Liberty Insurance Corporation

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

SGV

Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Liberty Insurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Liberty Insurance Corporation, which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Liberty Insurance Corporation as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 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 Liberty Insurance Corporation. 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.

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Partner
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PTR No. 5321641, January 4, 2016, Makati City

April 6, 2016

LIBERTY INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2015	2014
ASSETS		
Cash and Cash Equivalents (Notes 4 and 23)	**₱48,947,292**	₱59,848,915
Short-term Investments (Note 5)	**52,164,940**	13,563,686
Insurance Receivables - net (Notes 6 and 23)	**90,410,479**	94,483,561
Financial Assets (Notes 7 and 23)		
Financial asset at fair value through profit and loss	**3,780,336**	–
Available-for-sale financial assets	**70,532,848**	54,081,528
Held-to-maturity investments	**87,709,762**	67,709,762
Loans and receivables	**7,258,665**	10,113,583
Reinsurance Assets (Notes 8 and 13)	**19,297,774**	19,772,915
Deferred Acquisition Costs (Note 9)	**21,943,930**	19,927,964
Investment Properties (Note 10)	**135,637,388**	135,637,388
Property and Equipment - net (Note 11)	**11,626,013**	10,001,602
Net Pension Asset (Note 21)	–	1,984,060
Other Assets (Note 12)	**4,458,330**	15,686,173
	₱553,767,757	₱502,811,137
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 13 and 23)	**₱124,937,663**	₱116,830,166
Insurance payables (Notes 14 and 23)	**7,860,271**	12,403,017
Accounts payable and other liabilities (Notes 15 and 23)	**41,825,232**	11,908,944
Deferred reinsurance commissions (Note 9)	**4,921,737**	3,619,782
Net pension liability (Note 21)	**1,519,185**	–
Deferred tax liabilities - net (Note 22)	**2,344,801**	4,795,860
	183,408,889	149,557,769
Equity		
Capital stock (Note 16)	**270,957,000**	270,955,000
Additional paid-in capital	**2,239**	2,239
Other comprehensive income (Notes 7 and 21)	**(9,201,695)**	(7,814,962)
Retained earnings	**108,601,324**	90,111,091
	370,358,868	353,253,368
	₱553,767,757	₱502,811,137

See accompanying Notes to Financial Statements.

LIBERTY INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2015	2014
Gross earned premiums on insurance contracts	**₱215,718,389**	₱190,092,403
Reinsurers' share of gross earned premiums on insurance contracts	**70,936,539**	76,067,734
Net insurance earned premiums (Note 17)	**144,781,850**	114,024,669
Other underwriting income (Note 18)	**24,476,335**	36,766,743
Investment and other income (Note 18)	**10,032,932**	21,557,705
Commission income (Note 9)	**9,114,994**	9,699,870
Other revenue	**43,624,261**	68,024,318
Total Revenue	**188,406,111**	182,048,987
Gross insurance contract benefits and claims paid	**50,085,241**	85,038,165
Reinsurers' share of gross insurance contract benefits and claims paid	**(9,023,887)**	(42,795,926)
Gross change in insurance contract liabilities	**(6,748,259)**	(22,092,063)
Reinsurers' share of gross change in insurance contract liabilities	**4,421,365**	17,149,636
Net insurance benefits and claims (Notes 13, 19 and 23)	**38,734,460**	37,299,812
Commission expense (Note 9)	**50,599,793**	46,753,244
Operating expenses (Notes 20 and 21)	**62,987,407**	59,338,810
Impairment loss on available-for-sale financial assets (Note 7)	**8,197,382**	1,313,457
Fair value loss on financial asset through profit and loss (Note 7)	**163,659**	–
Interest expense (Note 21)	–	66,980
Others	**401,081**	213,074
Other expenses	**122,349,322**	107,685,565
Total Benefits, Claims and Other Expenses	**161,083,782**	144,985,377
Income before income tax	**27,322,329**	37,063,610
Current	**8,549,210**	1,263,620
Final	**1,046,133**	778,269
Deferred	**(763,247)**	4,632,261
Provision for income tax (Note 22)	**8,832,096**	6,674,150
NET INCOME (Note 25)	**18,490,233**	30,389,460
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be reclassified to profit or loss		
Actuarial gain (loss) on defined benefit plan (Note 20)	**(5,626,035)**	1,711,926
Income tax relating to actuarial loss (gain)	**1,687,811**	(513,578)
Item that will be reclassified to profit or loss		
Changes in fair value of available-for-sale financial assets (Note 7)	**(3,215,685)**	11,015,853
Realized gain transferred to profit or loss (Note 7)	**(2,430,206)**	(12,709,508)
Impairment losses (Note 7)	**8,197,382**	1,313,457
	(1,386,733)	818,150
TOTAL COMPREHENSIVE INCOME	**₱17,103,500**	₱31,207,610

See accompanying Notes to Financial Statements.

LIBERTY INSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	**Additional Paid-in Capital**	**Other Comprehensive Income** — **Revaluation Reserve on Available-for-sale Financial Assets** (Note 7)	**Other Comprehensive Income** — **Actuarial Gain on Defined Benefit Plan - Net of Tax** (Note 21)	**Retained Earnings**	**Total**
As of January 1, 2015	**₱270,955,000**	**₱2,239**	**(₱7,545,780)**	**(₱269,182)**	**₱90,111,091**	**₱353,253,368**
Net income for the year	–	–	–	–	**18,490,233**	**18,490,233**
Other comprehensive income	–	–	**2,551,491**	**(3,938,224)**	–	**(1,386,733)**
Issuance of capital stock (Note 16)	**2,000**	–	–	–	–	**2,000**
As of December 31, 2015	**₱270,957,000**	**₱2,239**	**(₱4,994,289)**	**(₱4,207,406)**	**₱108,601,324**	**₱370,358,868**
As of January 1, 2014	₱270,955,000	₱2,239	(₱7,165,582)	(₱1,467,530)	₱59,721,631	₱322,045,758
Net income for the year	–	–	–	–	30,389,460	30,389,460
Other comprehensive income	–	–	(380,198)	1,198,348	–	818,150
As of December 31, 2014	₱270,955,000	₱2,239	(₱7,545,780)	(₱269,182)	₱90,111,091	₱353,253,368

See accompanying Notes to Financial Statements.

LIBERTY INSURANCE COPORATION

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱27,322,329**	₱37,063,610
Adjustments for:		
Depreciation and amortization (Note 11)	**3,409,639**	2,317,834
Impairment loss on available-for-sale financial assets (Note 7)	**8,197,382**	1,313,457
Fair value loss on mutual fund (Note 7)	**163,659**	–
Gain on sale of:		
Available-for-sale financial assets (Note 18)	**(2,430,206)**	(12,709,508)
Asset held for sale (Note 18)	**–**	(3,081,200)
Dividend income (Note 18)	**(2,002,307)**	(1,343,966)
Interest income (Note 18)	**(5,510,343)**	(4,423,031)
Operating income before working capital changes	**29,150,153**	19,137,196
Decrease (increase) in:		
Insurance receivables	**4,073,082**	(19,674,266)
Reinsurance assets	**475,141**	26,319,766
Loans and receivables	**2,484,112**	(1,179,684)
Deferred acquisition costs	**(2,015,966)**	(2,667,567)
Other assets	**5,173,003**	(2,739,939)
Increase (decrease) in:		
Insurance contract liabilities	**8,107,497**	(11,670,634)
Insurance payables	**(4,542,746)**	4,349,386
Accounts payable and other liabilities	**29,089,442**	(10,549,186)
Deferred reinsurance commissions	**1,301,955**	(1,126,024)
Retirement benefit liability	**(2,122,790)**	(1,855,576)
Net cash generated from (used in) operations	**71,172,883**	(1,656,528)
Income tax paid	**(2,713,657)**	(7,428,485)
Net cash from (used in) operating activities	**68,459,226**	(9,085,013)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Short-term investment	**(52,164,940)**	(13,563,686)
Held-to-maturity investments (Note 7)	**(20,000,000)**	(13,000,000)
Available-for-sale financial assets (Note 7)	**(77,260,895)**	(65,085,983)
Mutual fund	**(3,943,995)**	–
Property and equipment (Note 11)	**(6,823,497)**	(5,334,833)
Proceeds from sale/maturities of:		
Short-term investments	**13,563,686**	13,431,772
Available-for-sale financial assets (Note 7)	**57,593,890**	59,976,339
Asset held for sale	**–**	38,364,800
Property and equipment (Note 11)	**1,789,447**	1,011,072
Interest received	**5,600,323**	3,613,608
Dividends received	**2,283,132**	1,027,560
Net cash from (used in) investing activities	**(₱79,362,849)**	₱20,440,649
CASH FLOW FROM FINANCING ACTIVITY		
Proceeds from issuance of shares (Note 16)	**2,000**	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(10,901,623)**	11,355,636
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**59,848,915**	48,493,279
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱48,947,292**	₱59,848,915

See accompanying Notes to Financial Statements.

LIBERTY INSURANCE COPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Liberty Insurance Corporation (the Company) was incorporated in the Philippines on December 11, 1953. In November 10, 2003, the Company renewed its registration with SEC to extend its corporate life for another 50 years.

The Company is a member of Jose Cojuangco and Sons Group of Companies.

The Company is engaged in the business of nonlife insurance which includes fire, motor car, marine insurance, personal accident insurance and miscellaneous casualty that are permitted to be sold by a nonlife insurance company in the Philippines.

The registered office address of the Company is 3rd Floor, Jose Cojuangco and Sons Building, 119 Dela Rosa corner Carlos Palanca Streets, Legaspi Village, Makati City.

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on April 6, 2016.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value. The financial statements are measured in Philippine Peso (₱), which is also the Company's functional and presentation currency. All values are rounded off to the nearest peso unit, unless otherwise indicated.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) interpretations which became effective beginning January 1, 2015. Except as otherwise stated, the adoption of these new and amended standards and Philippine Interpretations did not have any impact on the financial statements.

- Philippine accounting Standards (PAS) 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*
  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of

service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company, since it has no defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs 2010-2012 cycle
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Company.

