

Cityplans, Incorporated

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report





CityPlans, Inc.

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Cityplans, Incorporated** (the Company) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016, and 2015, in accordance with the accounting principles generally accepted in the Philippines for pre-need companies, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

ANDREW I. LIUSON
Chairman of the Board

STEPHEN C. ROXAS
President / Chief Executive Officer ✓

RUDY GO
Senior Vice President / Chief Financial Officer

Signed this 23rd day of March 2017

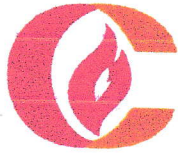
SUBSCRIBED AND SWORN to before me this day of MAR 27 2017 affiant(s) exhibiting to me their Social Security Numbers, as follows:

Name
Andrew I. Liuson
Stephen C. Roxas
Rudy Go

Social Security Number
03-1872470-6
03-0344241-7
03-4602228-9

Doc No. K6 ;
Page No. 35 ;
Book No. II ;
Series of 2017.

ATTY. ANDRE ANTON S. SUAREZ
NOTARY PUBLIC FOR THE CITIES OF PASIG,
SAN JUAN AND MUNICIPALITY OF PATEROS
UNTIL DECEMBER 31, 2018
APPOINTMENT NO. 30
IBP ROLL NO. 63245



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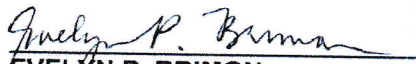
CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for **Cityplans, Incorporated** for the period ending December 31, 2016.

In discharging this responsibility, I hereby declare that I am the Senior Manager of Cityplans, Incorporated.

Furthermore, in my compilation services for the preparation of the Financial Statements and Notes to the Financial Statements, I was not assisted by or did not avail of the services of SyCip Gorres Velayo & Co. which is the external auditor who rendered the audit opinion for the said Financial Statements and Notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298 that my statements are true and correct.


EVELYN P. BRIMON
Senior Manager


PROFESSIONAL IDENTIFICATION CARD NO.: 0052899
VALID UNTIL: December 14, 2019

Accreditation filed on October 7, 2016 and still pending at Professional Regulation Commission.

Signed this 23rd day of March 2017.

APR 01 2017
SUBSCRIBED AND SWORN to before me in MAKATI CITY City, Philippines on _____, affiant personally appeared before me and exhibited to me her Social Security System No. 03-7236236-6 and other competent evidence of identification.

Doc No. 381
Page No. 78
Book No. IX
Series of 2017.


ATTY. EMMA S. DULCARBAL
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2018
APPOINTMENT NO.: M-322
IBP ROLL NO.: 33152
IBP NO.: 06547/Lifetime/PPLM
PTR No.: 5941142/1-20-2017/Makati
156 H.V. Dela Costa St., Makati City

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Cityplans, Incorporated

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cityplans, Incorporated (the Company), which comprise the balance sheets as at December 31, 2016 and 2015, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the Philippines for pre-need companies.

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 are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Philippines for pre-need companies, 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.
- 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.



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

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cityplans, Incorporated. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado

Partner

CPA Certificate No. 80470

SEC Accreditation No. 0660-AR-3 (Group A),

March 2, 2017, valid until March 1, 2020

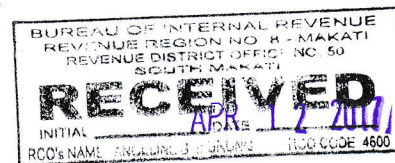
Tax Identification No. 102-082-670

BIR Accreditation No. 08-001998-63-2015,

March 24, 2015, valid until March 23, 2018

PTR No. 5908673, January 3, 2017, Makati City

March 23, 2017

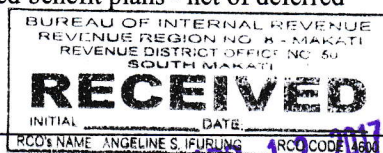


CITYPLANS, INCORPORATED
BALANCE SHEETS



December 31

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	P5,671,949	P2,155,010
Short-term cash investments (Note 5)	50,950,000	58,250,000
Real estate properties for sale (Note 10)	5,302,463	5,302,463
Installment contracts receivable (Note 9)	2,754,185	5,870,450
Investments in trust funds - current portion (Note 7)	4,489,499	7,243,132
Prepaid income tax	880,890	693,142
Other receivables	442,768	963,473
Total Current Assets	70,491,754	80,477,670
Noncurrent Assets		
Investment properties (Note 11)	171,379,963	180,332,432
Investments in trust funds - noncurrent portion (Note 7)	31,783,435	30,791,220
Installment contracts receivable (Note 9)	7,083,214	9,096,179
Available-for-sale financial assets (Note 6)	14,314,331	12,153,361
Insurance premium fund (Note 8)	250,000	300,000
Other assets (Notes 12 and 16)	19,914,658	661,885
Total Noncurrent Assets	244,725,601	233,335,077
TOTAL ASSETS	P315,217,355	P313,812,747
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses - current portion	P4,611,876	P5,169,104
Pre-need reserves - current portion (Note 7)	1,198,235	2,733,761
Total Current Liabilities	5,810,111	7,902,865
Noncurrent Liabilities		
Pre-need reserves - noncurrent portion (Note 7)	30,315,560	31,104,189
Other reserves (Notes 7 and 8)	13,593,717	16,741,295
Accounts payable and accrued expenses - noncurrent portion	3,333,587	1,646,314
Deferred income tax liabilities (Note 17)	897,310	1,632,022
Total Noncurrent Liabilities	48,140,174	51,123,820
Total Liabilities	53,950,285	59,026,685
Equity		
Capital stock - P1.00 par value		
Authorized - 200,000,000 shares		
Issued and outstanding - 125,000,000 shares	125,000,000	125,000,000
Reserve for fluctuation in value of available-for-sale financial assets (Note 6)	10,107,625	7,946,656
Reserve for fluctuation in value of available-for-sale financial assets held in trust funds (Note 7)	1,266,802	489,137
Accumulated re-measurement on defined benefit plans - net of deferred income tax effect (Note 16)	(349,138)	(242,256)
Retained earnings (Notes 7 and 20):		
Unrestricted	122,757,761	119,410,505
Restricted	2,484,020	2,182,020
Total Equity	261,267,070	254,786,062
TOTAL LIABILITIES AND EQUITY	P315,217,355	P313,812,747

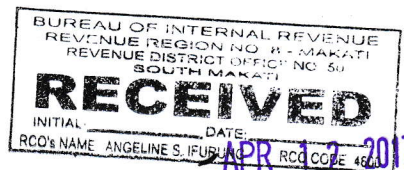


See accompanying Notes to Financial Statements.

CITYPLANS, INCORPORATED
STATEMENTS OF INCOME

	Years Ended December 31	
	2016	2015
INCOME		
Rental income (Note 11)	₱11,613,633	₱3,481,182
Sales of real estate properties	4,141,083	4,670,331
Interest income (Notes 5 and 9)	2,940,625	3,841,209
Trust fund income (Note 7)	1,548,383	477,071
Unrealized re-measurement gain on investment properties (Note 7)	302,000	318,000
Premium revenue (Note 13)	114,143	303,844
Other income (Note 6)	604,997	1,047,058
	21,264,864	14,138,695
EXPENSES		
Cost of contracts issued:		
Plan benefit expense (inclusive of trust fund contributions)	6,802,088	3,651,422
Decrease in reserves for trust fund deficiency (Note 7)	(2,923,045)	(4,221,852)
Decrease in pre-need reserves (Note 7)	(2,324,155)	(101,132)
Documentary stamp tax and Securities and Exchange Commission and Insurance Commission registration fees	100,765	150,060
Insurance liabilities and others	(19,094)	(1,855)
General and administrative expenses (Note 14)	13,849,352	8,581,749
Cost of real estate sales (Note 10)	2,223,185	3,866,655
Other direct costs and expenses	33,594	8,724
	17,742,690	11,933,771
INCOME BEFORE INCOME TAX	3,522,174	2,204,924
BENEFIT FROM INCOME TAX (Note 17)	(127,082)	(235,262)
NET INCOME	₱3,649,256	₱2,440,186

See accompanying Notes to Financial Statements.



CITYPLANS, INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
NET INCOME	₱3,649,256	₱2,440,186
OTHER COMPREHENSIVE INCOME (LOSS)		
To be reclassified to profit or loss in subsequent periods:		
Changes in fair values of available-for-sale financial assets (Note 6)	2,160,969	(1,271,811)
Changes in fair values of available-for-sale financial assets in trust funds (Note 7)	777,665	(1,001,308)
Impairment loss on available-for-sale financial assets held in trust funds transferred from equity to trust fund income reported under profit or loss (Note 7)	–	398,848
Not to be reclassified to profit or loss in subsequent periods:		
Re-measurement losses on defined obligation plan (Note 16)	(152,688)	(49,577)
Income tax effect	45,806	14,873
	2,831,752	(1,908,975)
TOTAL COMPREHENSIVE INCOME	₱6,481,008	₱531,211

See accompanying Notes to Financial Statements.



CITYPLANS, INCORPORATED

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Capital Stock	Reserve for Fluctuation in Value of Available-for-sale Financial Assets (Note 6)	Reserve for Fluctuation in Value of Financial Assets Held in Trust Funds (Note 7)	Accumulated Re-measurement on Defined Benefit Plan - Net of Deferred Income Tax Effect (Note 16)	Retained Earnings (Notes 7 and 20)		Total
					Unrestricted	Restricted	
BALANCES AT DECEMBER 31, 2014	₱125,000,000	₱9,218,467	₱1,091,597	(₱207,552)	₱117,288,319	₱1,864,020	₱254,254,851
Net income	-	-	-	-	2,440,186	-	2,440,186
Other comprehensive loss	-	(1,271,811)	(602,460)	(34,704)	-	-	(1,908,975)
Total comprehensive income (loss)	-	(1,271,811)	(602,460)	(34,704)	2,440,186	-	531,211
Trust fund income	-	-	-	-	-	477,071	477,071
Plan benefit expense, exclusive of trust fund contributions	-	-	-	-	-	(578,203)	(578,203)
Decrease in pre-need reserves	-	-	-	-	-	101,132	101,132
Unrealized re-measurement gain on investment properties	-	-	-	-	(318,000)	318,000	-
BALANCES AT DECEMBER 31, 2015	₱125,000,000	₱7,946,656	₱489,137	(₱242,256)	₱119,410,505	₱2,182,020	₱254,786,062
Net income	-	-	-	-	3,649,256	-	3,649,256
Other comprehensive income (loss)	-	2,160,969	777,665	(106,882)	-	-	2,831,752
Total comprehensive income (loss)	-	2,160,969	777,665	(106,882)	3,649,256	-	6,481,008
Trust fund income	-	-	-	-	-	1,548,383	1,548,383
Plan benefit expense, exclusive of trust fund contributions	-	-	-	-	-	(3,872,538)	(3,872,538)
Decrease in pre-need reserves	-	-	-	-	-	2,324,155	2,324,155
Unrealized re-measurement gain on investment properties	-	-	-	-	(302,000)	302,000	-
BALANCES AT DECEMBER 31, 2016	₱125,000,000	₱10,107,625	₱1,266,802	(₱349,138)	₱122,757,761	₱2,484,020	₱261,267,070

See accompanying Notes to Financial Statements.



