defined benefit obligation at the end of each reporting period less the fair value of plan assets, if any. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid (in Philippine Peso) and that have maturities which approximate the terms of the related pension liability. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the year in which they arise.

Past service costs are recognized immediately in profit or loss.

22.15 Income taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The Company has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the tax paid or withheld is included in current income tax expense.

Deferred income tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using the tax rate (and laws) that have been enacted or substantively enacted as at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (NOLCO) and unused tax credits (excess MCIT) to the extent that it is probable that future taxable income will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax liabilities are recognized in full for all taxable temporary differences.

The Company reassesses at each reporting date the need to recognize previously unrecognized deferred income tax assets.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax expense or credit included in provision for income tax is recognized for the changes during the year in the deferred income tax assets and liabilities.

22.16 Provisions and contingencies

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

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

22.17 Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The Company's financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency.

22.18 Leases (Company as lessee)

Leases in which substantially all risks and benefits of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

22.19 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholder. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

22.20 Events after reporting date

Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to the financial statements when material.

23 Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by Revenue Regulations (RR) No. 15-2010. This following information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Output value-added tax (VAT)

Output VAT declared for the year ended December 31, 2016 and the revenues upon which the same was based consist of:

	Amount	
	Gross revenue	Output VAT
Subject to 12% VAT		
Premiums (net of trust fund contribution)	99,152,568	11,898,308

Outstanding output VAT as at December 31, 2016 amounts to P796,342.

Premium income above is based on actual collections, net of contributions for tax purposes, while revenues in the statement of total comprehensive income are gross of trust fund contribution and based on the policies in Note 22.12.

(ii) Input VAT

Movements in input VAT for the year ended December 31, 2016 follow:

	Amount
Balance at beginning of year (net of output tax)	116,581
Add: Current year's domestic purchases/payments	2,646,505
Input VAT application	(2,763,086)
Balance at end of year	-

(iii) Documentary stamp tax

Documentary stamp taxes (shown as part of Cost of contracts issued) paid and accrued for the year ended December 31, 2016 amounts to P206,053 and P15,167, respectively.

(iv) All other local and national taxes

All other local and national taxes paid for the year ended December 31, 2016 consist of:

	Amount
Municipal taxes	389,777
Real property tax	47,569
Community tax	19,500
Others	1,266,420
	1,723,266

The above local and national taxes are booked under Taxes and licenses account in general and administrative expenses.

(v) Withholding taxes

Withholding taxes paid and accrued for the year ended December 31, 2016 consist of:

	Amount		
	Paid	Accrued	Total
Withholding tax on compensation	1,504,799	102,506	1,607,305
Expanded withholding tax	5,331,790	385,702	5,717,492
	6,836,589	488,208	7,324,797

There are no creditable withholding taxes as at December 31, 2016.

(vi) Tax assessments

Taxable year 2015 is under BIR investigation. The Company has not received Final Assessment Notice (FAN) as at December 31, 2016.

(vii) Tax cases

There are no outstanding tax cases under preliminary investigation, litigation and/or for prosecution in courts or bodies outside of the BIR as at December 31, 2016.

Independent Auditor's Report
To the Board of Directors and Shareholder of
Caritas Financial Plans, Inc.
Page 4

Report on the Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 23 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 and has been subjected to the auditing procedures applied in our audits 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.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 6, 2017, Makati City
SEC A.N. (individual) as general auditors 1176-AR-1, Category A; effective until January 13, 2018
SEC A.N. (firm) as general auditors 0009-FR-4, Category A; effective until July 15, 2018
TIN 221-755-698
BIR A.N. 08-000745-77-2015, issued on January 29, 2015; effective until January 28, 2018
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
August 15, 2017

Caritas Financial Plans, Inc.
(A Wholly-owned Subsidiary of Caritas Health Shield, Inc.)

Statements of Financial Position
December 31, 2016 and 2015
(All amounts in Philippine Peso)