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures – Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs 2011-2013 cycle
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Company.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

- PAS 40, *Investment Property*
  The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Future Changes Accounting Policies
The Company will adopt the following new and amended standards and Philippine Interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Effective in 2016

- PAS 1, *Presentation of Financial Statements – Disclosure Initiative*
  The amendments clarify the materiality requirements in PAS 1 that entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions. It also clarify that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated; that entities have flexibility as to the order in which they present the notes to financial statements; that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. And for additional subtotals presented in the statement of profit or loss and OCI, line items should be presented to reconcile any such subtotals with the subtotals or totals currently required in PFRS for such statement. This amendment is expected to have an impact on presentation of Company's financial statements only.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after 1 January 2016.

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
  The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are does not have any impact to the Company.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs 2012-2014 cycle
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits – regional market issue regarding discount rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*
  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective in 2017

- PAS 12*, Income Taxes – Recognition of deferred tax assets for unrealised losses*
  These amendments clarify that unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. It also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits and estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. And lastly, any entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. Effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. These amendments are not expected to have any impact to the Company' financial statements.

Effective in 2018

- PFRS 9, *Financial Instruments* – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
  PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

  The adoption of PFRS 9 is not expected to have any significant impact on the Company's financial statements.

- PFRS 9, *Financial Instruments* (2014 or final version)
  In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. 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 comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 is not expected to have any significant impact on the Company's financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Effective in 2019

- IFRS 16, *Leases*
  IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

  IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. The adoption of PFRS 16 is not expected to have any significant impact on the Company's financial statements.

<u>Fair Value</u>
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.

Fair value hierarchy
The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable in the market, either directly or indirectly
Level 3: techniques which uses inputs which have a significant effect on the recorded fair value that are not based on observable market data.

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

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 with relevant external sources to determine whether the change is reasonable.

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.

Financial assets
The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (price between the bid-ask range), without any deduction for transaction costs. When current market prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Non-financial assets
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.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash in banks earns interest at prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturity of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Short-term Investments
Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

Insurance Receivables
Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

Insurance receivables are derecognized under the derecognition criteria of financial assets.

Financial Instruments
Date of recognition
Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: AFS financial assets, held-to-maturity (HTM) investments and loans and receivables. The Company classifies its financial liabilities into other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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' profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an unobservable data is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Financial assets at FVPL
Financial assets and financial liabilities at FVPL include financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition as at FVPL.

Financial assets and liabilities are classified as held-for-trading if they are acquired for purposes of selling and repurchasing in the near term.

Financial assets and liabilities at FVPL are recorded Company statement of financial position at fair value. Subsequent changes in fair value are recognized in the Company statement of income.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in profit or loss when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as 'Revaluation reserve on AFS financial assets' in OCI. The losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as realized gains or losses in profit or loss.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

HTM investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities which the Company's management has a positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in profit or loss.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVPL. This accounting policy relates to the statement of financial position captions "Cash and cash equivalents", "Insurance receivables" and "Loans and receivables".

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the "Investment and other income" account in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy applies primarily to the Company's "Insurance contract liabilities", "Insurance payables" and "Accounts payable and other liabilities" that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable).

Offsetting

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

Impairment of Financial Assets

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

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Time value is generally not considered when the effect of discounting is not material. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as past-due status and term.

AFS financial assets carried at fair value
For equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of an investment below its cost or where other objective evidence of impairment exists. 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 profit or loss) is removed from OCI and recognized in the profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized in OCI.

AFS investments carried at cost
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the right to receive cash flows from the asset have expired;
- 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 right 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 right to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset 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 the consideration that the Company could be required to repay.

Financial liability
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 profit or loss.

Reinsurance
The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets include balances recoverable from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurers. The impairment loss is recorded in profit or loss.

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

The Company also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized in profit or loss as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

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

Deferred Acquisition Costs (DAC)
Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged against income using the 24th method except for marine cargo where the DAC pertains to the commissions for the last two months of the year. The unamortized acquisition costs are shown in the assets section of the statement of financial position as "Deferred acquisition costs". Reinsurance commissions are deferred and shown in the liabilities section of the statement of financial position as "Deferred reinsurance commissions", subject to the same amortization method as the related acquisition costs.

Investment Properties
Properties held for long term rental yields or for capital appreciation, or for both, are classified as investment properties. These properties are initially measured at cost, which includes transaction costs, but excludes day to day servicing costs. Subsequently, at each reporting date, such properties are carried at cost less impairment losses, if any. The Company's investment properties pertain to various land.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property 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.

For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

Investment property is derecognized when it has been disposed of, or when permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in the profit or loss in the year of derecognition.

Property and Equipment
Property and equipment are stated at cost, less accumulated depreciation and amortization and any allowance for impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to profit or loss during the reporting period in which they are incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the properties, or the term of the lease, whichever is shorter, for leasehold improvements, as follows:

	Years
Leasehold improvements	10*
Transportation equipment	5
Computer equipment	5
Office furniture, fixtures and equipment	5

**10 years or lease term, whichever is shorter*

The assets' residual values, useful lives and depreciation and amortization method are reviewed periodically to ensure that the method, residual value and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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

Other Current Assets
Prepayments
Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount paid in cash. Subsequently, these are

charged to profit or loss as they are consumed in the operations or expire with the passage of time. These typically comprise prepayments for management and marketing fees.

Creditable withholding taxes
Creditable withholding taxes represent amounts withheld by the Company's counterparties in relation to the revenue earned. Subsequently, these amounts are applied against the Company's income tax due.

Value-added tax (VAT)
Revenue, expenses and assets are recognized net of the amount of VAT except:

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

The net amount of tax recoverable from the taxing authority is disclosed in the statement of financial position as "Input VAT" under "Other current assets".

<u>Impairment of Nonfinancial Assets</u>
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such 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 and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

<u>Product Classification</u>
Insurance contracts
Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance

contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired.

Insurance contract liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Provision for unearned premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. The change in the provision for unearned premiums is taken to profit or loss in the order that revenue is recognised over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and incurred but not reported (IBNR) losses
Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money and includes provision for claims reported and claims IBNR.

The provision for claims liability is based on the independent adjusters' report on the individual claims and the provision for claims IBNR is calculated based on time experience. No provision for equalization or catastrophic reserves is recognized. The liabilities are derecognized when the contract is discharged, cancelled or has expired.

<u>Equity</u>
Capital stock
Capital stock is measured at par value for all shares issued. When the Company issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC).

Retained earnings
Retained earnings represent the cumulative balance of net income or loss of the Company, net of any dividend distribution.

<u>Other Comprehensive Income</u>
Other comprehensive income comprises of items of income and expense that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income of the Parent Company pertains to remeasurements comprising actuarial gain on defined benefit plan.

<u>Pension Cost</u>
The Company has a funded, non-contributory retirement plan, administered by a trustee, covering its regular employees. Retirement cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement cost comprises the following:

(a) Service costs
(b) Net interest on the net defined benefit liability or asset
(c) Remeasurements of net defined benefit liability or asset

Service costs include current service cost, past service cost and gains or losses on nonroutine settlements and are recognized as expense in profit or loss. Past service cost is recognized when a plan amendment or curtailment occurs. These costs are calculated periodically by independent qualified actuaries.

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.

Remeasurements 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) are recognized immediately in OCI under "Actuarial gain on defined benefit plan" in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. 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.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of: (a) the date when the entity can no longer withdraw the offer of those benefits; and (b) the date when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefit, short-term employee benefit, or other long-term employee benefit.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when this is accrued to the employees. The undiscounted liabilities for leaves expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Short-term Employee Benefits
Short-term employee benefits include items such as salaries and wages, social security contributions and nonmonetary benefits, if expected to be settled wholly within twelve months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Parent Company during the reporting period, the Parent Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

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

Premiums
Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The gross premiums written for marine cargo insurance policies for the first ten months of the year and the last two months of the preceding year are recognized as premium income in the current year. The portion of the premiums written that relate to the unexpired periods of the policies at reporting date and the last two months of marine cargo policies is accounted for as provision for unearned premiums and is presented under "Insurance contract liabilities" in the liabilities section of the statement of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums shown under "Reinsurance assets" in the assets section of the statement of financial position. The net changes in these accounts between reporting dates are charged against or credited to income for the year.

Commission income
Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the deferred reinsurance commissions for the last two months of the year are considered earned the following year. The portion of the commissions that relate to the unexpired periods of the policies at each reporting dates are accounted for as "Deferred reinsurance commissions" and presented in the liabilities section of the statement of financial position.

Investment and other income
Interest income is recognized in profit or loss as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest rate. Dividend income is recognized when the Company's right to receive the payment is established.

Other underwriting income
Other underwriting income from other sources is recognized when earned.

Costs and Expenses

Benefits and claims

Benefits and claims consist of benefits and claims paid to policyholders, which include changes in the valuation of insurance contract liabilities, except for changes in the provision for unearned premiums which are recorded in insurance revenue. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Commission expense

Commissions are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as "Deferred acquisition cost" in the assets section of the statement of financial position.

Operating and other expenses

Operating and other expenses are recognized in profit or loss in the period these are incurred.

Leases

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

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

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

Company as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Provisions

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. Where 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 any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments 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.

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

Income Tax
Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or OCI. Tax on these items is recognized in OCI.

Current tax
Current 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 tax laws used to compute the amount are those that have been enacted or substantially enacted as at the reporting date.

Deferred tax
Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise 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 income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rate that is applicable 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 substantially enacted as at the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to operations for the period.

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

Events After the Reporting Period
Any post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the financial statements when material.

3. Significant Accounting Judgments and Estimates

Below are the estimates and judgments used in preparing the Company's financial statements. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenses for the year. These estimates are based on management's best knowledge based on historical experiences for future expectations and judgment of information and financial data as at the date the financial statements are approved. Although these estimates are believed to be reasonable under the circumstances, the actual outcome may differ from these estimates, possibly significantly, in future periods when subject to changes.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
Product classification
The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

The Company has determined that the insurance policies it issues have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

Operating leases
The Company has entered into property leases for its operations. The Company has determined that the lessor retains all the significant risks and rewards of ownership of these properties which are being leased on operating leases.