CITYPLANS, INCORPORATED
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱3,522,174	₱2,204,924
Adjustments for:		
Depreciation expense (Notes 11 and 14)	7,378,565	3,875,769
Interest income (Notes 5 and 9)	(2,940,625)	(3,841,209)
Decrease in reserves for trust fund deficiency	(2,923,045)	(4,221,852)
Decrease in pre-need reserves	(2,324,155)	(101,132)
Trust fund income (Note 7)	(1,548,383)	(477,071)
Dividend income (Note 6)	(325,637)	(238,603)
Unrealized re-measurement gain on investment properties (Note 7)	(302,000)	(318,000)
Retirement benefits cost (Note 16)	17,521	18,131
Operating income (loss) before working capital changes	554,415	(3,099,043)
Decrease (increase) in:		
Real estate properties for sale	2,223,185	2,094,157
Installment contracts receivable	5,129,230	6,096,991
Other receivables	520,705	(555,691)
Other assets	87,422	35,701
Increase (decrease) in:		
Accounts payable and accrued expenses	1,130,045	(504,158)
Other reserves	(204,928)	(103,350)
Cash flows generated from operations	9,440,074	3,964,607
Interest received	2,860,384	3,787,811
Contribution to the plan (Note 16)	(44,682)	(44,682)
Income taxes paid, including creditable and final withholding taxes	(749,571)	(531,870)
Net cash flows from operating activities	11,506,205	7,175,866
CASH FLOWS USED IN INVESTING ACTIVITIES		
Proceeds from matured (placement of) short-term cash investments and insurance premium fund (Notes 5 and 8)	7,350,000	(32,100,000)
Purchase of condominium units under construction (Note 12)	(19,421,038)	-
Contributions to investments in trust funds (Note 7)	(2,684,897)	(3,062,709)
Withdrawals from investments in trust funds (Note 7)	7,090,313	3,673,351
Acquisition of investment properties (Note 11)	(649,281)	(6,781,448)
Dividends received (Note 6)	325,637	238,603
Net cash flows used in investing activities	(7,989,266)	(38,032,203)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,516,939	(30,856,337)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,155,010	33,011,347
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱5,671,949	₱2,155,010

See accompanying Notes to Financial Statements.



CITYPLANS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Cityplans, Incorporated (the Company) was incorporated in the Philippines on October 27, 1988 primarily to engage in the business of establishing, organizing, developing, maintaining, conducting, operating, marketing, and selling pension plans. The Company is 90.81% owned by Cityland Development Corporation (CDC), a publicly listed entity domiciled in the Philippines. The Company's ultimate parent is Cityland, Inc. (CI), which has an effective ownership interest in the Company of 55.47% (consisting of 46.29% indirect ownership through CDC and 9.18% direct ownership) in 2016 and 2015.

The Company's securities, amounting to ₱600 million worth of pension plans, are registered with the Philippine Securities and Exchange Commission (SEC) and are subject to the terms and conditions provided in SEC Circular No. 2, Series of 1984. In connection with this, the Company obtained from the SEC the permit to sell the said pension plans. As of December 31, 2016 and 2015, the Company has sold about ₱297 million worth of securities.

The Company's principal and registered office address is at 3/F Cityland Condo. 10, Tower 2, 154 H.V. de la Costa St., Salcedo Village, Makati City.

The Company's financial statements as of December 31, 2016 and 2015 and for the years then ended were authorized for issuance by the Board of Directors (BOD) on March 23, 2017.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The financial statements of the Company have been prepared using the historical cost basis except for available-for-sale financial assets and investment properties included in the investments in trust funds account, which are carried at fair values. These financial statements are presented in Philippine peso (Peso), which is the Company's functional currency, and rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the Philippines for pre-need companies as set forth in the Pre-need Rule 31, As Amended: *Accounting Standards for Pre-need Plans and Pre-need Uniform Chart of Accounts (PNUCA)*. PNUCA generally refers to Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements*, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*



- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
 - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*
 - Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*
 - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
 - Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*
 - Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Existing Standards and Interpretation Effective Subsequent to December 31, 2016

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

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

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Company is currently assessing the impact of adopting this standard.



- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting and on the amount of its credit losses. The Company is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

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



Current versus Noncurrent Classification

The Company presents assets and liabilities in balance sheet based on current/noncurrent classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents

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

Short-term Cash Investments

Short-term cash investments are investments with maturities of more than three months but not exceeding one year from dates of acquisition.

Financial Assets and Financial Liabilities

Date of recognition

The Company recognizes a financial asset or a financial liability in the balance sheet when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss, includes directly attributable transaction costs.

Classification of financial instruments

Subsequent to initial recognition, the Company classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at each end of reporting period.



a. Financial Assets or Financial Liabilities at Fair Value through Profit or Loss

A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by the management as at fair value through profit or loss.

Financial assets or financial liabilities classified in this category are designated as at fair value through profit or loss by management on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets or liabilities are part of a group of financial assets or financial liabilities, or both financial assets and financial liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets or financial liabilities classified under this category are carried at fair value in the balance sheet. Changes in the fair value of such assets and liabilities are recognized in the statement of income.

The Company's financial assets at fair value through profit or loss include investments in debt securities held by the trust fund (see Note 7).

b. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at amortized cost in the balance sheet. Amortization is determined using the effective interest method.

The Company's loans and receivable consist of cash and cash equivalents, short-term cash investments, installment contracts receivable, and other receivables (see Notes 5, 9, and 19).

c. Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortized cost in the balance sheet. Amortization is determined using the effective interest method.

The Company has no held-to-maturity investments as of December 31, 2016 and 2015.

d. Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are carried at fair value in the balance sheet. Changes in the fair value of such assets are accounted in the statement of comprehensive income and in equity.



The Company's available-for-sale financial assets consist of investments in equity securities that are traded in liquid markets, held for the purpose of investing in liquid funds, and not generally intended to be retained on a long-term basis (see Notes 6 and 7).

e. Other Financial Liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They arise when the Company owes money, goods or services directly to a creditor with no intention of trading the payables. Other financial liabilities are carried at cost or amortized cost in the balance sheet. Amortization is determined using the effective interest method.

The Company's other financial liabilities consist of accounts payable and accrued expenses and other financial liabilities under its investments in trust funds (see Notes 7 and 19).

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable; or



- Level 3 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for both recurring and non-recurring fair value measurement.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy as explained above. The fair value of the Company's financial assets at fair value through profit or loss under investment in trust funds account, available-for-sale, financial assets (including those held under investment in trust funds assets) and investment properties as of December 31, 2016 and 2015 are disclosed in Note 19.

"Day 1" difference

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

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

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

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



Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired.

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

Impairment of Financial Assets

The Company assesses at each end of reporting period whether a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost and available-for-sale debt securities

The Company first 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. Objective evidence includes observable data that comes to the attention of the Company about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. 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 the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each end of reporting period. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status, and term.

If there is an objective evidence that an impairment loss on loans and receivables carried at amortized cost and available-for-sale debt securities has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rates (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced and any previously recognized mark-to-market adjustments in equity (for available-for-sale debt securities) are reversed. The amount of loss, if any, is recognized in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The amount of the reversal is recognized in the statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivable, and available-for-sale debt securities are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced. If a future write off is later recovered, the recovery is recognized in the statement of income under "Other income" account. Any subsequent reversal of an impairment loss is recognized in the statement of income to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.



Available-for-sale equity securities

In case of equity investments classified as available-for-sale financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income) is removed from equity and recognized in the statement of income. Increases in fair value after impairment are recognized in the statement of comprehensive income and directly in the statement of changes in equity.

Real Estate Properties for Sale

Property acquired for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV). Cost consists of purchase price and any directly attributable costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs necessary to make the sale.

Investments in Trust Funds

The trust fund assets and liabilities are recognized in accordance with the provisions of the applicable PASs and PFRSs and their interpretations.

Investments in trust funds are restricted to cover the Company's pre-need reserves. These are classified as current assets to the extent of the currently maturing pre-need reserves. The remaining portion is classified as noncurrent assets in the balance sheet.

Investment Properties

Investment properties which consist of condominium units that are held for lease are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing real estate property for lease at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of the property.

Subsequent to initial measurement, investment properties (except for investment properties under investment in trust fund) are carried at cost less accumulated depreciation and impairment loss. Condominium units for lease are depreciated over their useful life of 25 years using the straight-line method. Depreciation of item in investment properties begins when the assets becomes available for use and ceases at the earlier of the date that the item is classified as held-for-sale in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

Investment properties under investments in trust funds are carried at fair value. Gain or loss arising from change in the fair value of investment properties under investments in trust funds is recognized in the statement of income.

For the purpose of reporting to Insurance Commission (IC), investment properties under investments in trust funds are valued at cost starting 2014.

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

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



Transfers between investment properties, owner-occupied property, and inventories do not change the carrying amount of the property transferred, and they do not change the cost of that property for measurement or disclosure purposes.

Impairment of Nonfinancial Assets

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are either written down to their recoverable amount or provided with valuation allowance. The recoverable amount of the assets is the greater of fair value less cost to sell and value-in-use. Valuation allowance is provided for the carrying amount of assets which is not expected to be recovered. Impairment losses, if any, are recognized in the statement of income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account.

The Company assesses at each reporting period whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. The Company considers external and internal sources of information in its assessment of the reversal of previously recognized impairment losses. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Value-added Tax (VAT)

Revenue, expenses, assets, and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of VAT recoverable from or payable to, the taxation authority is included as part of "Other assets" or "Accounts payable and accrued expenses," respectively, in the balance sheet.

Pre-Need Reserves (PNR)

PNR for pension plans are calculated on the basis of the methodology and assumptions set out in Pre-Need Rule 31, as Amended, as follows:

- 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:
 - i. Provision for termination values applying the inactivity and surrender rate experience of the Company.
 - ii. The liability is 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 lower of attainable rate or discount rate provided by the IC for SEC-approved plans and the pricing discount rate for IC-approved plans.



- The rates of surrender, cancellation, reinstatement, utilization, and inflation considered the actual experience of the Company in the last three years.
- The computation of the foregoing assumptions has been validated by the internal qualified actuary of the Company.
- Based on the Company's experience, the probability of pre-termination or surrender of fully paid plans is below 5% and therefore considered insignificant. The derecognition of liability shall be recorded at pre-termination date.

In 2016 and 2015, the Company follows IC Circular Letter No. 23-2012 dated November 28, 2012 which sets the guidelines below for the discount rate to be used in the valuation of PNR:

- Discount interest rate for the PNR

The transitory discount interest rate per year shall be used in the valuation of PNR shall not exceed the lower of the attainable rates as certified by the trustee banks and the following rates below:

Year	Discount interest rate
2012 – 2016	8.00%
2017	7.25%
2018	6.50%
2019 and onwards	6.00%

- Transitory PNR (TPNR)

In effecting the transition in the valuation of reserves for old basket of plans, the IC shall prescribe a PNR with a maximum transition period of 10 years.

For each of the pre-need plan categories, the TPNR shall be computed annually on the old basket of plans outstanding at the end of each year from 2012 to 2021 using the discount interest rates provided above. If the actual trust fund balance is higher than or equal to the resulting PNR then the liability setup shall be the PNR.

However, if the resulting PNR is greater than the actual trust fund balance at the end of the year, TPNR shall be computed.

The actual trust fund balance shall be the trust fund balance at the end of the year net of any receivables by the Company from the trustee for the contractual benefits outstanding as of the end of the year.

The TPNR liability shall be recognized each year. As of December 31, 2016 and 2015, the Company's actual trust fund balance is lower than the resulting PNR (see Note 7).

Other reserves

The Company sets up other provisions in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, to cover obligations such as Insurance Premium Reserves (IPR), pension bonus, and trust fund deficiency.

Unless the IC shall so specifically require, the Company may, at its option, set up other provisions as a prudent measure.



Capital Stock

Capital stock is measured at par value for all shares issued and outstanding. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds, net of tax.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of the changes in accounting policy, and other capital adjustments.

Unrestricted retained earnings represent that portion which is free and can be declared as dividends to stockholders. Restricted retained earnings represent that portion which has been restricted and, therefore, is not available for any dividend declaration.

Dividend Distributions

Cash dividends on common shares are deducted from retained earnings upon declaration by the BOD.

Dividends for the year that are approved after the end of reporting period but before the approval of financial statements are dealt with as an event after the reporting date.

Revenue and Costs Recognition

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Company and the amount of revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Pre-need revenue

Premiums from sale of pre-need plans are recognized as earned when collected.

Sales of real estate properties

Revenue from sale of completed condominium units, where a sufficient down payment has been received, the collectability of the sales price is reasonably assured, the refund period has expired, the receivables are not subordinated, and the seller is not obliged to complete improvements, is accounted for under the full accrual method.

Interest income

Interest income from cash in banks, cash equivalents, short-term cash investments, and installment contracts receivable is recognized as the interest accrues taking into account the effective yield on interest.

Dividend income

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

Rental income

Rental income from investment properties is recognized on a straight-line basis over the lease term.

Trust Fund Income

Trust fund income mainly pertains to rental income on investment properties under the trust fund account, as well as, trading gains and losses from buying and selling and changes in fair value of financial assets and financial liabilities categorized upon initial recognition as at fair value through profit or loss investments under the trust fund account.