	Notes	2016	2015
ASSETS			
CASH AND CASH EQUIVALENTS	2	31,353,306	32,898,786
INVESTMENT IN TRUST FUNDS	3	785,089,762	638,867,806
INSURANCE PREMIUM FUND	4	12,006,265	12,921,110
AVAILABLE-FOR-SALE FINANCIAL ASSETS	5	43,961,765	103,109,765
RECEIVABLES	6	112,561,991	68,475,254
PROPERTY AND EQUIPMENT, net	7	21,694,965	23,769,474
PREPAYMENTS AND OTHER ASSETS	8	7,240,664	10,101,907
DEFERRED INCOME TAX ASSETS, net	18	410,702	812,949
TOTAL ASSETS		1,014,319,419	890,957,051
LIABILITIES AND EQUITY			
ACCOUNTS PAYABLE AND ACCRUED EXPENSES		3,693,670	4,405,492
PAYABLES TO RELATED PARTIES	17	3,977,703	3,573,837
PRE-NEED RESERVES	9	811,637,504	645,628,398
INSURANCE PREMIUM RESERVE	4	11,957,623	11,700,521
OTHER RESERVES	9	5,960,330	4,920,752
OTHER LIABILITIES	10	41,316,230	43,028,649
TOTAL LIABILITIES		878,543,060	713,257,649
SHARE CAPITAL	11	150,000,000	150,000,000
CONTINGENCY SURPLUS	11	67,300,000	67,300,000
OTHER COMPREHENSIVE (LOSS) INCOME	11	(30,889,804)	4,027,669
DEFICIT		(50,633,837)	(43,628,267)
TOTAL EQUITY		135,776,359	177,699,402
TOTAL LIABILITIES AND EQUITY		1,014,319,419	890,957,051

(The notes on pages 1 to 42 are integral part of these financial statements.)

Caritas Financial Plans, Inc.
(A Wholly-owned Subsidiary of Caritas Health Shield, Inc.)

Statements of Total Comprehensive Income
For the years ended December 31, 2016 and 2015
(All amounts in Philippine Peso)

	Notes	2016	2015
REVENUE			
Premium revenue	9	220,562,109	223,169,148
Trust fund income, net of trust fees	3	39,484,282	19,268,915
Gain on sale of available-for-sale financial assets	5	6,309,413	3,393,187
Investment income	12	2,438,908	4,900,987
Commission income		25,987	383,647
Other income	13	13,371,971	15,783,254
		282,192,670	266,899,138
COSTS AND EXPENSES			
Cost of contracts issued			
Increase in pre-need, insurance premium and other reserves	4, 9	167,305,786	145,724,169
Payments of terminated plans		2,970,728	1,341,977
Documentary stamp taxes and registration fees		830,139	881,513
		171,106,653	147,947,659
Other direct costs and expenses	14	51,523,373	58,943,554
General and administrative expenses	15	61,236,573	84,561,093
		283,866,599	291,452,306
LOSS BEFORE INCOME TAX		(1,673,929)	(24,553,168)
INCOME TAX EXPENSE	18	5,331,641	5,716,630
NET LOSS		(7,005,570)	(30,269,798)
OTHER COMPREHENSIVE INCOME (LOSS)	11		
Item that may be subsequently reclassified to profit or loss			
Fair value loss on available-for-sale financial assets		(36,347,659)	(31,434,980)
Income tax relating to fair value reserve on available-for-sale financial assets		(790)	(100,758)
Item that will not be subsequently reclassified to profit or loss			
Actuarial gains (losses) on retirement liability		2,044,252	(9,691)
Income tax relating to actuarial gains (losses) on retirement liability		(613,276)	2,907
OTHER COMPREHENSIVE LOSS		(34,917,473)	(31,542,522)
TOTAL COMPREHENSIVE LOSS		(41,923,043)	(61,812,320)

(The notes on pages 1 to 42 integral part of these financial statements.)

Caritas Financial Plans, Inc.
(A Wholly-owned Subsidiary of Caritas Health Shield, Inc.)

Statements of Changes in Equity
For the years ended December 31, 2016 and 2015
(All amounts in Philippine Peso)

	Share Capital (Note 11)	Contingency Surplus (Note 11)	Other Comprehensive Income (Loss) (Note 11)	Deficit (Note 11)	Total
As at January 1, 2015	150,000,000	67,300,000	35,570,191	(13,358,469)	239,511,722
Comprehensive loss					
Net loss for the year	-	-	-	(30,269,798)	(30,269,798)
Other comprehensive loss	-	-	(31,542,522)	-	(31,542,522)
Total comprehensive loss for the year	-	-	(31,542,522)	(30,269,798)	(61,812,320)
As at December 31, 2015	150,000,000	67,300,000	4,027,669	(43,628,267)	177,699,402
Comprehensive loss					
Net loss for the year	-	-	-	(7,005,570)	(7,005,570)
Other comprehensive loss	-	-	(34,917,473)	-	(34,917,473)
Total comprehensive loss for the year	-	-	(34,917,473)	(7,005,570)	(41,923,043)
As at December 31, 2016	150,000,000	67,300,000	(30,889,804)	(50,633,837)	135,776,359

(The notes on pages 1 to 42 are integral part of these financial statements.)