Financial assets not quoted in an active market
The Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Company assesses impairment on assets (property and equipment and investment properties) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

Presentation of noncurrent asset held for sale
Noncurrent asset classified as held for sale is measured at the lower of its carrying amount and fair value costs to sell. Noncurrent asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a complete sale within one year from the date classification. Noncurrent asset held for sale shall cease to be classified as held for sale when those mentioned conditions are no longer met.

Amounts presented for noncurrent assets held for sale in the statement of financial position for prior periods shall not be reclassified to reflect classification in the statement of financial position for the latest period when the classification as held for sale ceases.

<u>Estimates</u>
Claims liabilities arising from insurance contracts
For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Nonlife insurance claims provisions are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

The carrying value of total provision for outstanding claims and IBNR amounted to ₱29.22 million and ₱35.96 million as of December 31, 2015 and 2014, respectively (see Note 13).

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time. While significant components of fair value were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value of these financial assets and liabilities would affect profit or loss and OCI.

The carrying value of AFS financial assets is ₱70.53 million and ₱54.08 million as of December 31, 2015 and 2014, respectively (see Note 7).

Fair values of investment properties
The value of the parcels of land was arrived using the *Market Data Approach*. In this approach, the value of the land is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the difference between the subject property and actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject properties. The aggregate fair value of the Company's investment properties amounted to ₱267.00 million as of December 31, 2015 and 2014. (see Note 10).

Impairment of financial assets
If there is objective evidence which indicates that the Company's HTM investments are impaired, a loss shall be recognized. HTM investments are carried at amortized cost using the effective interest method. If the fair value of the HTM investment is significantly lower than its amortized cost, the Company shall recognize impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

The Company determines that AFS equity investments are 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. This determination of what is significant or prolonged decline requires judgment. The Company treats 'significant' generally as 30% or more or 'prolonged' greater than 12 months. In addition, the Company evaluates other factors, including the normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, like changes in technology, and operational and financing cash flows.

The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment assessment against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for doubtful accounts would increase recorded expenses and decrease net income. The related balances of financial assets as of December 31 follow:

	2015	2014
Insurance receivables - net (Note 6)	**₱90,410,479**	₱94,483,561
Financial assets at FVPL (Note 7)	**3,780,336**	–
AFS financial assets (Note 7)	**70,532,848**	54,081,528
HTM investments (Note 7)	**87,709,762**	67,709,762
Loans and receivables (Note 7)	**7,258,665**	10,113,583
	₱259,692,090	₱226,388,434

As of December 31, 2015 and 2014, allowance for doubtful accounts on the Company's insurance receivables amounted to ₱0.21 million (see Note 6).

The Company has recognized impairment loss amounting to ₱8.20 million in 2015 and ₱1.31 million in 2014 on its AFS financial assets (see Note 7).

Estimated useful lives of property and equipment and investment properties
The Company reviews annually the estimated useful lives of property and equipment and investment properties, based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment and investment properties would increase recorded depreciation and amortization expense and decrease the related asset accounts.

As of December 31, 2015 and 2014, property and equipment amounted to ₱11.63 million and ₱10.00 million, respectively, while investment properties remained the same at ₱135.64 million (see Notes 10 and 11).

Impairment of nonfinancial assets
The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is estimated for an individual asset or, if it is not possible, for the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and its value in use, determined on an individual asset (cash generating unit) basis, unless the individual asset (cash generating unit) does not generate cash flows that are largely independent from those of other assets or group of assets (group of cash generating units).

As of December 31, 2015, the carrying value of property and equipment and investment properties amounted to ₱11.63 million and ₱135.64 million, respectively. As of December 31, 2014, the carrying value of property and equipment and investment properties amounted to ₱10.00 million and ₱135.64 million, respectively (see Notes 10 and 11).

Pension and other employee benefits
The determination of the obligation and cost of pension is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, which include, among others, discount rate and salary increase rate, are described in Note 21. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation. Please refer to Note 21 for the related balances.

Recognition of deferred tax assets
Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

The Company recognized deferred tax assets amounting to ₱6.40 million and ₱2.27 million as of December 31, 2015 and 2014, respectively, since management believes that the related tax benefits will be realized in the future (see Note 22).

4. Cash and Cash Equivalents

This account consists of:

	2015	2014
Cash on hand	**₱6,125,036**	₱2,798,657
Cash in banks	**41,610,357**	52,751,808
Cash equivalents	**1,211,899**	4,298,450
	₱48,947,292	₱59,848,915

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods depending on the immediate cash requirements of the Company and earned interest with rates ranging from 0.25% to 0.875% in 2015 and 0.25% to 1.750% in 2014.

In 2015 and 2014, interest earned on cash in banks and cash equivalents amounted to ₱0.90 million and ₱0.27 million, respectively (see Note 18).

5. Short-term Investments

Short-term investments are government securities and time deposits made for varying periods of more than three (3) months but less than one (1) year and earn interest at the respective short-term investment rates. Interest income earned on short-term investments amounted to ₱0.68 million and ₱0.15 million for the periods ended December 31, 2015 and 2014, respectively (see Note 18) with interest rates ranging from 0.50% to 1.93% in 2015 and 1.30% to 1.75% in 2014.

6. Insurance Receivables - net

This account consists of:

	2015	2014
Premiums receivable	**₱62,663,185**	₱57,026,983
Reinsurance recoverable on paid losses	**20,350,426**	30,209,337
Due from ceding companies	**6,550,460**	6,400,833
Funds held by ceding companies	**1,059,191**	1,059,191
	90,623,262	94,696,344
Less allowance for doubtful accounts	**212,783**	212,783
	₱90,410,479	₱94,483,561

Premiums receivable represent premiums on written policies which are collectible within the Company's credit term.

The reinsurance recoverable on paid losses pertains to amounts recoverable from the reinsurers in respect of claims already paid by the Company.

Due from ceding companies pertains to premiums collectible from ceding companies with respect to assumed policies.

Funds held by ceding companies pertain to amounts withheld by ceding companies as collateral for possible reinsurance payments.

Reinsurance recoverable on paid losses, due from ceding companies and funds held by ceding companies are non-interest-bearing and are normally collected within the Company's agreed credit term.

The following tables show the aging information of insurance receivables:

December 31, 2015

	Less than 3 months	**3-6 months**	**6-12 months**	**More than 12 months**	**Total**
Premiums receivable	**₱60,960,160**	**₱835,249**	**₱867,776**	**₱–**	**62,663,185**
Reinsurance recoverable on paid losses	**4,477,094**	**7,733,162**	**5,494,615**	**2,645,555**	**20,350,426**
Due from ceding companies	**1,965,138**	**1,113,579**	**2,292,660**	**1,179,083**	**6,550,460**
Funds held by ceding companies	**–**	**–**	**–**	**1,059,191**	**1,059,191**
	₱67,402,392	**₱9,681,990**	**₱8,655,051**	**₱4,883,829**	**₱90,623,262**

December 31, 2014

	Less than 3 months	3-6 months	6-12 months	More than 12 months	Total
Premiums receivable	₱35,380,469	₱21,646,514	₱–	₱–	₱57,026,983
Reinsurance recoverable on paid losses	6,646,054	11,479,548	8,156,521	3,927,214	30,209,337
Due from ceding companies	1,920,250	1,088,142	2,240,291	1,152,150	6,400,833
Funds held by ceding companies	–	–	–	1,059,191	1,059,191
	₱43,946,773	₱34,214,204	₱10,396,812	₱6,138,555	₱94,696,344

The impairment assessment has been determined on an individual basis. There were no movements in the allowance for doubtful accounts in 2015 and 2014.

7. Financial assets

The Company's financial assets are summarized by measurement categories as follows:

	2015	2014
Financial asset at fair value through profit and loss	**₱3,780,336**	₱–
AFS financial assets	**70,532,848**	54,081,528
HTM investments	**87,709,762**	67,709,762
Loans and receivables	**7,258,665**	10,113,583
	₱169,281,611	₱131,904,873

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

Financial asset at fair value through profit and loss
Financial asset at fair value through profit and loss pertain to investment in mutual fund. Details as of and for the years ended December 31, 2015 and 2014 follow:

	2015	2014
At December 31, 2014	**₱–**	₱–
Additions	**3,943,995**	–
Disposals	**–**	–
Fair value gain recognized in profit and loss	**(163,659)**	
At December 31, 2015	**₱3,780,336**	₱–

AFS financial assets
AFS financial assets pertain to quoted and unquoted equity securities. Details are as follows:

	2015	2014
Quoted securities - at fair value		
Listed equity securities:		
Common shares	**₱55,675,348**	₱43,361,528
Preferred shares	**14,827,500**	10,690,000
Unquoted securities - at cost		
Common shares	**30,000**	30,000
Total AFS financial assets recognized in the statements of financial position	**₱70,532,848**	₱54,081,528

The cost of the quoted and unquoted equity securities are as follows:

	2015	2014
Quoted securities - at cost, net of impairment		
Listed equity securities:		
Common shares (net of impairment)	**₱60,984,637**	₱50,972,308
Preferred shares	**14,512,500**	10,625,000
Unquoted securities - at cost		
Common shares	**30,000**	30,000
Total AFS financial assets at cost	**₱75,527,137**	₱61,627,308

As of December 31, 2015 and 2014, the "Revaluation reserve on AFS financial assets" recorded in equity amounted to ₱4.99 million and ₱7.55 million, respectively. The movements in this account follow:

	2015	2014
Balance at beginning of the year	**(₱7,545,780)**	(₱7,165,582)
Revaluation reserve recognized in OCI	**(3,215,685)**	11,015,853
Realized gain transferred to profit or loss (Note 18)	**(2,430,206)**	(12,709,508)
Impairment loss	**8,197,382**	1,313,457
Balance at end of the year	**(₱4,994,289)**	(₱7,545,780)

Dividend income earned from the Company's AFS financial assets amounted to ₱2.0 million and ₱1.3 million in 2015 and 2014, respectively (see Note 18).