Unrealized re-measurement gain on investment properties

This pertains to changes in fair value of investment properties held in trust fund.

Cost and expenses are recognized as incurred. These mainly include:

Cost of real estate sales

Cost of real estate sales is recognized upon sale and is determined based on the costs of the property.

Cost of contracts issued

This account pertains to (a) the increase or decrease in PNR as at the current year as compared to the provision for the same period of the previous year; (b) amount of trust funds contributed during the year including any trust fund deficiency; and (c) documentary stamp tax and SEC registration fees.

If there is a decrease in the PNR as a result of new information or developments, the amount shall be deducted from the cost of contracts issued in the current period. In case of material prior period errors, the requirements of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, shall be complied with by the Company.

General and administrative expenses

Operating expenses constitute costs of administering the business. These costs are expensed as incurred.

Retirement Benefits Cost

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting the net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement benefits cost comprises the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Any change in the effect of asset ceiling.

Service costs which include current service costs, past service costs, and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

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

Re-measurements comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability or asset) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.



Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are earned by the employees. The undiscounted liability for leave expected to be settled within 12 months after the end of the reporting period is recognized for services rendered by employees up to the end of the reporting period. Accumulating leave credits which can be utilized anytime when needed or converted to cash upon employee separation (i.e., resignation or retirement) are presented at its discounted amount as "Accounts payable and accrued expenses - noncurrent portion" in the balance sheet.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the effective future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Income Taxes

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

Current income tax for current and prior periods shall, to the extent unpaid, be recognized as a liability under "Income tax payable" account in the balance sheet. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset under "Prepaid income tax" account in the balance sheet.



Deferred income tax

Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused tax losses from net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT over RCIT and unused tax losses from NOLCO can be utilized. Deferred income tax assets and deferred income tax liabilities are not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and those directly in comprehensive income such as re-measurement of defined benefit plan are recognized in the statement of comprehensive income and not in the statement of income.

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

Other Comprehensive Income

Other comprehensive income comprises items of income and expense that are not recognized in the statement of income for the year in accordance with relevant PFRS. Other comprehensive income of the Company includes gains and losses on re-measuring available-for-sale financial assets, re-measurements comprising actuarial gains and losses on defined benefit plan.

Segment Reporting

The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 21 to the financial statements. The Company's asset-producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Events After the Reporting Date

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



3. Significant Accounting Judgments and Estimates

The preparation of the financial statements requires management to make judgments, estimates, and assumptions that affect the amounts reported in the financial statements and accompanying notes.

In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the results for the periods presented. Actual results could differ from such estimates.

Judgments

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

Revenue recognition

Selecting the appropriate revenue recognition method for a particular real estate transaction requires judgment on the buyer's continuing commitment to the sales agreement. Collectability of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that gives the buyer a sufficient stake in the property that risk of loss through default motivates the buyer to honor the obligation. Collectability is also assessed by considering factors such as the credit standing of the buyer, age, and location of the property.

For sale of real estate properties, in determining whether the sales prices are collectible, the Company considers that the initial payments from the buyer of about 10% would demonstrate the buyer's commitment to pay.

Classification of financial instruments

The Company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability, or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the balance sheet (see Note 19).

The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

Distinction between real estate properties for sale and investment properties

The Company determines whether a property is classified as for sale, for lease and for capital appreciation.

Real estate properties which the Company intends to sell are classified as real estate properties for sale. Real estate properties for sale amounted to ₱5.30 million as of December 31, 2016 and 2015 (see Note 10). Real estate properties which are not occupied substantially for use by, or in the operations of, the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation are classified as investment properties. Investment properties amounted to ₱171.38 million and ₱180.33 million as of December 31, 2016 and 2015, respectively (see Note 11). Investment properties included in "Investments in trust funds" account in the balance sheet amounted to ₱6.78 million and ₱6.48 million as of December 31, 2016 and 2015, respectively (see Note 7).



Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period 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 as follows:

Determination of fair value of financial instruments

Financial assets and financial liabilities, on initial recognition, are accounted for at fair value. The fair values of financial assets and financial liabilities, on initial recognition, are normally the transaction prices. In the case of those financial assets and financial liabilities that have no active markets, fair values are determined using an appropriate valuation technique. The fair values of the Company's financial assets and financial liabilities are disclosed in Note 19.

Estimation of allowance for impairment of receivables

Provisions are made for accounts specifically identified to be doubtful of collection. The level of this allowance is evaluated by management based on past collection history and other factors that affect the collectability of the accounts. As of December 31, 2016 and 2015, installment contracts receivable and other receivables aggregated to ₱10.28 million and ₱15.93 million, respectively (see Notes 9 and 19). As of December 31, 2016 and 2015, the loans and receivables in the Company's investments in trust funds amounted to ₱0.37 million and ₱0.39 million, respectively (see Note 7). As of December 31, 2016 and 2015, the allowance for doubtful accounts of the Company's loans and receivables in the investments in trust funds amounted to ₱1,799 and ₱2,043 respectively (see Note 7).

Impairment of available-for-sale financial assets

An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Company evaluates the financial health of the issuer, among others. The Company treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more of cost and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Available-for-sale financial assets amounted to ₱14.31 million and ₱12.15 million as of December 31, 2016 and 2015, respectively (see Note 6). Whereas, available-for-sale financial assets in the Company's investments in trust funds as of December 31, 2016 and 2015 amounted to ₱20.09 million and ₱19.53 million, respectively (see Note 7).

Mark to market gain (loss) of available-for-sale financial assets amounted to ₱0.78 million and (₱1.00 million) in 2016 and 2015, respectively. Impairment loss recognized in 2015 amounted to ₱0.40 million (nil in 2016) (see Note 7).

Determination of net realizable value of real estate properties for sale

The Company's estimates of the net realizable value of real estate properties for sale are based on the most reliable evidence available at the time the estimates are made, or the amount that the real estate properties for sale are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused the real estate properties for sale to be written down below cost no longer exist or when there is a clear evidence of an increase in net realizable value because of changes in economic circumstances, the



amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. The Company's real estate properties for sale as of December 31, 2016 and 2015 amounted to ₱5.30 million (see Note 10).

Estimation of useful lives of investment properties

The Company estimates the useful lives of investment properties based on the internal technical evaluation and experience with similar assets. Estimated lives of investment properties are reviewed periodically and updated if expectations differ from previous estimates due to wear and tear, technical and commercial obsolescence and other limits on the use of the assets. Net book value of investment properties as of December 31, 2016 and 2015 amounted to ₱171.38 million and ₱180.33 million, respectively (see Note 11).

Determination of fair value of investment properties

Investment properties included in the "Investments in trust funds" account are measured at fair value. Fair value is determined based on the valuation performed. The fair value represents the amount that would be received to sell an asset in an orderly transaction between market participants at the date of valuation. Investment property included under the "Investments in trust funds" account as of December 31, 2016 and 2015 amounted to ₱6.78 million and ₱6.48 million, respectively (see Note 7). The fair value of the Company's investment properties not held under trust funds amounted to ₱251.14 million and ₱243.82 million as of December 31, 2016 and 2015, respectively (see Notes 11 and 19).

Impairment of investment properties

The Company determines whether its nonfinancial assets, such as investment properties, are impaired when impairment indicators exist such as significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. This requires an estimation of the value-in-use of the cash-generating units to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows. No impairment indicator was noted as of December 31, 2016 and 2015. Net book value of investment properties as of December 31, 2016 and 2015 amounted to ₱171.38 million and ₱180.33 million, respectively (see Note 11).

Estimation of retirement benefits cost

The cost of the defined benefit plan and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, and future retirement increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the PDEX PDST-R2 rates at various tenors, rates for intermediate durations were interpolated and the rates were then weighted by the expected benefits payments at those durations to arrive at the single weighted average discount rate.

The mortality rate is based on publicly available mortality table in the Philippines. Future salary increases are based on expected future inflation rates. Further details about assumptions used are given in Note 16.



Net retirement benefits cost amounted to ₱17,521 and ₱18,131 in 2016 and 2015, respectively. As of December 31, 2016 and 2015, retirement plan assets, included under “Other assets” account in the balance sheet amounted to ₱0.38 million and ₱0.50 million, respectively (see Note 16).

Estimation of reserves

Reserves are set up for all pre-need benefits guaranteed and payable by the Company as defined in the pre-need plan contracts. The determination of the Company’s reserves is based on the actuarial formula, methods, and assumptions allowed by applicable SEC and IC circulars. This is dependent on management’s selection of certain assumptions used by actuaries in computing this amount. As of December 31, 2016 and 2015, total reserves amounted to ₱45.11 million and ₱50.58 million, respectively (see Note 7).

As of December 31, 2016, the principal assumptions used in determining the Company’s reserves were based on the IC Circular Letter No. 23-2012 dated November 28, 2012 (see Note 4). The transitory discount interest rate that shall be used in the valuation of pre-need reserves shall not exceed the lower of the attainable rates as certified by the Trustee of 5.467% and 5.448% in 2016 and 2015, respectively, and the IC rate of 8%.

As of December 31, 2016, the principal assumptions used in determining the PNR are shown as follows:

Currently-Being-Paid Pension Plans - Actively Paying Plans

Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	–	₱682,971	–	–	–	₱–	–	₱–
Product A	5.467%	616,979	–	02/19/1996	37	–	–	–
Product B	5.467%	65,992	–	02/19/1996	37	–	–	–
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1993	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			

Currently-Being-Paid Pension Plans - Lapsed Plans

Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	–	₱28,820	–	–	–	₱–	–	₱–
Product A	5.467%	28,820	–	02/19/1996	37	–	–	–
Product B	5.467%	–	–	02/19/1996	37	–	–	–
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1993	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			



Fully Paid Plans - Availing and Not Yet Availing

Maturity Period and Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	₱43,405,768	-	-	-	₱-	-	₱-
Product A	5.467%	2,308,538	-	02/19/1996	37	-	-	-
Product B	5.467%	41,097,230	-	02/19/1996	37	-	-	-
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1992	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			

As of December 31, 2015, the principal assumptions used in determining the PNR are shown as follows:

Currently-Being-Paid Pension Plans - Actively Paying Plans

Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	₱2,209,870	-	-	-	₱-	-	₱-
Product A	5.448%	2,000,364	-	02/19/1996	37	-	-	-
Product B	5.448%	209,506	-	02/19/1996	37	-	-	-
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1993	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			

Currently-Being-Paid Pension Plans - Lapsed Plans

Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	₱28,820	-	-	-	₱-	-	₱-
Product A	5.448%	28,820	-	02/19/1996	37	-	-	-
Product B	5.448%	-	-	02/19/1996	37	-	-	-
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1993	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			



Fully Paid Plans - Availing and Not Yet Availing

Maturity Period and Type of Pre-need Product	PNR Using Attainable Interest Rate		PNR Using the SEC/IC-Approved Hurdle Rate Per Product Model				Computation of Reserves Using Other Interest Rate, if applicable	
	Rate (%)	Amount	Rate (%)	Date of Approval	SEC Order Number	Amount	Rate (%)	Amount
Total	-	₱47,106,670	-	-	-	₱-	-	₱-
Product A	5.448%	780,015	-	02/19/1996	37	-	-	-
Product B	5.448%	46,326,655	-	02/19/1996	37	-	-	-
				10/13/1995	1			
				11/26/1993	1006			
				05/17/1992	359			
				07/16/1992	601			
				09/10/1991	899			
				12/14/1990	938			
				02/05/1990	116			

Management believes that the amount of PNR recognized in the financial statements closely reflects actual potential plan claims as of end of reporting period.

The following are the assumptions used in the computation of PNR:

December 31, 2016:

a. Currently-Being-Paid Pension Plans - Actively Paying Plans

- Plans issued prior to 2006 and after - 5.467% discount rate (ROI rate) and no surrender/lapse rates were used.

b. Currently-Being-Paid Pension Plans - Lapsed Plans

- Plans issued prior to 2006 and after - reserves equal the termination values (as originally computed) at the date of lapse and no reinstatement rate was assumed.

c. Fully paid plans - Availing and Not Yet Availing

- Plans with maturity dates in years 2017 and after - 5.467% discount rate (ROI rate) and no surrender rates were assumed for fully paid plans.