HTM investments
HTM investments pertain to peso-denominated government securities. Details as of and for the years ended December 31, 2015 and 2014 follow:

	2015	2014
Fair value (Note 23)	**₱91,225,803**	₱71,870,737
Carrying value	**87,709,762**	67,709,762
Coupon rate	**1.625% to 7.375%**	1.625% to 7.375%
Interest income earned (Note 18)	**3,646,025**	3,476,957

The outstanding HTM investments will mature starting April 25, 2016 to October 24, 2037.

The carrying values of AFS financial assets and HTM investments have been determined as follows:

	HTM	AFS
At December 31, 2013	₱54,709,762	₱37,956,031
Additions	13,000,000	65,085,983
Disposals/maturities	–	(59,976,339)
Fair value loss recognized in OCI	–	11,015,853
At December 31, 2014	67,709,762	54,081,528
Additions	20,000,000	77,260,895
Disposals/maturities	–	(57,593,890)
Fair value gain recognized in OCI	–	(3,215,685)
At December 31, 2015	₱87,709,762	₱70,532,848

In 2015 and 2014, impairment loss recognized pertains to investments in various listed equity shares amounting to ₱8.20 million and ₱1.31 million, respectively.

Loans and receivables
This account consists of the following:

	2015	2014
Accounts receivable	**₱3,789,599**	₱5,336,025
Receivables from employees (Note 23)	**2,714,042**	3,651,729
Accrued interest income	**719,443**	809,423
Accrued dividend income	**35,581**	316,406
	₱7,258,665	₱10,113,583

Accounts receivable include premiums receivable previously under litigation which were already awarded to the Company. This also includes receivables from terminated employees.

The Company's receivables from employees are settled through salary deduction. Interest earned during the year 2015 and 2014 from receivables from employees amounted to ₱0.28 million and ₱0.53 million, respectively (see Note 18).

Accrued interest income pertains mainly to interest accrued arising from cash and cash equivalents, HTM investments and short-term investments.

As of December 31, 2015 and 2014, the Company's receivables from employees, accounts receivable and accrued interest income are all due within one year.

8. Reinsurance Assets

This account consists of the following:

	2015	2014
Reinsurance recoverable on unpaid losses (Note 13)	**₱1,739,494**	₱6,160,859
Deferred reinsurance premiums (Note 13)	**17,558,280**	13,612,056
	₱19,297,774	₱19,772,915

9. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The details of deferred acquisition costs and deferred reinsurance commissions follow:

	2015	2014
Deferred acquisition costs		
At January 1	**₱19,927,964**	₱17,260,397
Cost deferred during the year	**52,615,759**	49,420,811
Amortization during the year	**(50,599,793)**	(46,753,244)
At December 31	**₱21,943,930**	₱19,927,964
Deferred reinsurance commissions		
At January 1	**₱3,619,782**	₱4,745,806
Income deferred during the year	**10,416,949**	8,573,846
Income earned during the year	**(9,114,994)**	(9,699,870)
At December 31	**₱4,921,737**	₱3,619,782

10. Investment Properties

The movements in this account follow:

	2015	2014
Balance at the beginning of the year	**₱135,637,388**	₱133,401,788
Additions	**–**	–
	135,637,388	133,401,788
Add transfer from assets held for sale	**–**	2,235,600
Balance at the end of the year	**₱135,637,388**	₱135,637,388

The Company's investment properties were valued by independent professionally qualified appraisers on various dates from November 29, 2006 to December 31, 2015. Management believes that the fair values of these investment properties approximate their fair values as of December 31, 2015 and 2014 since there were no major developments in the areas where the investment properties are located. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

The fair values of the parcels of land were arrived using the *Market Data Approach*. In this approach, the value of the land is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the difference between the subject property and actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject properties.

As of December 31, 2015 and 2014, the aggregate fair value of the Company's investment properties amounted to ₱267.00 million under the Level 2 category of the fair value hierarchy.

11. Property and Equipment

The rollforward analysis of this account follows:

December 31, 2015

	Leasehold Improvements	**Transportation Equipment**	**Computer Equipment**	**Office Furniture, Fixtures and Equipment**	**Total**
Cost					
At January 1, 2015	**₱1,165,226**	**₱8,236,364**	**₱15,552,252**	**₱3,848,273**	**₱28,802,115**
Additions	**1,585,142**	**817,000**	**3,906,934**	**514,421**	**6,823,497**
Disposals	**(71,426)**	**(2,770,000)**	**(2,131,191)**	**(744,035)**	**(5,716,652)**
At December 31, 2015	**2,678,942**	**6,283,364**	**17,327,995**	**3,618,659**	**29,908,960**
Accumulated depreciation and amortization					
At January 1, 2015	**556,427**	**5,329,679**	**9,939,467**	**2,974,940**	**18,800,513**
Depreciation and amortization (Note 20)	**231,980**	**519,990**	**2,324,289**	**333,380**	**3,409,639**
Disposal	**(33,482)**	**(1,024,247)**	**(2,131,191)**	**(738,285)**	**(3,927,205)**
At December 31, 2015	**754,925**	**4,825,422**	**10,132,565**	**2,570,035**	**18,282,947**
Net book value	**₱1,940,017**	**₱1,457,942**	**₱7,195,430**	**₱1,048,625**	**₱11,626,013**

December 31, 2014

	Leasehold Improvements	Transportation Equipment	Computer Equipment	Office Furniture, Fixtures and Equipment	Total
Cost					
At January 1, 2014	₱1,071,208	₱7,051,364	₱12,824,051	₱3,709,031	₱24,655,654
Additions	161,033	2,200,000	2,834,558	139,242	5,334,833
Disposals	(67,015)	(1,015,000)	(106,357)	–	(1,188,372)
At December 31, 2014	1,165,226	8,236,364	15,552,252	3,848,273	28,802,115
Accumulated depreciation and amortization					
At January 1, 2014	473,879	4,893,679	8,613,717	2,678,704	16,659,979
Depreciation and amortization (Note 20)	101,972	489,564	1,430,062	296,236	2,317,834
Disposal	(19,424)	(53,564)	(104,312)	–	(177,300)
At December 31, 2014	556,427	5,329,679	9,939,467	2,974,940	18,800,513
Net book value	₱608,799	₱2,906,685	₱5,612,785	₱873,333	₱10,001,602

The total cost of the Company's fully depreciated property and equipment still in use amounted to ₱3.2 million and ₱12.51 million as of December 31, 2015 and 2014, respectively.

The Company made disposals in 2015 and 2014 at book value amounting to ₱2.3 million and ₱1.01 million, respectively, wherein no gains or loss was recognized.

12. Other Assets

This account consists of the following:

	2015	2014
Prepayments	**₱4,443,757**	₱4,844,418
Creditable withholding tax	**–**	6,054,840
Input VAT	**–**	4,772,342
Security fund	**14,573**	14,573
	₱4,458,330	₱15,686,173

Prepayments pertain to prepaid taxes, unused office supplies and printed forms which are to be consumed in the Company's operation.

Creditable withholding tax arises from overpayment of income tax. This can be applied against income tax due in future periods. In 2015, the Company fully applied all available creditable tax against income tax due.

Input VAT includes input taxes which are available for offset against output VAT.

13. Insurance Contract Liabilities

Short-term nonlife insurance liabilities may be analyzed as follows:

	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 8)	**Net 2015**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net 2014
Provision for claims reported by policyholders	**₱28,439,644**	**₱1,739,494**	**₱26,700,150**	₱35,187,903	₱6,160,859	₱29,027,044
Provision for IBNR losses	**776,983**	**–**	**776,983**	776,983	–	776,983
Outstanding claims provision	**29,216,627**	**1,739,494**	**27,477,133**	35,964,886	6,160,859	29,804,027
Provision for unearned premiums	**95,721,036**	**17,558,280**	**78,162,756**	80,865,280	13,612,056	67,253,224
Total insurance contract liabilities	**₱124,937,663**	**₱19,297,774**	**₱105,639,889**	₱116,830,166	₱19,772,915	₱97,057,251

Provisions for claims reported by policyholders and IBNR may be analyzed as follows:

	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 8)	**Net 2015**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net 2014
At January 1	**₱35,964,886**	**₱6,160,859**	**₱29,804,027**	₱58,056,949	₱23,310,494	₱34,746,455
Claims incurred during the year	**43,336,982**	**4,602,522**	**38,734,460**	62,931,600	25,673,001	37,258,599
Claims paid during the year - net of salvage and subrogation (Note 19)	**(50,085,241)**	**(9,023,887)**	**(41,061,354)**	(85,038,165)	(42,795,926)	(42,242,239)
Increase (decrease) in IBNR	**–**	**–**	**–**	14,502	(26,710)	41,212
At December 31	**₱29,216,627**	**₱1,739,494**	**₱27,477,133**	₱35,964,886	₱6,160,859	₱29,804,027

Provision for unearned premiums may be analyzed as follows:

	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 8)	**Net 2015**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net 2014
At January 1	**₱80,865,280**	**₱13,612,056**	**₱67,253,224**	₱70,443,851	₱22,782,185	₱47,661,666
New policies written during the year (Note 17)	**230,574,145**	**74,882,763**	**155,691,382**	200,513,832	66,897,605	133,616,227
Premiums earned during the year (Note 17)	**(215,718,389)**	**(70,936,539)**	**(144,781,850)**	(190,092,403)	(76,067,734)	(114,024,669)
At December 31	**₱95,721,036**	**₱17,558,280**	**₱78,162,756**	₱80,865,280	₱13,612,056	₱67,253,224

14. Insurance Payables

This account consists of:

	2015	2014
Due to reinsurers and ceding companies	**₱5,992,278**	₱11,117,932
Funds held for reinsurers	**1,867,993**	1,285,085
	₱7,860,271	₱12,403,017

The rollforward analysis of insurance payables follows:

	Due to reinsurers and ceding companies	**Funds held for reinsurers**	**Total**
At December 31, 2013	₱4,579,002	₱3,474,629	₱8,053,631
Arising during the year	26,853,859	1,285,085	28,138,944
Paid/Utilized	(20,314,929)	(3,474,629)	(23,789,558)
At December 31, 2014	11,117,932	1,285,085	12,403,017
Arising during the year	21,861,492	1,867,994	23,729,486
Paid/Utilized	(26,987,146)	(1,285,086)	(28,272,232)
At December 31, 2015	**₱5,992,278**	**₱1,867,993**	**₱7,860,271**

15. Accounts Payable and Other Liabilities

This account consists of:

	2015	2014
Collateral bonds	**₱23,214,319**	₱–
Deferred output VAT	**6,535,207**	6,281,883
Taxes payable	**4,248,203**	2,264,439
Accounts Payable	**4,027,751**	–
Accrued expenses	**1,471,068**	2,044,520
Income Tax payable	**826,846**	–
Output VAT	**764,319**	–
Payable to government agencies	**737,519**	567,574
Deposit from buyer	**–**	750,528
	₱41,825,232	₱11,908,944

Deferred output VAT pertains to output VAT on receivables for which sales recognition has been deferred based on sales collection threshold for VAT recognition purposes.

Taxes payable pertain to withholding taxes, documentary stamps and fire service tax payable.

Accrued expenses pertain to operating expenses of the Company which are non-interest bearing and are due and demandable.

Output VAT, taxes payable and accounts payable are non-interest bearing and normally settled within 30 to 60 days.

Payable to government agencies pertains to contributions to SSS, Pag-ibig and Medicare.

16. Equity

The Company's capital stock consists of:

	2015		2014	
	Shares	**Amount**	Shares	Amount
Common stock - ₱100 par value				
Authorized:				
At January 1 and December 31	**3,000,000**	**₱300,000,000**	3,000,000	₱300,000,000
Issued and outstanding:				
At January 1	**2,709,550**	**₱270,955,000**	2,709,550	₱270,955,000
Issuance of shares	**20**	**2,000**	–	–
At December 31	**2,709,570**	**₱270,957,000**	2,709,550	₱270,955,000

17. Net Insurance Earned Premiums

Gross earned premiums on insurance contracts and reinsurers' share of gross earned premiums on insurance contracts consist of the following:

	2015	2014
Gross premiums on insurance contracts:		
Direct insurance	**₱221,757,739**	₱194,384,910
Assumed reinsurance	**8,816,406**	6,128,922
Total gross premiums on insurance contracts (Note 13)	**230,574,145**	200,513,832
Gross change in provision for unearned premiums (Note 13)	**(14,855,756)**	(10,421,429)
Total gross earned premiums on insurance contracts	**215,718,389**	190,092,403
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	**74,882,763**	66,897,605
Assumed reinsurance	**–**	–
Total reinsurers' share of gross premiums on insurance contracts (Note 13)	**74,882,763**	66,897,605
Reinsurers' share of gross change in provision for unearned premiums (Note 13)	**(3,946,224)**	9,170,129
Total reinsurers' share of gross earned premiums on insurance contracts	**70,936,539**	76,067,734
Total net insurance earned premiums	**₱144,781,850**	₱114,024,669

18. Investment and Other Income and Other Underwriting Income

Investment and Other Income
This account consists of:

	2015	2014
Interest income:		
Cash and cash equivalents (Note 4)	**₱903,837**	₱268,461
Short-term investments (Note 5)	**680,805**	145,926
HTM investments (Note 7)	**3,646,025**	3,476,957
Loans to employees (Note 7)	**279,676**	531,687
Net interest cost on pension asset	**90,076**	–
Gain on sale of AFS financial assets (Note 7)	**2,430,206**	12,709,508
Gain on sale of asset held for sale	**–**	3,081,200
Dividend income (Note 7)	**2,002,307**	1,343,966
	₱10,032,932	₱21,557,705

Other Underwriting Income
Other underwriting income pertains to income from various sources including its share in insurance pool.

19. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid consist of the following:

	2015	2014
Insurance contract benefits and claims paid:		
Direct insurance	**₱48,181,260**	₱84,827,894
Assumed reinsurance	**1,903,981**	210,271
Total insurance contract benefits and claims paid (Note 13)	**₱50,085,241**	₱85,038,165

Reinsurers' share of gross insurance contract benefits and claims paid consist of the following:

	2015	2014
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	**(₱9,023,887)**	(₱42,795,926)
Assumed reinsurance	**–**	–
Total reinsurers' share of insurance contract benefits and claims paid (Note 13)	**(₱9,023,887)**	(₱42,795,926)

Gross change in insurance contract liabilities:

	2015	2014
Change in provision for claims reported:		
Direct insurance	**(₱6,748,259)**	(₱22,425,633)
Assumed reinsurance	**–**	348,072
Change in provision for IBNR	**–**	(14,502)
Total gross change in insurance contract liabilities (Note 13)	**(₱6,748,259)**	(₱22,092,063)

Reinsurers' share of gross change in insurance contract liabilities:

	2015	2014
Reinsurers' share of gross insurance contract liabilities:		
Direct insurance	**₱4,421,365**	₱17,113,104
Assumed reinsurance	**–**	9,822
Reinsurers' share of change in provision for IBNR	**–**	26,710
Total reinsurers' share of gross change in insurance contract liabilities (Note 13)	**₱4,421,365**	₱17,149,636

20. Operating Expenses

This account consists of:

	2015	2014
Salaries and employee benefits	**₱38,417,005**	₱35,416,520
Rent (Note 26)	**6,187,004**	4,929,598
Depreciation and amortization (Note 11)	**3,409,639**	2,317,834
Professional fees	**2,003,962**	2,120,116
Taxes, licenses and fees	**1,759,111**	5,822,756
Directors' fees	**1,305,000**	1,195,000
Professional and technical development	**988,121**	522,028
Entertainment, amusement and recreation	**950,744**	868,582
Printing and office supplies	**902,227**	868,455
Light and water	**895,628**	830,096
Transportation and travel	**866,744**	777,718
Association dues	**772,147**	497,022
Communication and postage	**690,298**	581,435
Janitorial and messengerial services	**608,257**	437,320
Repairs and maintenance	**532,941**	443,637
Donation and contributions	**494,741**	254,246
Advertising	**230,240**	271,768
Insurance	**40,280**	40,018
Miscellaneous	**1,933,318**	1,144,661
	₱62,987,407	₱59,338,810

21. Retirement Plan

The Company has a funded, tax qualified, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

The Company's annual contribution to the plan consists principally of payments which covers the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable. The funds are administered by a trustee bank under the supervision of the Board of Trustees (BOT) of the plan which delegates the implementation of the investment policy to an Investment Committee. These funds are subject to the investment objectives and guidelines established by the Investment Committee and rules and regulations issued by Bangko Sentral ng Pilipinas covering assets under trust and fiduciary agreements. The Investment Committee is responsible for the investment strategy of the plan.

The latest actuarial valuation date of the Company's retirement plan is December 31, 2015.

Republic Act 7641, *The New Retirement Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. The law does not require minimum funding of the plan.

The following tables summarize the components of plan expense recognized in profit or loss under "Operating expenses", and the funded status and amounts recognized in the statements of financial position for the plan:

	2015		
	Present value of defined benefit obligation	Fair value of plan assets	Net pension (asset) liability
At January 1	**₱23,601,512**	**(₱25,585,572)**	**(₱1,984,060)**
<u>*Benefit cost in statement of income*</u>			
Current service cost	**2,467,286**	**–**	**2,467,286**
Net interest income	**1,071,509**	**(1,161,585)**	**(90,076)**
<u>*Remeasurements in OCI*</u>			
Actuarial loss on plan assets	**–**	**1,267,191**	**1,267,191**
Actuarial loss on defined benefit obligation	**4,358,844**	**–**	**4,358,844**
Contributions	**–**	**(4,500,000)**	**(4,500,000)**
Benefits paid	**(58,664)**	**58,664**	**–**
At December 31	**₱31,440,487**	**(₱29,921,302)**	**₱1,519,185**

	2014		
	Present value of defined benefit obligation	Fair value of plan assets	Net pension liability
At January 1	₱24,458,108	(₱22,874,666)	₱1,583,442
Benefit cost in statement of income			
Current service cost	2,577,444	–	2,577,444
Net interest expense	1,034,578	(967,598)	66,980
Remeasurements in OCI			
Actuarial loss on plan assets	–	289,556	289,556
Actuarial loss on defined benefit obligation	(2,001,482)	–	(2,001,482)
Contributions	–	(4,500,000)	(4,500,000)
Benefits paid	(2,467,136)	2,467,136	–
At December 31	₱23,601,512	(₱25,585,572)	(₱1,984,060)

The current service cost is presented in the profit or loss under the "Salaries and employee benefits" account in the "Operating expenses" (see Note 20). Net interest expense and income in the retirement benefits is presented as part of "Interest expense" and "Interest income", respectively, in the profit or loss.

The fair values of plan assets by each class as at the end of the reporting period of the Company are as follows:

	2015	2014
Cash and cash equivalents:		
Cash	**₱74**	₱–
Savings deposit - BDO	**–**	163
Special deposit - BSP	**–**	5,303,865
Debt instrument:		
Government securities	**25,228,275**	10,185,183
Corporate bonds	**1,005,753**	1,005,753
Investment in UITF	**3,740,650**	9,129,425
	29,974,752	25,624,389
Trust fee payable	**(53,450)**	(38,817)
	₱29,921,302	₱25,585,572

Due to the short term nature of the financial instruments in the plan assets, their fair values approximate their carrying amounts as of December 31, 2015 and 2014.

Cash and cash equivalents and trust fees payable – carried at carrying value due to short-term nature of the financial instruments.

Debt instrument and instrument in UITF - carried at fair value using quoted market prices.