December 31, 2015:

c. Currently-Being-Paid Pension Plans - Actively Paying Plans

- Plans issued prior to 2006 and after - 5.448% discount rate (ROI rate) and no surrender/lapse rates were used.

d. Currently-Being-Paid Pension Plans - Lapsed Plans

- Plans issued prior to 2006 and after - reserves equal the termination values (as originally computed) at the date of lapse and no reinstatement rate was assumed.

c. Fully paid plans - Availing and Not Yet Availing

- Plans with maturity dates in years 2016 and after - 5.448% discount rate (ROI rate) and no surrender rates were assumed for fully paid plans.



Recognition of deferred tax assets

The Company reviews the carrying amounts at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow deferred tax assets to be utilized. Deferred tax assets amounted to ₱0.34 million and ₱0.26 million as of December 31, 2016 and 2015, respectively (see Note 17).

4. Pre-need Rule 31, As Amended and Other SEC and IC Circulars

Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9829

After the issuance of RA No. 9829, the Commission issued IRR on March 8, 2010. The salient provisions of the IRR are the same with that of RA No. 9829.

RA No. 9829

RA No. 9829, *An Act Establishing the Pre-need Code of the Philippines*, took effect upon its approval on December 3, 2009. This act shall be known as the “Pre-need Code of the Philippines.”

The following are the more significant provisions under RA No. 9829:

- *Authority of the Insurance Commission.* All pre-need companies shall be under the primary and exclusive supervision and regulation of the IC (the “Commission”).
- *Paid-up capital.* A pre-need company incorporated after the effectivity of the Code shall have a minimum paid-up capital of ₱100.00 million. Existing pre-need companies shall comply with the following minimum unimpaired paid-up capital:
 - a. ₱100.00 million for companies selling at least three (3) types of plan;
 - b. ₱75.00 million for companies selling two (2) types of plan; and
 - c. ₱50.00 million for companies selling a single type of plan.
- *Trust fund.* The trust fund shall at all times be sufficient to cover the required pre-need reserve. The RA specifies the minimum amount of corresponding contributions to the trust fund.
- *Limitations on different investments of the 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 limited and subject to limitations specified by the RA.

Memorandum Circular No. 1, Series of 2009

On February 25, 2009, the SEC issued SEC Memorandum Circular No. 1, granting pre-need companies an extension of time until April 15, 2009 within which to apply for a multi-year funding scheme, known as the Multi-year Capital and Trust Fund Build-up, for the purpose of addressing the pre-need companies’ concern on capital and trust fund deficiencies.

Pre-need Rule 31, As Amended: Accounting Standards for Pre-need Plans and PNUCA

On May 10, 2007, the SEC issued Pre-need Rule 31, as amended, which adopted the revised accounting standards and chart of accounts that shall be considered the generally accepted accounting principles for pre-need companies in the Philippines. This Amended Pre-need Rule 31 became effective for interim financial statements covering periods ended June 30, 2007 and onwards, and for annual financial statements for the period ended December 31, 2007 and thereafter.



For presentation purposes:

- a. The PNR calculated under the Amended Rule have been presented in the balance sheet as PNR account and changes in PNR have been included in the “Cost of contracts issued” account in the statement of income.
- b. IPR has been presented as “Other Reserves” account in the balance sheet and changes have been included in the “Cost of contracts issued” account in the statement of income.
- c. Documentary stamp tax and SEC registration fees have been included in the “Cost of contracts issued” in the statement of income.
- d. Group life insurance expense, commissions, and service fees have been included in the “Other direct costs and expenses” account in the statement of income.

The following are the more significant provisions under the Amended Pre-Need Rule 31:

Trust funds

- a. The net asset value in the trust funds shall be at least equal to the required PNR as determined by a qualified actuary using the method prescribed in this Rule.
- b. All requirements under the rules and regulations as may be promulgated by the SEC on trust funds shall be complied with.
- c. The recognition and measurement of the assets in the trust funds shall be in accordance with PAS 39, PAS 40, and other applicable standards, depending on the composition of the fund.
- d. The component assets and liabilities of the trust funds shall be presented separately in the notes to financial statements.

Pre-need reserves

- a. PNR shall be set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contracts.
- b. In recognizing PNR for educational and pension plans, the general requirements of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, on provisioning and the specific methodology provided under this item shall be complied with by the Company. For life plans, the requirements of PFRS 4, *Insurance Contracts*, shall be complied with by the Company.
- c. The amount recognized as a provision to cover the PNR shall be 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 shall be taken into account in reaching the best estimate of a provision.
- d. Since the effect of the time value of money for pre-need plans is material, the amount of provision shall be the present value of the funding expected to be required to settle the obligation with due consideration of the different probabilities as follows:
 - (i) On Currently-Being-Paid Plans
 - Provision for termination values applying the surrender rate experience of the Company. The trend of surrender rate experience shall be disclosed in the Company’s notes to financial statements (see Note 3); and



- 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 approved hurdle rate per Product Model of the Company;
- (ii) On Lapsed Plans within the Allowable Reinstatement Period
- Provision for termination values applying the reinstatement experience of the company. The trend of reinstatement experience shall be disclosed in the Company's notes to financial statements (see Note 3);
- (iii) On Fully Paid Plans
- For those due for payment within the next five years, the reserve shall be the present value of future maturity benefits discounted at the attainable rate, as determined and certified by the Company's trustee using industry best practices and principles which shall be indicated in such certification; and
 - For those not yet due for payment within the next five years, the reserves shall be the present value of future maturity benefits discounted at the approved hurdle rate per Product Model of the Company.
- e. Future events that may affect the foregoing amounts shall be reflected in the amount of provision for PNR where there is sufficient objective evidence that they will occur.
- f. The rates of surrender, cancellation, reinstatement, utilization, and inflation when applied, must consider the actual experience of the company in the last three years, or the industry, in the absence of a reliable Company experience.
- g. The computation of the foregoing assumptions shall be validated by the internal qualified actuary of the pre-need company. His or her validation report shall be provided to its external auditors for purposes of statutory audit of the financial statements of the Company, and shall be submitted to the IC as a separate report.
- h. The probability of pre-termination on surrender of fully paid plans shall be considered in determining the PNR of fully paid plans. A pre-termination experience on fully paid plans of 5% and below shall be considered insignificant. In such cases, derecognition of liability shall be recorded at pre-termination date.
- i. The disclosure requirement under PAS 1 relative to methods and assumptions used to estimate the PNR, including the sensitivity of the PNR amount, shall be complied with.
- j. Any excess in the amount of the trust funds as a result of the revised reserving method shall neither be released from the fund nor be credited to offset against future required contributions.

Insurance premium fund

This represents corporate assets that are restricted to cover the payment of insurance premiums after the paying period of the pre-need plan. This shall be equal to the amount computed for the IPR under paragraph 13 of Amended Pre-need Rule.

Other reserves

The Company shall set-up other provisions in accordance with PAS 37 to cover obligations such as IPR, pension bonus, and trust fund deficiency.



Unless the IC shall so specifically require, a company may, at its option, set up other provisions as a prudent measure.

Premium revenues

Premiums from sale of pre-need plans shall be recognized as earned when collected. When premiums are recognized as income, the related cost of contracts shall be computed with the result that benefits and expenses are matched with such revenue.

Trust fund income

Income generated by the trust fund shall be included in the "Investment in trust funds" account under the asset section of the balance sheet.

The amount of the trust fund income shall be disclosed in the notes to the financial statements (see Note 7). The portion of the retained earnings representing the trust fund income shall be automatically restricted to payments of benefits of plan holders and such other related payments as allowed under the Pre-Need Rules.

Cost of contracts issued

This account pertains to:

- 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 developments, the amount shall be deducted from the "Cost of contracts issued" of the current period. In case of material prior period errors, the requirements of PAS 8 shall be complied with by the pre-need company;
- b. amount of trust funds contributed during the year; and
- c. documentary stamp tax and SEC registration fees.

The foregoing item shall be presented separately on the face of the statement of income.

SEC Interpretative Bulletin No. 1, Series of 2008

On January 17, 2008, SEC issued a bulletin to guide pre-need corporations, pre-need actuaries, and pre-need external auditors on the implementation of Pre-Need Rule 31, as amended, Accounting Standards for Pre-Need Plans and PNUCA.

The more significant provisions of this bulletin are as follows:

Pre-need reserves

The PNR or the reserve for education plan, life plan, and pension plan, represents present value of future trust fund contributions. The PNR of the three plan types should be maintained separately as they differ in treatment and assumptions. The amount indicated as PNR shall be the same as that stated in the actuarial valuation report and audited financial statements with the required disclosures.

Discount rate

The Company should compute the PNR using the SEC-approved hurdle rate per product model for currently-being-paid plans and fully-paid plans whose benefit payments are not due within the next five years.

The Company may also compute the present value of its liabilities using a lower discount rate other than the SEC-approved hurdle rate and the difference between the two computations shall be booked under the account "Other Reserves" in the audited financial statements, per Pre-Need Rule 31, as amended.



Other reserves

Under the account “Other reserves,” the Company may, at its option and as a prudent measure, set up other provisions. Thus, the “Other reserves” account may include the following items:

- a) general administrative expense after the paying period;
- b) paid-up capital reserves;
- c) reserve for the difference in the PNR computation using a rate other than the SEC-approved hurdle rate; and
- d) other reserves as may be allowed by the Commission.

IC Circular Letter No. 23-2012

On November 28, 2012, the IC issued Circular No. 23-2012, *Valuation of Transitory Pre-Need Reserves*. This provides regulatory leeway for old basket plans, previously approved by the SEC, and the valuation of pre-need reserves starting as of year-end 2012 shall be governed by the following:

The transitory discount interest rates per year used in valuation of PNR shall not exceed the lower of attainable rates as certified by the Trustee, and the following rate below:

<u>Year</u>	<u>Discount Interest Rates</u>
2012 – 2016	8.00%
2017	7.25%
2018	6.50%
2019 and onwards	6.00%

To effect a smooth transition in the valuation of reserves for old basket of plans, IC shall prescribe the TPNR. A maximum transition period of ten years shall be observed in the implementation of TPNR.

For each pre-need plan categories, namely education, pension, and life plans, the TPNR shall be computed annually on all old basket of plans outstanding on the 31st of December of each year from 2012 to 2021 using the discount rate provided in the table above. If the actual trust fund balance is higher than or equal to the resulting PNR then the liability to be set up shall be the PNR. However, if the resulting pre-need reserve is greater than the actual trust fund balance at the end of the year, the TPNR shall be computed in accordance with the schedule provided.

The actual trust fund balance shall be the trust fund balance at the end of the year net of any receivables by the pre-need company from the trustee for contractual benefits outstanding as of the end of the year.

The TPNR liability based on the above schedule shall be recognized and booked each year. The trust fund deficiency shall be recognized and booked each year. The trust fund deficiency shall be funded by the pre-need company within 60 days from April 30 following the valuation date.

5. Cash and Cash Equivalents and Short-term Cash Investments

Cash and cash equivalents consist of:

	2016	2015
Cash on hand and in banks	₱771,949	₱1,136,120
Cash equivalents	4,900,000	1,018,890
	₱5,671,949	₱2,155,010



Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term investment rates.

Short-term cash investments amounting to ₱50.95 million and ₱58.25 million as of December 31, 2016 and 2015, respectively, are investments in banks with maturities of more than three months to one year from dates of acquisition and earn interest at the prevailing market rates.

Interest income earned from cash and cash equivalents, and short-term cash investments amounted to ₱1.37 million and ₱1.28 million in 2016 and 2015, respectively.

6. Available-for-sale Financial Assets

Available-for-sale financial assets consist of investments in equity securities amounting to ₱14.31 million and ₱12.15 million as of December 31, 2016 and 2015, respectively. These pertain to shares of stock of a top Philippine telecommunication company, and related parties – CDC and City & Land Developers, Incorporated (CLDI).

The movement in “Reserve for fluctuation in value of available-for-sale financial assets” is as follows:

	2016	2015
Balance at beginning of year	₱7,946,656	₱9,218,467
Changes in fair value	2,160,969	(1,271,811)
Balance at end of year	₱10,107,625	₱7,946,656

The fair values of available-for-sale financial assets were determined based on published prices in the active market. Dividend income from these available-for-sale financial assets amounted to ₱0.33 million and ₱0.24 million in 2016 and 2015, respectively and included under “Other income” account in the statement of income.

There were no acquisition and disposals of available-for-sale financial assets in 2016 and 2015.

7. Investments in Trust Funds

Pursuant to the provisions of the SEC Memorandum Circular No. 6, *Guidelines on the Management of the Trust Fund of Pre-Need Corporation* (SEC Circular No. 4), the SEC requires, among others, that companies engaged in the sale of pre-need plans and similar contracts to planholders set up a trust fund to guarantee the delivery of property or performance of service in the future. Withdrawals from these trust funds are limited to, among others, payments of pension plan benefits, bank charges and investment expenses in the operation of the trust funds, termination value payable to plan holders, contributions to the trust funds of cancelled plans, and final taxes on investment income of the trust funds.

In accordance with the SEC requirements, the Company has funds deposited with two local trustee banks aggregating to ₱36.27 million and ₱38.03 million as of December 31, 2016 and 2015, respectively, and are recorded under “Investments in trust funds” account in the balance sheet.



The details of the Company's investments in trust funds as of December 31 are as follows:

	2016	2015
Assets		
Cash and cash equivalents:		
Cash in banks	₱27,549	₱10,733
Cash equivalents	4,212,644	6,867,142
Financial assets at FVPL	4,724,931	4,593,574
Available-for-sale financial assets	20,089,986	19,531,128
Loans and receivables - net	366,470	391,702
Investment properties	6,782,000	6,480,000
Other assets	424,013	432,484
	36,627,593	38,306,763
Liabilities		
Taxes payable	40,112	41,824
Trust fees payable	31,450	12,068
Other liabilities	283,097	218,519
	354,659	272,411
	₱36,272,934	₱38,034,352
Net Equity		
Fund balances at beginning of year	₱38,034,352	₱38,452,383
Additional contributions	2,684,897	3,062,709
Withdrawals during the year	(7,090,313)	(3,673,351)
Unrealized re-measurement gains on investment properties	302,000	318,000
Trust fund income	1,548,383	477,071
Other comprehensive income (loss) for the year:		
Net changes in available-for-sale financial assets	777,665	(602,460)
Other adjustments	15,950	-
Fund balances at end of year	₱36,272,934	₱38,034,352

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

	2016	2015
Current portion	₱4,489,499	₱7,243,132
Noncurrent portion	31,783,435	30,791,220
Fund balance at end of year	₱36,272,934	₱38,034,352

The investment properties in the table above are carried at fair value. For the purpose of financial reporting to IC, the Company, however, values investment properties under the trust funds at cost. Accordingly, the following are the values submitted to the IC and as certified by the trustees:

	2016	2015
Investment properties, beginning	₱6,480,000	₱6,162,000
Unrealized re-measurement gain during the year	302,000	318,000
Investment properties, ending	6,782,000	6,480,000
Accumulated unrealized re-measurement gain	(2,484,020)	(2,182,020)
Investment properties reported to IC	₱4,297,980	₱4,297,980



The fund balances reported to IC are as follows:

	2016	2015
Fund balances	₱36,272,934	₱38,034,352
Accumulated unrealized re-measurement gain on investment properties	(2,484,020)	(2,182,020)
Total fund balances as reported to IC	33,788,914	35,852,332
Less: current portion	4,489,499	7,243,132
Fund balance, net of current portion	₱29,299,415	₱28,609,200

a) Cash equivalents

Cash equivalents comprise time deposits and short-term investments with maturity period of five days and 28 days which earn an interest of 0.30% to 3.20%.

b) Financial assets at FVPL

The investment in trust fund includes debt securities amounting to ₱4.72 million and ₱4.59 million as of December 31, 2016 and 2015, respectively, recognized as financial assets through profit or loss which will mature after three to five years.

c) Available-for-sale financial assets

	2016	2015
<i>At fair value</i>		
Debt securities	₱18,483,180	₱18,079,464
Equity securities - listed	1,606,806	1,451,664
Total available-for-sale financial assets at fair value held in trust funds	₱20,089,986	₱19,531,128

The following presents the breakdown of investments in government securities by contractual maturity dates as of December 31:

	2016	2015
Due after one year to three years	₱-	₱-
Due after three years to five years	22,052,194	21,494,849
	₱22,052,194	₱21,494,849

Mark to market gain (loss) of available-for-sale financial assets amounted to ₱0.78 million and (₱1.00 million) in 2016 and 2015, respectively. Impairment loss recognized in 2015 amounted to ₱0.40 million (nil in 2016).

The movements in reserve for fluctuation in value of available-for-sale financial assets held in trust funds follow:

	2016	2015
Balances at beginning of year	₱489,137	₱1,091,597
Changes in fair value during the year	777,665	(1,001,308)
Impairment loss transferred from equity to profit or loss	-	398,848
Balances at end of year	₱1,266,802	₱489,137



d) Loans and Receivables

	2016	2015
Loans	₱179,868	₱204,299
Less allowance for doubtful accounts	1,799	2,043
Net loans	178,069	202,256
Accrued interest receivable	188,401	189,446
	₱366,470	₱391,702

e) Investment properties

Based on the appraisal reports of the Company's professional SEC-accredited and independent appraiser (i.e., Asian Appraisal Co., Inc.), the investment properties' fair value amounted to ₱6.78 million and ₱6.48 million as of December 31, 2016 and 2015, respectively. The latest valuation report dated February 7, 2017 was for the Company's investment properties held in trust fund as of December 31, 2016. Original cost of the properties amounted to ₱4.30 million as of December 31, 2016 and 2015.

Changes in the fair value of the investment properties is recognized under "Unrealized re-measurement gains on investment properties" under statement of income amounting to ₱0.30 million in 2016 and ₱0.32 million in 2015.

For the purpose of financial reporting to the IC, the investment properties are measured at cost beginning 2014.

f) Other liabilities

Other liabilities comprise of rental deposits of lessees of some investment properties and custody fee.

Pre-Need Code of the Philippines

On March 8, 2010, the IC issued the IRR of the Republic Act No. 9829 otherwise known as the "Pre-Need Code of the Philippines". Pursuant to the authority vested in the IC under Section 58 of the Pre-Need Code, the following are the more significant provisions as stated in Rule 8 Section 34 and 36:

Trust fund

A trust fund shall be established separately for each type of plan with the trust department of a trust company, bank, or investment house doing business in the Philippines. No trust fund shall be established by a pre-need company with an affiliate trust entity subject to Section 38 thereof.

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 funds of a pre-need company shall be limited to the following and subject to limitations to wit:

- 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 three hundred sixty five (365) days or less. This category includes:
 - 1) Government securities which shall not be less than ten percent (10%) of the trust fund amount;



- 2) Savings/time deposits and unit investment trust funds maintained with and managed by a duly authorized bank with satisfactory examination rating as of the last examination by the Bangko Sentral ng Pilipinas (BSP);
- 3) Commercial papers duly registered with the SEC 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.

The maximum exposure to long-term commercial papers shall not exceed fifteen percent (15%) of the total trust fund amount while the exposure to each commercial paper issuer shall not exceed ten percent (10%) of the allocated amount; and

- 4) Direct loans to corporations which are financially stable, profitable for the last three (3) 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 (4) years.

Direct loans to planholders are exempt from the limitations set forth under Section 34; provided, that such loans to planholders shall not exceed ten percent (10%) of the total trust fund amount.

- b) Equities – Investments 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 hereunder; 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 (3) 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 (3) years from the effectivity of this Act.



- 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 (3) 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 (3) years from the effectivity of this Code.

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 Commission 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 Commission 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 oftener than once every five (5) years. The first adjustment hereunder may be made no earlier than five (5) 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.

The accounting policies adopted by the Company for its investments in trust funds are discussed in Note 2.

The Company's liquidity reserve amounting to about ₱26.12 million and ₱28.10 million as of December 31, 2016 and 2015, respectively, in its investments in trust fund comprised 77% and 78% of the net asset value of the trust funds as of these dates, respectively.

As of December 31, 2016 and 2015, the Company is not compliant with the required 10% mix of real estate properties held in trust fund. Pursuant to IC's instruction to the Company dated February 18, 2016, the Company intends to level off real estate properties through sale in 2016. Management believes, in consultation with the Company's legal counsel, any eventual liability arising from this matter is not material to the financial statements. In February 2017, the Company was able to sell one of the real estate properties held in trust fund rendering the Company compliant with the IC's limit for investment in real estate.

Pre-need and other reserves

In the opinion of management and the independent actuary, the Company's net contractual liabilities (i.e., TPNR, reserve for trust fund deficiency) amounting to ₱44.13 million and ₱49.37 million in 2016 and 2015, respectively, which is based on the actuarial reports, closely reflect actual potential plan claims as of those dates.



In accordance with IC Circular Letter No. 23-2012 issued on November 28, 2012, the Company computed for the TPNR. The TPNR (also referred to as “Pre-need reserves”) amounted to ₱31.51 million and ₱33.84 million as of December 31, 2016 and 2015, respectively, and is shown under “Pre-need reserves” account in the balance sheet.

The following trust fund deficiency amounting to ₱2.52 million as of December 31, 2016 should be placed in the trust fund within 60 days from April 30 following the valuation date:

Pre-need reserves as of December 31, 2016	₱34,036,055
Adjusted fund balance available for reserves per actuarial report	31,513,795
Trust fund deficiency	₱2,522,260

Trust fund deficiency as of December 31, 2015 amounting to ₱2.59 million was funded by the Company within the deadline set forth by IC.

The current portion of pre-need reserve amounted to ₱1.20 million and ₱2.73 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, total reserves consist of the following:

	2016	2015
Pre-need reserves	₱31,513,795	₱33,837,950
Other reserves:		
Reserve for trust fund deficiency	12,611,300	15,534,345
Pension bonus reserve	785,847	971,577
Insurance premium reserve (Note 8)	196,570	235,373
	₱45,107,512	₱50,579,245

Although not required, in 2016 and 2015, the BOD has deemed it prudent and opted to set-up the difference in net contractual liabilities and transitory pre-need reserve amounting to ₱12.61 million (to be funded for the next 5 years) and ₱15.53 million (to be funded for the next 6 years) under “Other reserves” account as of December 31, 2016 and 2015, respectively.

8. Insurance Premium Fund

Insurance premium fund amounting to ₱0.25 million and ₱0.30 million as of December 31, 2016 and 2015, respectively, was invested in a separate time deposit account in a bank. This is restricted to cover the payment of insurance premium after the paying period.

Insurance premium reserve, included under “Other reserves” account in the balance sheet amounted to ₱0.20 million and ₱0.24 million as of December 31, 2016 and 2015, respectively (see Note 7).

9. Installment Contracts Receivable

Installment contracts receivable arises from sales of real estate properties and is collectible in monthly installments for periods ranging from 1 to 10 years which bears monthly interest rates of 0.67% to 2.00% in 2016 and in 2015, computed on the diminishing balance. Installment contracts receivable from sale of real estate properties amounted to ₱9.84 million and ₱14.97 million as of December 31, 2016 and 2015, respectively.



The portion due within one year amounted to ₱2.75 million and ₱5.87 million in 2016 and 2015, respectively.

Interest income earned from installment contracts receivable amounted to ₱1.57 million and ₱2.56 million in 2016 and 2015, respectively.

The Company, CDC, CI, and CLDI (collectively referred as the Group) entered into a contract of guaranty under Retail Guaranty Line in the amount of ₱2.00 billion in 2010 with Home Guaranty Corporation (HGC). The amount of installment contracts receivable enrolled by the Company amounted to ₱2.00 million and ₱10.00 million in 2016 and 2015, respectively. Interest income related to this arrangement amounted to ₱0.59 million and ₱1.21 million in 2016 and 2015, respectively. The Company paid a guarantee premium of 1% based on the outstanding principal balance of the receivables enrolled in 2016 and 2015 (see Note 14).

10. Real Estate Properties for Sale

Real estate properties for sale consist of condominium units for sale. The movements of real estate properties for sale are as follows:

	2016	2015
Balances at beginning of year	₱5,302,463	₱7,396,620
Transfer from investment properties (Note 11)	2,223,185	–
Disposals (cost of real estate sales)	(2,223,185)	(3,866,655)
Other adjustments	–	1,772,498
Balances at end of year	₱5,302,463	₱5,302,463

Other adjustments include the effect of stating repossessed real estate properties during the year at fair value less cost to sell.