The Company's investments in the Plan Assets carried at fair values are classified under the following categories in the Fair Value Hierarchy:

- Debt instruments - Level 1
- Investment in UITF - Level 2

For the year ended December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The Company's plan assets have no investment in related parties.
The principal actuarial assumptions used in determining retirement benefit obligations follow:

	2015	2014
Discount rate	**5.20%**	4.54%
Salary increase rate	**8.00%**	5.00%
Average remaining working lives of employees	**20 years**	18 years

Below shows the sensitivity analysis determined based on reasonably possible changes of each significant assumptions stated above as of December 31, 2015 and 2014, assuming all other assumptions were held constant:

	2015	
	Increase (decrease) in rates	Increase (decrease) in the defined benefit obligation
Discount rate	**+0.5%**	**(₱1,243,888)**
	-0.5%	**1,551,243**
Salary increase rate	**+0.5%**	**1,452,955**
	-0.5%	**(1,195,266)**

	2014	
	Increase (decrease) in rates	Increase (decrease) in the defined benefit obligation
Discount rate	+0.5%	(₱83,345)
	-0.5%	94,298
Salary increase rate	+1.0%	192,948
	-1.0%	(154,288)

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2015 and 2014:

	2015	2014
Less than 1 year	**₱152,459**	₱–
More than 1 year to 5 years	**20,681,091**	4,400,612
More than 5 years to 10 years	**9,226,584**	19,930,087
More than 10 years to 15 years	**18,945,098**	11,776,262
More than 15 years to 20 years	**52,492,363**	26,479,564
More than 20 years	**267,090,989**	93,812,385
Total	**₱368,588,584**	₱156,398,910

The Company expects to contribute ₱6,158,573 to the plan in 2016.

22. Income Tax

The components of the Company's net deferred tax assets (liabilities) consist of the tax effects of the following:

	2015	2014
Presented in profit or loss		
Deferred tax assets on:		
Excess of provision for unearned premiums per books over tax basis	**₱1,273,562**	₱369,663
Unamortized past service cost	**1,545,210**	400,573
Deferred reinsurance commissions	**1,476,521**	1,085,935
Provision for IBNR losses	**233,095**	233,095
Allowance for doubtful accounts	**63,835**	63,835
Total deferred tax assets	**4,592,223**	2,153,101
Deferred tax liabilities on:		
Deferred acquisition costs	**6,583,179**	5,978,389
Accrued retirement	**1,347,418**	–
Excess of deferred reinsurance premiums per books over tax basis	**809,601**	1,085,935
Total deferred tax liabilities	**8,740,198**	7,064,324
	(4,147,975)	(4,911,223)
Presented in other comprehensive income		
Deferred tax asset		
Accrued retirement	**1,803,174**	115,363
Net deferred tax assets liabilities	**(₱2,344,801)**	(₱4,795,860)

The reconciliation of statutory income tax rate to effective income tax rate follows:

	2015	2014
Statutory income tax rate	**30.00%**	**30.00%**
Add (deduct) tax effects of:		
Change in unrecognized deferred tax assets	**(0.07)**	**–**
Income subjected to final taxes	**(1.91)**	**(1.05)**
Non-taxable income	**(4.87)**	**(13.87)**
Non-deductible expenses	**9.18**	**2.93**
Effective income tax rate	**32.33%**	**18.01%**

23. Management of Capital, Insurance and Financial Risks

Governance Framework

The primary objective of the Company's risk and financial management framework is to ensure that the risks related to the Company are managed through a systematic and consistent risk management process. The Company recognizes the critical importance of having efficient and effective risk management systems in place.

The Company is guided by its standard operating procedures and internal control procedures designed to ensure attainment of the Company's objectives. Currently, the Company has no separate risk management policies since these are incorporated within the standard operating and internal control procedures. Also, risk management includes the Company entering into treaty agreements, which more or less limits the risk acceptance.

Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, fixed capitalization requirements, risk-based capital (RBC) requirements).

Capital Management Framework

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the statutory requirements imposed by the Insurance Commission (IC) for nonlife insurance companies.

The Company reviews the capital requirements through monthly computation of the RBC which are regularly communicated to the major shareholders. With this procedure, shareholders are forewarned in anticipation of the IC requirements of additional capital infusion. Shareholders are well updated with these externally imposed capital requirements since these are being discussed during annual BOD meetings. They have shown their commitment to comply with this regulation, same as prior years when they willingly infused additional cash as the need arose.

Fixed Capitalization Requirements

On January 13, 2015, the IC issued Circular Letter No. 2015-02-A clarifying the minimum capitalization and networth requirements of new and existing insurance companies in the Philippines. All domestic life and non-life insurance companies duly licensed by the IC must have a networth of at least ₱250 million by December 31, 2013. The following presents the amount of required networth and the schedule of Compliance:

Minimum Networth	Compliance Date
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

The Company has complied with the minimum statutory net worth amounting to ₱508,370,973 requirements as at the end of each reporting period.

Unimpaired capital requirement

IC CL No, 2015-02-A, which supersedes IC CL No 22-2008, also says that the networth should remain intact and unimpaired at all times. As of December 31, 2015 and 2014 the Company has complied with the unimpaired capital requirement.

Financial Reporting Framework
IC issued Circular Letter (CL) No. 2015-29 on June 10, 2015 which provides the implementation of the provisions of Financial Reporting Framework under Section 189 of the Amended Insurance Code (Republic Act No. 10607) also known as the "New Insurance Code". This circular clarify the rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all the other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies. Enumeration of Section 202 (Admitted Assets), Section 203 (Non-Admitted Assets) and Title IV (Investments) are included in the New Insurance Code. Furthermore, the Commission is issuing the "Manual of Accounts" to clarify the financial reporting framework to be adopted by life and nonlife insurance and professional reinsurance companies in the preparation of their financial statements for submission to the lnsurance Commission. The manual of accounts discusses the nature, types and recognition and measurement of each account in the financial statement. The circular will be fully implemented starting June 30, 2016, with a transition cut-off date of January 1, 2016.

Valuation Standards for Policy Reserves
Insurance Commission issued Circular Letter (CL) No. 2015-32 which provides the new set of valuation standards for Non-Life Insurance Policy Reserves. Pursuant to Sections 219 and 220 of the Amended Insurance Code (Republic Act No. 10607) which require every insurance company other than life insurance to maintain reserve for unearned premium and other special reserves. It is intended to cover both both direct and assumed reinsurance business, whether treaty or facultative, of non-life insurance companies. This circular primarily sets out the valuation method that should be used by insurance companies in determining the level of reserves that they should maintain. Further, the Actuary, as set out in the Amended Insurance Code, shall be responsible to determine the level of policy reserves of the company. Consequently, an actuarial valuation report shall be prepared on an annual basis and be submitted to Insurance Commission which must be certified by both the Actuary and Chief Executive Officer (CEO) or other responsible officer.

Risk-based Capital Requirements
IMC No. 7-2006 provides for the RBC framework for the nonlife insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every nonlife insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC.

The following table shows how the RBC ratio as of December 31, 2015 and 2014 was determined by the Company:

	2015	2014
Net worth	**₱508,370,973**	₱486,744,690
RBC requirement	**110,404,042**	104,917,580
RBC Ratio	**460%**	464%

The final RBC ratio can be determined only after the accounts of the Company have been examined by the IC. Further, the IC has yet to finalize the new RBC computation under the New Insurance Code.

If an insurance company failed to meet the minimum required MOS, fixed capitalization requirements and RBC requirements, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

On June 10, 2015, IC issued Circular No. 2015-30 pursuant to Section 194 of Amended Insurance Code (R.A 10607), all life and non-life insurance and professional reinsurance companies are required to participate in parallel runs for the RBC 2-QIS. The proposed RBC 2 template shall be filled in for the said parallel runs. This is in preparation for the upcoming RBC regulations for insurance industry.

Consolidated Compliance Framework
IMC No. 10-2006 integrated the compliance standards for the fixed capitalization and RBC framework. Under this IMC, subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC Hurdle Rate, provided that the industry complies with the required industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the RBC Hurdle Rates and Industry RBC Ratio Compliance Rates from 2007 to 2011. For the review year 2011 which shall be based on the 2010 synopsis, the RBC Hurdle Rate is 250% and the Industry RBC Ratio Compliance Rate is 90%.

On June 1, 2012, the DOF issued DOF Order 15-2012 which provides that after 2012, compliance with prescribed minimum paid-up capital requirement may be deferred for existing insurers that meet the RBC hurdle rate of 150%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirements for the period under review.

Insurance Risk
The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, when actual benefits paid are greater than originally estimated, and subsequent development of long-term claims.

The Company principally issues the following types of general insurance contracts: fire, motor car, marine insurance, personal accident insurance and miscellaneous casualty. Risks under general insurance policies usually cover a twelve-month period.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities.
These risks vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example, hurricanes, earthquakes and flood damages.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by management.

The following table sets out the concentration of the claims liabilities by type of contract:

December 31, 2015

	Gross Claims Liabilities	**Reinsurers' Share of Claims Liabilities**	**Net Claims Liabilities**
Fire	**₱5,142,280**	**₱60,786**	**₱5,081,494**
Motor	**21,129,224**	**1,606,748**	**19,522,476**
Miscellaneous casualty	**2,084,361**	**30,071**	**2,054,290**
Personal accident	**83,779**	**41,889**	**41,890**
Total	**₱28,439,644**	**₱1,739,494**	**₱26,700,150**

December 31, 2014

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	₱21,945,425	₱927,823	₱21,017,602
Motor	12,400,782	5,130,791	7,269,991
Miscellaneous casualty	621,661	–	621,661
Personal accident	214,236	101,867	112,369
Marine	5,799	378	5,421
Total	₱35,187,903	₱6,160,859	₱29,027,044

Terms and conditions
The major classes of general insurance written by the Company include motor car, fire and marine insurance. Risks under these policies usually cover a 12-month period.

For general insurance contracts, outstanding claims provisions (comprising provisions for claims reported by policyholders and IBNR) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

Claims provisions are separately analyzed by class of business. In addition, larger claims are usually either separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

Assumptions
The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and number of claims for each accident year. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions include variations in interest rates and delays in settlement.

Sensitivities
The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, etc., is not possible to quantify.

The analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant, on the statements of comprehensive income.

	2015			
	Change in Assumptions	**Impact on gross insurance contract liabilities**	**Impact on net insurance contract liabilities**	**Impact on income before income tax**
Average claim costs	66.20% increase	₱18,270,044	₱17,675,499	₱17,675,499
Average number of claims	9.30% decrease	(2,644,887)	(2,483,114)	(2,483,114)

	2014			
	Change in Assumptions	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	133.34% increase	₱46,919,550	₱38,704,660	₱38,704,660
Average number of claims	23.47% decrease	(8,258,601)	(6,812,647)	(6,812,647)

The average claim costs and number of claims were based on the Company's claims development experience for the past four years.