11. Investment Properties

Movements in investment properties are as follows:

	2016	2015
Cost		
Balances at beginning of year	₱187,207,534	₱180,426,086
Transfer to real estate properties for sale (Note 10)	(2,461,092)	–
Additions (Note 18)	649,281	6,781,448
Balances at end of year	185,395,723	187,207,534
Accumulated Depreciation		
Balances at beginning of year	6,875,102	2,999,333
Transfer to real estate properties for sale (Note 10)	(237,907)	–
Depreciation (Note 14)	7,378,565	3,875,769
Balances at end of year	14,015,760	6,875,102
Net Book Values	₱171,379,963	₱180,332,432

The fair value of investment properties amounted to ₱251.14 million and ₱243.82 million as of December 31, 2016 and 2015, respectively (see Note 19), which is based on the current selling price of comparable condominium units.



The Company has no restrictions on the realizability of its investment properties and has no contractual obligations to purchase, construct, or develop the investment properties.

Some investment properties are rented out at different rates, generally for a one-year term renewable every year. Rent income from real estate properties for lease amounted to ₱11.61 million and ₱3.48 million in 2016 and 2015, respectively.

Direct operating expenses on investment properties amounting to ₱7.38 million and ₱3.88 million pertain to depreciation charges in 2016 and 2015, respectively (see Note 14).

12. Other Assets

Other assets consist of:

	2016	2015
Purchased condominium units under construction	₱19,421,038	₱-
Retirement plan assets (Note 16)	376,621	502,148
Deposits and others	116,999	159,737
	₱19,914,658	₱661,885

In November 2016, the Company purchased 15 condominium units of One Taft Residences (OTR) from CLDI amounting to ₱19.42 million. The expected completion date of OTR is September 2022 (see Note 18).

13. Compliance with PNUCA

In compliance with the SEC Circulars mentioned in Note 4, the following information as of December 31 is disclosed:

	2016	2015
Total premium collections	₱114,143	₱303,844
Contract price of lapsed plans outstanding	72,100	72,100
Contract price of lapsed plans reinstated	123,900	178,100
Number of lapsed plans outstanding	1	1
Number of lapsed plans reinstated	3	3

14. General and Administrative Expenses

General and administrative expenses consist of:

	2016	2015
Depreciation (Note 11)	₱7,378,565	₱3,875,769
Personnel (Note 15)	3,189,469	1,928,705
Taxes and licenses	1,187,229	553,873
Membership dues	1,026,262	826,551
Professional fees	366,621	170,947
Rentals	167,661	136,103
Repairs and maintenance	92,447	56,874
Outside services	64,637	32,141

(Forward)



	2016	2015
Insurance (Note 9)	P60,494	P118,431
Loss on forfeitures	-	684,191
Others	315,967	198,164
	P13,849,352	P8,581,749

15. Personnel Expenses

Personnel expenses consist of:

	2016	2015
Salaries and wages	P1,256,285	P998,772
Bonuses and other employee benefits (Note 16)	1,029,425	692,934
Commissions	903,759	236,999
	P3,189,469	P1,928,705

16. Employee Benefits

The Company, jointly with affiliated companies, has a funded, noncontributory defined benefit retirement plan, covering all of its permanent employees. This provides for payment of benefits to covered employees upon retirement subject to certain condition which is based on a certain percentage of employee's final monthly salary and the number of years of service. The fund is administered by a trustee bank under the supervision of the retirement committee of the plan. The retirement committee is responsible for the investment strategy of the plan.

The details of net retirement benefits cost, which is included in "Personnel expense" account (see Note 15) are as follows:

	2016	2015
Current service cost	P41,524	P41,081
Net interest income on net defined benefit obligation	(24,003)	(22,950)
Net retirement benefits cost	P17,521	P18,131

Re-measurement loss on defined benefit pension plan recognized as other comprehensive income comprised the following:

	2016	2015
Actuarial loss (gain) on defined benefit obligation		
Due to change in financial assumption	P108,173	(P23,951)
Due to experience adjustments	40,315	-
Loss on plans assets excluding amounts included in net interest cost	4,200	73,528
Re-measurement loss on defined benefit obligation	P152,688	P49,577



Movements in the net retirement plan assets during the years ended December 31 are as follows:

	2016	2015
Beginning balances	P502,148	P525,174
Retirement benefits cost	(17,521)	(18,131)
Contributions	44,682	44,682
Re-measurements recognized in other comprehensive income	(152,688)	(49,577)
Ending balances	P376,621	P502,148

The details of the net retirement plan assets, which are included in “Other Assets” account in the balance sheet, are as follows:

	2016	2015
Present value of defined benefit obligation	P1,534,485	P1,283,139
Fair value of plan assets	1,911,106	1,785,287
Retirement plan assets	(P376,621)	(P502,148)

Changes in the accumulated re-measurement on defined benefit plan are as follows:

	2016	2015
Beginning balances	(P242,256)	(P207,552)
Re-measurement loss on defined obligation plan	(106,882)	(34,704)
Ending balances	(P349,138)	(P242,256)

Changes in the present value of defined benefit obligation are as follows:

	2016	2015
Beginning balances	P1,283,139	P1,213,001
Current service cost	41,524	41,081
Interest cost on defined benefit obligation	61,334	53,008
Actuarial gain	148,488	(23,951)
Ending balances	P1,534,485	P1,283,139

Changes in the fair value of plan assets are as follows:

	2016	2015
Beginning balance	P1,785,287	P1,738,175
Interest income included in net interest cost	85,337	75,958
Contributions	44,682	44,682
Actual loss excluding amount recognized in net interest cost	(4,200)	(73,528)
Ending balances	P1,911,106	P1,785,287



The major categories of plan assets of the Company with its affiliated companies as a percentage of the fair value of net plan assets are as follows:

	2016	2015
Cash and cash equivalents	48.30%	44.81%
Investment properties	43.97%	48.70%
Investments in equity securities	7.89%	6.36%
Receivables	0.36%	0.64%
Payables	(0.52%)	(0.51%)
	100.00%	100.00%

Cash and cash equivalents consist of saving deposits and short-term time deposits with maturities of less than three months. Investments in equity securities consist of investment in shares of stock of listed companies. Investments in equity securities have quoted market prices in an active market. Loans and receivables include loans to individuals and accrued interest income. Investment properties pertain to condominium units which will be used for lease and are stated at fair value.

The Company expects to contribute ₱0.08 million to the retirement fund in 2017.

The Company does not currently employ any asset-liability matching.

The latest actuarial valuation of the plan is as of December 31, 2016. The principal assumptions used in determining retirement benefits cost for the Company's plan as of January 1 are as follows:

	2016	2015
Discount rate	4.78%	4.37%
Future salary increases	3.00%	3.00%
	1994 US Group	1994 US Group
	Annuity	Annuity
Mortality rate	Mortality	Mortality
	1952	1952
Disability rate	Disability Study	Disability Study

As of December 31, 2016, the discount rate is 5.03% and the future salary increase is 4.00%.

There are two employees covered by the plan as of December 31, 2016 and 2015.

The defined benefit obligation is subject to several key assumptions. The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2016 and 2015, assuming all other assumptions were held constant:

	Increase (decrease) in Basis Points	Increase (decrease) in defined benefit obligation	
		2016	2015
Discount rate	+0.50%	(₱71,951)	(₱65,615)
	-0.50%	76,007	69,518
Salary increase rate	+1.00%	155,598	143,708
	-1.00%	(142,067)	(130,331)



Shown below is the maturity analysis of the undiscounted benefit payments as of December 31:

Plan year	Number of retirees	Total benefits	
		2016	2015
More than 5 years to 10 years	1	₱4,117,598	₱3,710,239
More than 20 years	1	3,419,134	2,095,470
	2	₱7,536,732	₱5,805,709

The average duration of defined benefit obligation is 17 years and 16 years in 2016 and 2015, respectively.

17. Income Taxes

- a. Benefits from income tax consists of:

	2016	2015
Current	₱288,024	₱114,502
Deferred	(688,905)	(604,837)
	(400,881)	(490,335)
Final tax on interest income	273,799	255,073
	(₱127,082)	(₱235,262)

The Company's current provision for income tax represents the MCIT in 2016 and 2015.

- b. The components of deferred tax liabilities are as follows:

	2016	2015
Deferred income taxes recognized in profit or loss:		
Deferred income tax assets on accrued expenses	₱187,592	₱156,565
Deferred income tax liabilities on:		
Unrealized gain on real estate transactions	971,916	1,637,942
Retirement plan assets	262,616	254,468
	1,234,532	1,892,410
	1,046,940	1,735,845
Deferred income tax asset recognized in other comprehensive income - actuarial loss on defined benefit plan	149,630	103,823
Net deferred income tax liabilities	₱897,310	₱1,632,022



- c. The reconciliation of income tax computed at the statutory tax rates to provision for income tax follows:

	2016	2015
Income tax at statutory tax rate	₱1,056,652	₱661,477
Additions to (reductions in) income tax resulting from:		
Nondeductible increase (nontaxable decrease) in pre-need reserves and reserves for trust fund deficiency	(1,574,160)	(1,296,895)
Nondeductible plan benefit expense	1,201,683	231,810
Trust fund income already subjected to final tax (Note 7)	(464,515)	(143,121)
Interest income subjected to final tax (Note 5)	(410,698)	(382,610)
Nontaxable interest income (Note 9)	(175,256)	(363,457)
Excess of MCIT over RCIT	288,024	114,502
Nontaxable dividend income (Note 6)	(97,691)	(71,581)
Nontaxable unrealized re-measurement gain on investment properties (Note 7)	(90,600)	(95,400)
Application of NOLCO	(134,320)	-
Deductible temporary differences with unrecognized deferred income tax assets:		
NOLCO	-	854,940
Benefit from income tax	(400,881)	(490,335)
Provision for final tax on interest income	273,799	255,073
Benefit from income tax	(₱127,082)	(₱235,262)

- d. Deferred income tax asset was not recognized in respect of the following as management believes this may not be realized in the future prior to its expiration:
- i. NOLCO expiring in 2018 amounting to ₱2.40 million and ₱2.85 million as of December 31, 2016 and 2015, respectively, which can be claimed as deduction from future taxable income; and
 - ii. excess MCIT over RCIT expiring in 2019 and 2018 amounting to ₱0.29 million and ₱0.11 million as of December 31, 2016 and 2015, respectively, which can be claimed as credit against future RCIT.

18. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.



The Company discloses the nature of the related party relationship and information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements, including, as a minimum, the amount of outstanding balances and its terms and conditions including whether they are secured, and the nature of the consideration to be provided in settlement.

The Company, in the normal course of business, has the following transactions and account balances with related parties:

2016	Amount of Transactions	Outstanding balance as of December 31, 2016		Terms and Condition
		Receivable	Payable*	
Nature of transaction				
Ultimate Parent (CI)				
Sharing of expenses charged by CI (a)	₱111,971	₱-	₱39,301	To be settled in cash; due and demandable; non-interest-bearing
Parent Company (CDC)				
Sharing of expenses charged by CDC (a)	109,249	-	30,751	To be settled in cash; due and demandable; non-interest-bearing
Payment of registration expense (a)	649,281	-	-	To be settled in cash; due and demandable; non-interest-bearing
Affiliate (CLDI)				
Purchase of real estate properties (a)	19,421,038	-	150,000	To be settled in cash; due and demandable; non-interest-bearing
Retirement plan				
Contribution to the fund (b)	44,682	-	-	Settled in cash
		₱-	₱220,052	

2015	Amount of Transactions	Outstanding balance as of December 31, 2015		Terms and Condition
		Receivable	Payable*	
Nature of transaction				
Ultimate Parent (CI)				
Sharing of expenses charged by CI (a)	₱151,271	₱-	₱151,271	To be settled in cash; due and demandable; non-interest-bearing
Payment of registration expense (a)	6,781,448	-	-	To be settled in cash; due and demandable; non-interest-bearing
Parent Company (CDC)				
Partial payment of contract price of real estate property purchased in 2013 (a)	670,000	-	140,000	To be settled in cash; due and demandable; non-interest-bearing
Sharing of expenses by CDC (a)	53	-	53	To be settled in cash; due and demandable; non-interest-bearing
Retirement plan				
Contribution to the fund (b)	44,682	-	-	Settled in cash
		₱-	₱291,324	

*recorded under "Accounts payable and accrued expenses" account in the balance sheet.