Claims Development Table
Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis for fire, marine and motor lines.

The tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

The Company aims to maintain strong reserves in respect of its general insurance in order to protect against adverse future claims experience and development. As claims develop and ultimate costs of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

Gross General Insurance Contract Liabilities for 2015

Accident year	Prior Years	2010	2011	2012	2013	2014	2015	Total
Estimate of ultimate claims costs:								
At the end of accident year	**₱353,071,396**	**₱69,769,173**	**₱39,969,096**	**₱87,690,629**	**₱53,694,688**	**₱51,088,459**	**₱40,955,858**	**₱40,955,858**
One year later	**354,663,871**	**69,769,173**	**39,969,096**	**87,690,629**	**53,694,688**	**52,625,309**	–	**52,625,309**
Two years later	**354,688,078**	**69,769,173**	**39,969,096**	**87,690,629**	**53,703,238**	–	–	**53,703,238**
Three years later	**354,795,555**	**69,769,173**	**39,969,096**	**87,690,629**	–	–	–	**87,690,629**
Four years later	**354,795,555**	**69,769,173**	**39,969,096**	–	–	–	–	**39,969,096**
Five years later	**354,795,555**	**69,769,173**	–	–	–	–	–	**69,769,173**
Six years later	**354,795,555**	–	–	–	–	–	–	**354,795,555**
Current estimate of cumulative claims	**354,795,555**	**69,769,173**	**39,969,096**	**87,690,629**	**53,703,238**	**52,625,309**	**40,955,858**	**699,508,858**
Cumulative payments to date	**(354,795,555)**	**(69,768,9173)**	**(39,620,074)**	**(87,654,642)**	**(53,677,284)**	**(51,347,591)**	**(14,204,895)**	**(671,069,214)**
Total gross insurance contract liabilities included in the statement of financial position	**₱–**	**₱–**	**₱349,022**	**₱35,987**	**₱25,954**	**₱1,277,718**	**₱26,750,963**	**₱28,439,644**

Net General Insurance Contract Liabilities for 2015

Accident year	Prior Years	2010	2011	2012	2013	2014	2015	Total
Estimate of ultimate claims costs:								
At the end of accident year	**₱121,860,618**	**₱49,789,140**	**₱15,040,851**	**₱39,092,392**	**₱34,284,428**	**₱33,988,613**	**₱36,114,672**	**₱36,114,672**
One year later	**122,968,576**	**49,789,140**	**15,040,851**	**39,092,392**	**34,284,428**	**35,393,690**	–	**35,393,690**
Two years later	**122,954,152**	**49,789,140**	**15,040,851**	**39,092,392**	**34,284,428**	–	–	**34,284,428**
Three years later	**123,026,083**	**49,789,140**	**15,040,851**	**39,092,392**	–	–	–	**39,092,392**
Four years later	**123,026,083**	**49,789,140**	**15,040,851**	–	–	–	–	**15,040,851**
Five years later	**123,026,083**	**49,789,140**	–	–	–	–	–	**49,789,140**
Six years later	**123,026,083**	–	–	–	–	–	–	**123,026,083**
Current estimate of cumulative claims	**123,026,083**	**49,789,140**	**15,040,851**	**39,092,392**	**34,284,428**	**35,393,690**	**36,114,672**	**332,741,256**
Cumulative payments to date	**(123,026,083)**	**(49,789,140)**	**(14,699,329)**	**(39,081,026)**	**(34,260,248)**	**(34,115,972)**	**(11,069,308)**	**(306,041,106)**
Total net insurance contract liabilities included in the statement of financial position	**₱–**	**₱–**	**₱341,522**	**₱11,366**	**₱24,180**	**₱1,277,718**	**₱25,045,364**	**₱26,700,150**

Fair values of Financial Instruments
Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and other receivables, insurance contract liabilities, insurance payables, and accounts payable and other liabilities, their carrying values reasonably approximate fair values at year-end.

The fair values of AFS financial assets that are actively traded in organized financial markets are determined by reference to quoted market bid prices, at the close of business on the reporting date or the last trading day as applicable. Unquoted AFS financial instruments are carried at cost, less any allowance for impairment loss. The fair values of HTM financial assets were determined using quoted market prices.

Due to long term nature of the HTM investments, its carrying value differs from its fair value. The fair value of HTM investments is based on the quoted market prices at the end the reporting date. The fair value of HTM investments amounted to ₱91.23 million and ₱71.87 million as of December 31, 2015 and 2014, respectively (see Note 7).

Fair Value Hierarchy
The Company considers its quoted AFS financial assets amounting to ₱70.53 million and ₱54.08 million as of December 31, 2015 and 2014, respectively, under Level 1 classification. There are no AFS financial assets which have been classified under the Level 2 and 3 categories. During the reporting period ended December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement (see Note 7).

HTM investments with fair values amounting to ₱91.23 million and ₱71.87 million as of December 31, 2015 and 2014, respectively, are considered to fall under Level 2 classification. None fell under Levels 1 and 3 categories (see Note 7).

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss.

Prior to extending credit, the Company manages its credit risk by assessing credit quality of its counterparty. The Company also manages its credit risk exposure through credit analysis. This is a process of assessing the credit quality of a counterparty, which is a process that includes judgment.

Credit risk limit is also used to manage credit exposure which specifies maximum credit exposure for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

The following table provides information regarding the credit risk exposure of the Company as of December 31, 2015 and 2014:

	2015	2014
Cash and cash equivalents (excluding cash on hand)	**₱42,822,256**	₱57,050,258
Short-term investments	**52,164,940**	13,563,686
Insurance receivables:		
Premiums receivable	**62,663,185**	57,026,983
Reinsurance recoverable on paid losses	**20,350,426**	30,209,337
Due from ceding companies	**6,550,460**	6,400,833
Funds held by ceding companies	**1,059,191**	1,059,191
Financial assets:		
FVPL	**3,780,336**	–
AFS	**70,532,848**	54,081,528
HTM investments	**87,709,762**	67,709,762
Loans and receivables		
Accounts receivable	**3,789,599**	5,336,025
Receivables from employees	**2,714,042**	3,651,729
Accrued interest income	**755,024**	1,125,829
Total	**₱354,892,069**	₱297,215,161

As of December 31, 2015 and 2014, the carrying values of the Company's financial instruments represent maximum exposure to credit risk at reporting date. The gross maximum exposure to credit risk of the Company approximates its net maximum exposure. There were no amounts that are set-off in accordance with the criteria in PAS 32 Financial Instruments: Presentation. There were no amounts subject to an enforceable master netting arrangement or similar agreement as of December 31, 2015 and 2014.

Since the Company transacts only with recognized, creditworthy third parties, there is no requirement for collateral. Insurance receivables and loans and receivables are highly collectible. Cash and cash equivalents are placed with reputable financial institution.

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

December 31, 2015

	Neither past due nor impaired			**Past due**	
	High	**Medium**	**Low**	**or impaired**	**Total**
Cash and cash equivalents (excluding cash on hand)	**₱42,822,256**	**₱–**	**₱–**	**₱–**	**₱42,822,256**
Short-term investments	**52,164,940**	**–**	**–**	**–**	**52,164,940**
Insurance receivables:					
Premiums receivable	**19,200,534**	**20,566,639**	**21,192,987**	**1,703,025**	**62,663,185**
Reinsurance recoverable on paid losses	**4,477,094**	**–**	**–**	**15,873,332**	**20,350,426**
Due from ceding companies	**1,965,138**	**–**	**–**	**4,585,322**	**6,550,460**
Funds held by ceding companies	**–**	**–**	**–**	**1,059,191**	**1,059,191**
FVPL	**3,780,336**	**–**	**–**	**–**	**3,780,336**
AFS	**52,561,968**	**–**	**–**	**28,885,018**	**81,446,986**
HTM investments	**87,709,762**	**–**	**–**	**–**	**87,709,762**
Loans and receivables:					
Accounts receivable	**3,789,599**	**–**	**–**	**–**	**3,789,599**
Receivables from employees	**2,714,042**	**–**	**–**	**–**	**2,714,042**
Accrued interest income	**755,024**	**–**	**–**	**–**	**755,024**
	₱271,940,693	**₱20,566,639**	**₱21,192,987**	**₱52,105,888**	**₱365,806,207**

December 31, 2014

	Neither past due nor impaired			Past due	
	High	Medium	Low	or impaired	Total
Cash and cash equivalents (excluding cash on hand)	₱57,050,258	₱–	₱–	₱–	₱57,050,258
Short-term investments	13,563,686	–	–	–	13,563,686
Insurance receivables:					
Premiums receivable	55,436,493	–	–	1,590,490	57,026,983
Reinsurance recoverable on paid losses	15,668,814	–	2,456,788	12,083,735	30,209,337
Due from ceding companies	1,884,845	–	1,123,547	3,392,441	6,400,833
Funds held by ceding companies	1,059,191	–	–	–	1,059,191
AFS	51,022,778			4,403,701	55,426,479
HTM investments	67,709,762	–	–	–	67,709,762
Loans and receivables:					
Accounts receivable	5,336,025	–	–	–	5,336,025
Receivables from employees	3,651,729	–	–	–	3,651,729
Accrued income	1,125,829	–	–	–	1,125,829
	₱273,509,410	₱–	₱3,580,335	₱21,470,367	₱298,560,112

The credit quality of the financial assets was classified by the Company as High grade, Medium grade and Low grade. High grade pertains to assets of the Company that are highly convertible to cash based on the Company's experience and those that are classified by the IC as readily admitted assets. Medium and low grade pertains to assets of the Company that are beyond the 30-day credit term and 60-day credit term, respectively, based on the Company's experience. Past due are those that are beyond the 90-day credit term which however are still collectible as these are corporate accounts wherein the Company has reciprocity of business.

The tables below show the analysis by age of financial assets that are past due but are not impaired.