- a. In 2016 and 2015, the Company paid ₱0.65 million and ₱6.78 million registration expense for the condominium units purchased from CDC and CI, respectively. In 2016, the Company also purchased units of OTR from CLDI amounting to ₱19.42 million (see Notes 11 and 12).

The Company has various shared expenses with other affiliates pertaining to general and administrative expenses such as salaries, transportation, association dues, professional fees, and rent.

- b. The Company, jointly with affiliated companies under common control, has a trust fund for the retirement plan of their employees. The trust fund is being maintained by a third-party trustee bank under the supervision of the Retirement Committee of the plan. The Retirement Committee is responsible for the investment strategy of the plan. The Company's share on the fair value of plan assets amounted to ₱1.91 million and ₱1.79 million as of December 31, 2016 and 2015, respectively (see Note 16).

The major categories of plan assets are investment properties, cash and cash equivalents, investments in equity securities and loans and receivables (see Note 16). Investments in equity securities of plan assets include investment in shares of CDC. The third-party trustee bank exercises the voting rights over the shares. The fair value of the investment in CDC amounted ₱6.60 million and ₱4.76 million as of December 31, 2016 and 2015, respectively, with original cost of ₱3.16 million. Unrealized gain on changes of fair value of these investments amounted to ₱3.45 million and ₱1.61 million as of December 31, 2016 and 2015, respectively. Loans and receivables of plan assets include installment contracts receivable purchased in prior years on a non-recourse basis from CDC amounted to ₱0.25 million and ₱0.49 million as of December 31, 2016 and 2015, respectively.

Contributions to the fund amounted to ₱0.04 million in 2016 and 2015 (see Note 16).

- c. The Company has no standard arrangement with regard to the remuneration of its existing officers aside from the compensation received or any other arrangements in the employment contracts and compensatory plan. The Company does not have any arrangements for stock warrants or options offered to its employees.
- d. Key management personnel did not receive any compensation in 2016 and 2015.

19. Financial Instruments

Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents, and short-term cash investments. The main purpose of these financial instruments is to finance the Company's operations. The Company's other financial instruments consist of available-for-sale financial assets, which are held for investing purposes and investments in trust funds to cover pre-need reserves obligation. The Company has various other financial instruments such as installment contracts receivables, other receivables, and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the Company's financial instruments are credit risk, equity price risk, and liquidity risk. The BOD reviews and approves policies for managing these risks and they are summarized as follows:

Credit risk

Credit risk arises when the Company will incur a loss because its customers, clients, or counterparties failed to discharge their obligations. The Company trades only with recognized,



creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis with the result that the Company's exposure to bad debts is not significant. The risk is further mitigated because the Company holds the title to the real estate properties with outstanding installment contracts receivable balance and the Company can repossess such real estate properties upon default of the customer in paying the outstanding balance.

The Company's policy is to enter into transactions with a diversity of credit-worthy parties to mitigate any significant concentration of risk. There are no significant concentrations of credit risk in 2016 and 2015.

The tables below show the exposure to credit risk for the components of the balance sheet. The exposure as of December 31, 2016 and 2015 is shown at gross, before taking the effect of mitigation through the use of collateral agreements and other credit enhancement and at net, after taking the effect of mitigation through the use of collateral agreements and other credit enhancement.

Assets held in trust

December 31, 2016:

	Gross maximum Exposure	Fair value of collaterals	Net exposure	Financial effect of collaterals
Loans and receivables:				
Cash and cash equivalents	₱4,240,193	₱-	₱4,240,193	₱-
Receivable from:				
Plan holders	178,069	-	178,069	-
Accrued interest	188,401	-	188,401	-
Financial assets at FVPL	4,724,931	-	4,724,931	-
Total credit risk exposure	₱9,331,594	₱-	₱9,331,594	₱-

December 31, 2015:

	Gross maximum Exposure	Fair value of collaterals	Net exposure	Financial effect of collaterals
Loans and receivables:				
Cash and cash equivalents	₱6,877,875	₱-	₱6,877,875	₱-
Receivable from:				
Plan holders	202,256	-	202,256	-
Accrued interest	189,446	-	189,446	-
Financial assets at FVPL	4,593,574	-	4,593,574	-
Total credit risk exposure	₱11,863,151	₱-	₱11,863,151	₱-

Assets not held in trust

December 31, 2016:

	Gross maximum exposure	Fair value of collaterals	Net exposure	Financial effect of collaterals
Loans and receivables:				
Cash and cash equivalents, excluding cash on hand	₱5,671,449	₱-	₱5,671,449	₱-
Short-term cash investments	50,950,000	-	50,950,000	-
Installment contracts receivable	9,837,399	26,439,251	-	9,837,399
Refundable deposits under "Other assets"	109,488	-	109,488	-
Other receivables:				
Accrued interest	297,080	-	297,080	-
Advances to customers	142,693	-	142,693	-
Others	2,995	-	2,995	-
Total credit risk exposure	₱67,011,104	₱26,439,251	₱57,173,705	₱9,837,399



December 31, 2015:

	Gross maximum exposure	Fair value of collaterals	Net exposure	Financial effect of collaterals
Loans and receivables:				
Cash and cash equivalents, excluding cash on hand	₱2,154,510	₱-	₱2,154,510	₱-
Short-term cash investments	58,250,000	-	58,250,000	-
Installment contracts receivable	14,966,629	47,774,320	-	14,966,629
Refundable deposits under "Other assets"	154,104	-	154,104	-
Other receivables:				
Accrued interest	216,839	-	216,839	-
Advances to customers	708,606	-	708,606	-
Others	38,028	-	38,028	-
Total credit risk exposure	₱76,488,716	₱47,774,320	₱61,522,087	₱14,966,629

The tables below show the credit quality by class of asset for loan-related balance sheet lines based on the Company's credit rating system:

Assets held in trust

December 31, 2016:

	High Grade*	Medium Grade**	Impaired	Total
Loans and receivables:				
Cash and cash equivalents	₱4,240,193	₱-	₱-	₱4,240,193
Receivables from:				
Plan holders	-	178,069	-	178,069
Accrued interest	-	188,401	-	188,401
Financial assets at FVPL	4,724,931	-	-	4,724,931
	₱8,965,124	₱366,470	₱-	₱9,331,594

*High Grade - financial assets with reputable counterparties and which management believes to be reasonably assured to be recoverable.

**Medium Grade - financial assets for which there is low risk of default of collectivity from counterparties.

December 31, 2015:

	High Grade*	Medium Grade**	Impaired	Total
Loans and receivables:				
Cash and cash equivalents	₱6,877,875	₱-	₱-	₱6,877,875
Receivables from:				
Plan holders	-	202,256	-	202,256
Accrued interest	-	189,446	-	189,446
Financial assets at FVPL	4,593,574	-	-	4,593,574
	₱11,471,449	₱391,702	₱-	₱11,863,151

*High Grade - financial assets with reputable counterparties and which management believes to be reasonably assured to be recoverable.

**Medium Grade - financial assets for which there is low risk of default of collectivity from counterparties.



Assets not held in trust

December 31, 2016:

	High Grade*	Medium Grade**	Past Due But Not Impaired				Total
			< 30 days	30-60 days	61-90 days	Over 90 days	
Loans and receivables:							
Cash and cash equivalents, excluding cash on hand	₱5,671,449	₱-	₱-	₱-	₱-	₱-	₱5,671,449
Short-term cash investments	50,950,000	-	-	-	-	-	50,950,000
Installment contracts receivable	9,773,363	-	36,316	27,070	-	650	9,837,399
Refundable deposits	109,488	-	-	-	-	-	109,488
Other receivables:							
Accrued interest	297,080	-	-	-	-	-	297,080
Advances to customers	81,746	-	-	-	6,093	54,854	142,693
Others	2,995	-	-	-	-	-	2,995
	₱66,886,121	₱-	₱36,316	₱27,070	₱6,093	₱55,504	₱67,011,104

*High Grade - financial assets with reputable counterparties and which management is reasonably assured to be recoverable.

**Medium Grade - financial assets for which there is low risk of default of counterparties.

December 31, 2015:

	High Grade*	Medium Grade**	Past Due But Not Impaired				Total
			< 30 days	30-60 days	61-90 days	Over 90 days	
Loans and receivables:							
Cash and cash equivalents, excluding cash on hand	₱2,154,510	₱-	₱-	₱-	₱-	₱-	₱2,154,510
Short-term cash investments	58,250,000	-	-	-	-	-	58,250,000
Installment contracts receivable	14,862,044	-	80,491	22,364	-	1,730	14,966,629
Refundable deposits	154,104	-	-	-	-	-	154,104
Other receivables:							
Accrued interest	216,839	-	-	-	-	-	216,839
Advances to customers	604,917	-	-	-	8,895	94,794	708,606
Others	38,028	-	-	-	-	-	38,028
	₱76,280,442	₱-	₱80,491	₱22,364	₱8,895	₱96,524	₱76,488,716

*High Grade - financial assets with reputable counterparties and which management is reasonably assured to be recoverable.

**Medium Grade - financial assets for which there is low risk of default of counterparties.

Available-for-sale financial assets amounted to ₱14.31 million and ₱12.15 million as of December 31, 2016 and 2015, respectively. These investments are considered high-grade.

The following tables summarize the aging analysis of receivables:

Assets held in trust

December 31, 2016:

	Neither past due nor impaired		Past Due But Not Impaired	Impaired	Total
	Current	> One Year			
Receivables from:					
Plan holders	₱178,069	₱-	₱-	₱-	₱178,069
Accrued interest	188,401	-	-	-	188,401
	₱366,470	₱-	₱-	₱-	₱366,470

December 31, 2015:

	Neither past due nor impaired		Past Due But Not Impaired	Impaired	Total
	Current	> One Year			
Receivables from:					
Plan holders	₱202,256	₱-	₱-	₱-	₱202,256
Accrued interest	189,446	-	-	-	189,446
	₱391,702	₱-	₱-	₱-	₱391,702



Assets not held in trust

December 31, 2016:

	Current	> One Year	Past Due But Not Impaired			Over 90 days	Total
			< 30 days	30-60 days	61-90 days		
Installment contracts receivable	₱2,690,149	₱7,083,214	₱36,316	₱27,070	₱-	₱650	₱9,837,399
Other receivables:							
Accrued interest	297,080	-	-	-	-	-	297,080
Advances to customers	81,746	-	-	-	6,093	54,854	142,693
Others	2,995	-	-	-	-	-	2,995
	₱3,071,970	₱7,083,214	₱36,316	₱27,070	₱6,093	₱55,504	₱10,280,167

December 31, 2015:

	Current	> One Year	Past Due But Not Impaired			Over 90 days	Total
			< 30 days	30-60 days	61-90 days		
Installment contracts receivable	₱5,765,865	₱9,096,179	₱80,491	₱22,364	₱-	₱1,730	₱14,966,629
Other receivables:							
Accrued interest	216,839	-	-	-	-	-	216,839
Advances to customers	604,917	-	-	-	8,895	94,794	708,606
Others	38,028	-	-	-	-	-	38,028
	₱6,625,649	₱9,096,179	₱80,491	₱22,364	₱8,895	₱96,524	₱15,930,102

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Company assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Company determines allowance for each significant receivable on an individual basis. Among the factors that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. The Company also considers the fair value of the real estate collateralized in computing the impairment of the receivables. Receivables subjected to specific assessment are those classified under the installment contracts receivable accounts.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience, and other factors that may affect collectability.

Equity price risk

Equity price risk is the risk that the fair values of investments in equity securities will decrease as a result of changes in the market values of individual shares of stock. The Company is exposed to equity price risk because of investments in equity securities held by the Company as classified as available-for-sale financial assets. The Company employs the service of a third-party stockbroker to manage its investments in shares of stock.

Presented below is the table which demonstrates the sensitivity analysis of the Company's equity to a reasonably possible change in equity prices based on forecasted and average movements of equity prices (with all other variables held constant).

	Change in equity price	Effect on equity
2016	+/-0.07	+/-₱1,020,502
2015	+/-0.16	+/-1,894,156



Liquidity risk

Liquidity risk is defined as the risk that the Company will not be able to settle or meet its obligations on time or at a reasonable price. The Company manages its liquidity needs by carefully monitoring cash outflows due in a day-to-day business.