December 31, 2015

	Neither past due nor impaired	**Age analysis of financial assets past due but not impaired**				**Total Past due but not impaired**	**Past due and Impaired**	**Total**
		< 30 days	**31 to 60 days**	**61 to 90 days**	**> 90 days**			
Insurance receivables								
Premiums receivable	**₱60,960,160**	**₱1,703,025**	**₱-**	**₱-**	**₱-**	**₱1,703,025**	**₱–**	**₱62,663,185**
Reinsurance recoverable on paid losses	**4,477,094**	**5,219,884**	**2,513,278**	–	**7,927,387**	**15,660,549**	**212,783**	**20,350,426**
Due from ceding companies	**1,965,138**	**735,382**	**378,197**	–	**3,471,743**	**4,585,322**	**-**	**6,550,460**
Funds held by ceding companies	**-**	**-**	**-**	**-**	**1,059,191**	**1,059,191**	**-**	**1,059,191**
Financial assets								
FVPL	**3,780,336**	**-**	**-**	**-**	**-**	**-**	**-**	**3,780,336**
AFS	**52,561,968**	**-**	**-**	**-**	**-**	**-**	**28,885,018**	**81,446,986**
Total	**₱123,744,696**	**₱7,658,291**	**₱2,891,475**	**₱–**	**₱11,399,130**	**₱23,008,087**	**₱29,097,801**	**₱175,850,584**

December 31, 2014

	Neither past due nor impaired	Age analysis of financial assets past due but not impaired				Total Past due but not impaired	Past due and Impaired	Total
		< 30 days	31 to 60 days	61 to 90 days	> 90 days			
Insurance receivables								
Premiums receivable	₱55,436,493	₱1,377,707	₱-	₱-	₱-	₱1,377,707	₱212,783	₱57,026,983
Reinsurance recoverable on paid losses	18,125,602	8,156,521	3,927,214	-	-	12,083,735	-	30,209,337
Due from ceding companies	3,008,392	2,240,291	1,152,150	-	-	3,392,441	-	6,400,833
AFS Financial assets	51,022,778	-	-	-	-	-	4,403,701	55,426,479
Total	₱127,593,265	₱11,774,519	₱5,079,364	-	-	₱16,853,883	₱4,616,484	₱149,063,632

The standard credit-term given by the Company is 90 days. However, accounts more than 90 days may be past due but not necessarily impaired. A 180-day credit term may be given for those accounts with reciprocal business and those accounts involving large amounts of sum insured or the jumbo accounts which as practiced are subject to quarterly remittance scheme.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The Company holds sufficient liquid assets to enable it to continue normal operations. To achieve this objective, the Company positions its investments to match the projected cash requirements.

To strike the optimal balance between generating adequate investment returns and holding securities that can be easily sold for cash if required, the Company divides its investment portfolio into tranches with liquidity objectives and benchmarks. The Company's core liquidity portfolio is invested in relatively liquid securities that can be readily sold if required. In addition to the core portfolio, the Company maintains a second tranche of liquidity that is always invested in the most highly liquid securities to cover its expected operational cash flow needs.

Maturity profile
The tables below summarize the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual maturities based on remaining contractual obligations, or for the insurance contract liabilities, based on the estimated timing of net cash outflows.

December 31, 2015	**Within a year***	**2-3 years**	**Over 3 years**	**No term**	**Total**
Loans and Receivables					
Cash and cash equivalents	**₱48,947,292**	**₱–**	**₱–**	**₱–**	**₱48,947,292**
Insurance receivables	**90,410,479**	–	–	–	**90,410,479**
Loans and receivables	**7,258,665**	–	–	–	**7,258,665**
HTM investments	**6,000,000**	**7,473,284**	**74,236,478**	–	**87,709,762**
AFS financial assets	–	–	–	**70,532,848**	**70,532,848**
FVPL	–	–	–	**3,780,336**	**3,780,336**
Total financial assets	**₱152,616,436**	**₱7,473,284**	**₱74,236,478**	**₱74,313,184**	**₱308,639,382**
Other Financial Liabilities					
Insurance contract liabilities	**₱29,216,627**	**₱–**	**₱–**	**₱–**	**₱29,216,627**
Insurance payables	**7,860,271**	–	–	–	**7,860,271**
Accounts payable and other liabilities	**28,713,138**	–	–	–	**28,713,138**
Total financial liabilities	**₱65,790,036**	**₱–**	**₱–**	**₱–**	**₱65,790,036**

**Includes on demand accounts*

December 31, 2014	Within a year*	2-3 years	Over 3 years	No term	Total
Loans and Receivables					
Cash and cash equivalents	₱59,848,915	₱–	₱–	₱–	₱59,848,915
Insurance receivables	94,483,561	–	–	–	94,483,561
Loans and receivables	10,113,583	–	–	–	10,113,583
HTM investments	13,563,686	6,000,000	61,709,762	–	81.273,448
AFS financial assets	–	–	–	54,081,528	54,081,528
Total financial assets	₱178,009,746	₱6,000,000	₱61,709,762	₱54,081,528	₱299,801,035
Other financial liabilities					
Insurance contract liabilities	₱35,964,886	₱–	₱–	₱–	₱35,964,886
Insurance payables	12,403,017	–	–	–	12,403,017
Accounts payable and other liabilities	2,044,520	–	–	–	2,044,520
Total financial liabilities	₱50,412,423	₱–	₱–	₱–	₱50,412,423

**Includes on demand accounts*

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: Foreign

exchange rate (currency risk), market interest rate (Fair value interest rate risk) and market price (equity price risk). The Company's market risk pertains only to equity price risk.

The Company structures levels of market risk it accepts through a market risk policy that determines what constitutes market risk for the Company; provides basis used to fair value financial assets and liabilities; establishes asset allocation and portfolio limit structure; provides diversification benchmarks by type of instrument; sets out the net exposure limits by each counterparty or group of counterparties and industry segments; establishes control over hedging activities; reports market risk exposures; monitors compliance with market risk policy; and reviews market risk policy for pertinence and changing environment.

Equity Price risk
The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally AFS equity securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, limits on investment in each sector and market, and careful and planned use of derivative instruments.

The analysis below is performed for reasonably possible movements in Philippine Stock Exchange index (PSEi) with all other variables held constant, showing the impact on OCI (that reflects adjustments on changes in fair value of AFS financial assets).

December 31, 2015

Market Indices	**Change in Variable**	**Impact on OCI**
PSEi	**+9.46%**	**₱6,669,615**
PSEi	**-9.46%**	**(6,669,615)**

December 31, 2014

Market Indices	Change in Variable	Impact on OCI
PSEi	+19.02%	₱9,298,068
PSEi	-19.02%	(9,298,068)

The reasonably possible movements in PSEi are based on the Company's stock composite index for the past three years.

24. Related Party Transactions

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

Compensation of key management personnel by benefit type follows:

	2015	2014
Short-term employee benefits	**₱7,177,500**	₱6,963,700
Post-employment benefits	**819,840**	840,100
	₱7,997,340	₱7,803,800

There are no agreements between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

Salary loans to key management personnel included under the caption "Receivables from employees" amounted to ₱2.70 million and ₱3.7 million as of December 31, 2015 and 2014 (see Note 7).

Directors' fees:
In 2015 and 2014, the Company paid directors' fees to the Company's board of directors totaling ₱1.30 million and ₱1.26 million in 2015 and 2014, respectively.

2015

Category	**Amount of transaction for the whole year**	**Outstanding Balance**	**Terms**	**Conditions**
Receivable from employees	**₱738,890**	**₱2,714,042**	Interest bearing; due and demandable	Unsecured, no impairment

2014

Category	Amount of transaction for the whole year	Outstanding Balance	Terms	Conditions
Receivable from employees	₱567,129	₱3,651,729	Interest bearing; due and demandable	Unsecured, no impairment

25. Reconciliation of Net Income Under PFRS to Statutory Net Income

The reconciliation of net income under PFRS to statutory net income follows:

	2015	2014
PFRS net income	**₱18,490,233**	₱30,389,460
Adjustments for:		
Deferred acquisition costs - net	**(714,011)**	(3,793,591)
Change in IBNR	**–**	(14,502)
Difference in change in provision for unearned premiums - net	**675,974**	3,695,293
Tax effect of PFRS adjustments	**11,411**	4,632,261
Statutory net income	**₱18,463,607**	₱34,908,921

26. Lease Commitments

The Company is a lessee under noncancellable operating leases covering offices and service centers. The leases have terms of only one year, with renewal options and include annual escalation rate of 10%. The future minimum rental payments under these noncancellable operating leases are ₱641,323 and ₱450,113 as of December 31, 2015 and 2014, respectively.

Rent expense charged against operations amounted to ₱6.19 million and ₱4.93 million in 2015 and 2014, respectively (see Note 20).

27. Contingencies

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes these will not have a material effect on the Company's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relative to these claims and other proceedings.

28. Supplementary Tax Information under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

VAT

The Company is a VAT-registered with VAT output tax declaration of ₱24,274,854 for the year based on the amount reflected in the Net premiums earned of ₱202,290,403.

The Company has no zero-rated and VAT exempt sales of goods and services in 2015.

The amount of input VAT taxes claimed is broken down as follows:

Balance at beginning of the year	₱4,772,342
Current year's purchases:	
Services lodged under other accounts	14,085,260
Input VAT applied to Output VAT	(18,857,602)
Balance at end of the year	₱–

The Company has no importation in 2015. The Company has no claims for tax credit/refund in 2015.

Documentary Stamp Tax (DST)

The Company paid/accrued DST on insurance policies amounting to ₱24,416,135 from earned premiums of ₱221,757,738 as of December 31, 2015.

Other Taxes and License Fees for 2015
This includes all other taxes, local and national, including real estate taxes, license and permit fees. Details consist of the following:

Local	
Real estate tax, licenses and other fees	₱206,141
Business permit	588,168
Insurance commission-supervision and examination fee	588,830
National	
Documentary stamp tax	375,472
VAT renewal fee	500
	₱1,759,111

Importations
The Company did not incur any excise tax in 2015.

Withholding Taxes
The amount of withholding taxes paid and accrued for the year amounted to:

Withholding taxes on compensation and benefits	₱5,429,483
Expanded withholding taxes	11,505,238
	₱16,934,721

Tax Contingencies
The Company has no Final Assessment Notice and/or Formal letter of Demand from the Bureau of Internal Revenue (BIR) for alleged deficiency income tax, VAT and withholding tax. In addition, the Company has no pending tax case outside the administration.