The tables below summarize the maturity analysis of the Company's financial assets and financial liabilities, including benefits payable:

Assets not held in trust

December 31, 2016:

	On demand	90 days or less	91-180 Days	181-365 days	Above 1 year	Total
Financial assets						
Cash and cash equivalents	₱5,671,949	₱-	₱-	₱-	₱-	₱5,671,949
Short-term cash investments	-	-	50,950,000	-	-	50,950,000
Installment contracts receivable	64,036	733,334	725,424	1,231,391	7,083,214	9,837,399
Other receivables	60,947	381,821	-	-	-	442,768
Refundable deposits	-	-	-	-	109,488	109,488
Available-for-sale	-	-	-	-	14,314,331	14,314,331
	5,796,932	1,115,154	51,675,424	1,231,391	21,507,033	81,325,935

Financial liabilities						
Accounts payable and accrued expenses*	4,510,877	1,501	2,251	4,502	3,333,587	7,852,718
	₱1,286,055	₱1,113,653	₱51,673,173	₱1,226,889	₱18,173,446	₱73,473,217

Benefits payable	₱2,746,247	₱-	₱-	₱-	₱-	₱2,746,247
Trade payables	1,511,038	1,501	2,251	4,502	-	1,519,292
Accrued rental and deposits	-	-	-	-	2,708,281	2,708,281
Accrued expenses	12,850	-	-	-	625,306	638,156
Due to affiliates (Note 18)	220,052	-	-	-	-	220,052
Reservation fee	17,200	-	-	-	-	17,200
Other	3,490	-	-	-	-	3,490
Total	₱4,510,877	₱1,501	₱2,251	₱4,502	₱3,333,587	₱7,852,718

*Excludes statutory liabilities amounting to ₱92,745.

	On demand	90 days or less	91-180 Days	181-365 days	Above 1 year	Total
Financial assets						
Cash and cash equivalents	₱2,155,010	₱-	₱-	₱-	₱-	₱2,155,010
Short-term cash investments	-	-	58,250,000	-	-	58,250,000
Installment contracts receivable	104,585	1,611,249	1,532,934	2,621,682	9,096,179	14,966,629
Other receivables	103,689	549,256	310,528	-	-	963,473
Refundable deposits	-	-	-	-	154,104	154,104
Available-for-sale	-	-	-	-	12,153,361	12,153,361
	2,363,284	2,160,505	60,093,462	2,621,682	21,403,644	88,642,577

Financial liabilities						
Accounts payable and accrued expenses*	4,656,786	484	393,861	32,595	1,646,314	6,730,040
	(₱2,293,502)	₱2,160,021	₱59,699,601	₱2,589,087	₱19,757,330	₱81,912,537

Benefits payable	₱2,851,706	₱-	₱-	₱-	₱-	₱2,851,706
Trade payables	1,353,423	484	393,861	1,451	-	1,749,219
Accrued rental and deposits	7,181	-	-	31,144	1,124,429	1,162,754
Accrued expenses	131,193	-	-	-	521,885	653,078
Due to affiliates (Note 18)	291,324	-	-	-	-	291,324
Reservation fee	16,300	-	-	-	-	16,300
Other	5,659	-	-	-	-	5,659
Total	₱4,656,786	₱484	₱393,861	₱32,595	₱1,646,314	₱6,730,040

*Excludes statutory liabilities amounting to ₱85,378.



Fair Values

The following tables provide fair value hierarchy of the Company's financial assets, financial liabilities, and investment properties, other than those with carrying amounts are reasonable approximations of fair values:

As of December 31, 2016:

	Fair value		
	Level 1	Level 2	Level 3
<i>Assets Held in Trust</i>			
Assets measured at fair value			
Financial assets at FVPL			
Debt securities	₱4,724,931	₱-	₱-
Available-for-sale financial assets			
Debt securities	18,483,180	-	-
Equity securities – listed	1,606,806	-	-
Investment properties	-	-	6,782,000
<i>Assets Not Held in Trust</i>			
Assets measured at fair value			
Available-for-sale financial assets			
Equity securities – listed	14,314,331	-	-
Assets for which fair value is disclosed			
Investment properties	-	-	251,137,909

As of December 31, 2015:

	Fair value		
	Level 1	Level 2	Level 3
<i>Assets Held in Trust</i>			
Assets measured at fair value			
Financial assets at FVPL			
Debt securities	₱4,593,574	₱-	₱-
Available-for-sale financial assets			
Debt securities	18,079,464	-	-
Equity securities – listed	1,451,664	-	-
Investment properties	-	-	6,480,000
<i>Assets Not Held in Trust</i>			
Assets measured at fair value			
Available-for-sale financial assets			
Equity securities – listed	12,153,361	-	-
Assets for which fair value is disclosed			
Investment properties	-	-	243,815,120

Cash and cash equivalents, short-term cash investments, installment contracts receivable, and other receivables

Due to the short-term nature of the transactions, the fair values of cash and cash equivalents, short-term cash investments, other receivables approximate their carrying amounts. The fair value of installment contracts receivable approximate its carrying amount as it carries interest rates that approximate the interest rate for comparable instruments in the market.

Accounts payable and accrued expenses

The accounts payable and accrued expenses are stated based on the actual expenses or the amount in which the Company expects the liabilities to be settled. These consist of meter deposit refund, refundable deposits, benefits payable, estimated registration expenses, and other related accrued



expenses. These are normally settled in a 30-day to one-year term and are not interest-bearing. The fair value of these accounts approximates their carrying amounts.

Financial assets at FVPL and available-for-sale financial assets

Financial assets at FVPL and available-for-sale financial assets are stated at fair value based on quoted market prices.

Investment properties

The fair value of investment properties is determined using sales comparison. Sales comparison approach considers the sales of similar or substitute properties and other related market data had the investment properties been transacted in the market. The significant unobservable inputs used in determining the fair value are the sales price per square meter of similar or substitute property, location, size, shape of lot and highest and best use. The fair value of the investment properties as of December 31, 2016 and 2015 approximates and represents the highest and best use of the properties.

Movements in significant unobservable inputs are positively correlated to the fair value of the properties subject to valuation.

20. Capital Management

Under existing SEC rules for Pre-Need, which became effective September 21, 2001, the paid up capital of a Pre-Need Company should not be less than ₱100.00 million. As of December 31, 2016 and 2015, the Company is in compliance with the minimum capital requirement for a Pre-Need Company. As such, the Company did not avail of the Multi-Year Capital & Trust Fund Build up discussed in Note 4.

The Company manages its capital structure and makes adjustment to it in light of changes in economic conditions.

The Company considers as capital is the equity of the Company less reserve for fluctuation in value of available for sale investments, reserve for fluctuation in value of available for sale held in trust funds, and accumulated re-measurement on defined benefit plan as follows:

	2016	2015
Total equity	₱261,267,070	₱254,786,062
Less (add):		
Reserve for fluctuation in value of available-for-sale financial assets (Note 6)	10,107,625	7,946,656
Reserve for fluctuation in value of available-for sale held in trust funds (Note 7)	1,266,802	489,137
Accumulated re-measurement on defined benefit plan (Note 16)	(349,138)	(242,256)
	11,025,289	8,193,537
	₱250,241,781	₱246,592,525



21. Segment Reporting

The Company derives its revenue from the sales of real estate and marketing of pension plans. The Company does not have any major customers and all sales of real estate properties and marketing of pension plans are made to external customers.

Segment Revenue and Expenses

	2016		
	Sales/Lease of Real Estate Properties	Pension Plan Operations	Total
Income:			
Interest income	₱2,863,925	₱76,700	₱2,940,625
Sales of real estate	4,141,083	–	4,141,083
Rental income	11,613,633	–	11,613,633
Unrealized re-measurement on investment properties	–	302,000	302,000
Trust fund income	–	1,548,383	1,548,383
Premium revenue	–	114,143	114,143
Other income	231,332	373,665	604,997
Expenses:			
Cost of real estate sales	2,223,185	–	2,223,185
Cost of contracts issued-net	–	1,636,559	1,636,559
General and administrative expenses	3,262,991	10,586,361	13,849,352
Others	–	33,594	33,594
Provision for (benefit from) income tax	3,692,382	(3,819,464)	(127,082)
Net income (loss)	₱9,671,415	(₱6,022,159)	₱3,649,256
2015			
	Sales/Lease of Real Estate Properties	Pension Plan Operations	Total
Income:			
Interest income	₱3,682,402	₱158,807	₱3,841,209
Sales of real estate	4,670,331	–	4,670,331
Rental income	3,481,182	–	3,481,182
Unrealized re-measurement on investment properties	–	318,000	318,000
Trust fund income	–	477,071	477,071
Premium revenue	–	303,844	303,844
Other income	807,464	239,594	1,047,058
Expenses:			
Cost of real estate sales	3,866,655	–	3,866,655
Cost of contracts issued-net	–	(523,357)	(523,357)
General and administrative expenses	2,165,105	6,416,644	8,581,749
Others	–	8,724	8,724
Provision for (benefit from) income tax	1,507,941	(1,743,203)	(235,262)
Net income (loss)	₱5,101,678	(₱2,661,492)	₱2,440,186



Segment Assets and Liabilities

December 31, 2016:

	Sales/Lease of Real Estate Properties	Pension Plan Operations	Total
Total assets	₱163,071,376	₱152,145,979	₱315,217,355
Total liabilities	11,387,997	42,562,288	53,950,285

December 31, 2015:

	Sales/Lease of Real Estate Properties	Pension Plan Operations	Total
Total assets	₱146,830,076	₱166,982,671	₱313,812,747
Total liabilities	4,780,076	54,246,609	59,026,685

22. Supplementary Information under Revenue Regulations No. 15-2010

In compliance with the requirements set forth in Revenue Regulations No. 15-2010, the information on taxes and license fees paid or accrued for the period ended December 31, 2016 is as follows:

- a. Net sales/receipts and output VAT declared in the Company's VAT returns filed in 2016 amounted to ₱1,298,294 and ₱155,795, respectively. The Company's net sales/receipts are based on actual collections received; hence, may not be the same as the amounts accrued/reflected as sales in the statement of income.

As of December 31, 2016, outstanding output VAT amounted to ₱13,559.

- b. Input VAT

The following table shows the sources of input VAT claimed:

Balance at beginning of the year	₱-
Purchases of:	
Services lodged under other accounts	98,801
Goods other than for resale	7,342
Total available input VAT during the period	106,143
Less claims for tax credit/refund and other adjustments	106,143
Balance at end of the year	₱-

- c. The Company does not have any importations in 2016.
- d. Taxes and licenses included under "General and administrative expenses" account are shown below:

Real estate taxes	₱676,360
Business permit and registration	462,075
Other taxes	48,794
	₱1,187,229



e. Withholding taxes

The following are the categories of the Company's withholding taxes in 2016:

Compensation and benefits	₱390,758
Final expanded taxes	79,212
	<hr/>
	₱469,970

The outstanding balance of withholding taxes as of December 31, 2016, amounted to ₱79,186.

f. Tax contingencies:

- i. The Company has no deficiency tax assessments as of December 31, 2016.
- ii. The Company has no tax cases, litigation, and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.



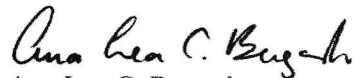
INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Cityplans, Incorporated
3/F Cityland Condo. 10, Tower 2
154 H.V. de la Costa St.
Salcedo Village, Makati City

We have audited the accompanying financial statements of Cityplans, Incorporated as at December 31, 2016 and 2015 and for the years then ended, on which we have rendered the attached report dated March 23, 2017.

In compliance with Securities Regulation Code Rule 68 (As Amended 2011), we are stating that the above Company has nine stockholders owning 100 or more shares each.

SYCIP GORRES VELAYO & CO.



Ana Lea C. Bergado

Partner

CPA Certificate No. 80470

SEC Accreditation No. 0660-AR-3 (Group A),

March 2, 2017, valid until March 1, 2020

Tax Identification No. 102-082-670

BIR Accreditation No. 08-001998-63-2015,

March 24, 2015, valid until March 23, 2018

PTR No. 5908673, January 3, 2017, Makati City

March 23, 2017