Prudential Guarantee and Assurance Incorporated

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
Prudential Guarantee and Assurance Incorporated

Report on the Financial Statements

We have audited the accompanying financial statements of Prudential Guarantee and Assurance Incorporated, which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and 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 Prudential Guarantee and Assurance Incorporated 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 No. 15-2010

The supplementary information required under Revenue Regulations No. 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of Prudential Guarantee and Assurance Incorporated in a separate schedule. Revenue Regulations No. 15-2010 requires the information to be presented in the notes to the financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

Djole S. Garcia

Djole S. Garcia
Partner
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November 25, 2015, valid until November 24, 2018
PTR No. 5321641, January 4, 2016, Makati City

April 29, 2016

PRUDENTIAL GUARANTEE AND ASSURANCE INCORPORATED
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2015	2014
ASSETS		
Cash and Cash Equivalents (Notes 4, 28 and 29)	**₱3,230,176,038**	₱2,453,724,351
Insurance Receivables - net (Notes 5, 19 and 28)	**1,594,800,441**	1,117,350,559
Financial Assets (Notes 6, 19 and 28)		
Financial assets at fair value through profit or loss	**94,148,872**	89,496,460
Available-for-sale	**244,663,769**	327,710,574
Loans and receivables - net	**93,277,668**	539,999,067
Accrued Income (Note 28)	**3,798,659**	1,825,280
Deferred Acquisition Costs (Note 7)	**659,562,197**	608,253,556
Reinsurance Assets (Notes 8, 12 and 28)	**2,043,484,047**	3,236,229,520
Investment Property (Note 9)	**20,994,381**	19,322,381
Property and Equipment - net (Note 10)	**582,081,748**	531,656,229
Other Assets (Note 11)	**587,675,380**	460,357,709
	₱9,154,663,200	₱9,385,925,686
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 12 and 28)	**₱3,651,867,554**	₱5,008,575,810
Insurance payables (Notes 13, 19 and 28)	**1,517,565,568**	1,211,875,518
Accounts payable and accrued expenses (Notes 14, 19 and 28)	**1,274,779,921**	737,427,264
Loans payable (Notes 15 and 28)	**60,047,027**	149,547,027
Deferred reinsurance commissions (Note 7)	**49,526,821**	21,976,701
Net pension obligation (Note 16)	**158,346,741**	177,240,610
Deferred income tax liabilities - net (Note 25)	**279,065,534**	164,046,857
Other liabilities (Notes 17 and 28)	**329,197,868**	339,273,059
	7,320,397,034	7,809,962,846
Equity		
Capital stock - ₱100 par value		
Authorized - 3,000,000 shares		
Issued and outstanding - 2,500,000 shares	**250,000,000**	250,000,000
Contributed surplus	**23,691,470**	23,691,470
Contingency surplus (Notes 6 and 18)	**169,066,267**	169,066,267
Revaluation reserve on available-for-sale financial assets (Note 6)	**21,159,102**	93,311,546
Remeasurements on defined benefit plan (Note 16)	**(80,927,714)**	(76,816,271)
Retained earnings	**1,451,277,041**	1,116,709,828
	1,834,266,166	1,575,962,840
	₱9,154,663,200	₱9,385,925,686

See accompanying Notes to Financial Statements.

PRUDENTIAL GUARANTEE AND ASSURANCE INCORPORATED
STATEMENTS OF INCOME

	Years Ended December 31	
	2015	2014
Gross premiums earned	**₱7,693,218,507**	₱6,492,448,211
Reinsurers' share of gross premiums earned	**(3,967,585,648)**	(3,007,548,410)
Net premiums earned (Notes 12, 19 and 20)	**3,725,632,859**	3,484,899,801
Commission income (Note 7)	**113,977,358**	159,490,708
Foreign currency exchange gains - net	**68,309,578**	60,420,928
Investment and other income - net (Note 21)	**30,458,431**	59,801,474
Gain on sale of available-for-sale financial assets (Note 6)	**39,094,691**	7,858,115
Other income (Note 22)	**78,315,978**	102,618,446
Other income	**330,156,036**	390,189,671
Total income	**4,055,788,895**	3,875,089,472
Gross insurance contract benefits and claims paid	**4,084,533,517**	3,153,448,764
Reinsurers' share of insurance contract benefits and claims paid	**(3,034,499,977)**	(1,631,363,903)
Gross change in insurance contract benefits and claims liabilities	**(877,048,019)**	(1,403,472,187)
Reinsurers' share of change in insurance contract benefits and claims liabilities	**975,906,349**	1,161,632,581
Net insurance contract benefits and claims (Notes 12 and 23)	**1,148,891,870**	1,280,245,255
Commission expense (Note 7)	**1,326,997,833**	1,187,104,918
Other underwriting expense	**178,281,740**	83,206,063
General expenses (Note 24)	**866,740,347**	838,557,777
Interest expense	**68,254,846**	193,474,245
Fair value loss on financial assets at fair value through profit or loss (Note 6)	**335,466**	264,736
Other expenses	**2,440,610,232**	2,302,607,739
Total insurance contract benefits, claims and other expenses	**3,589,502,102**	3,582,852,994
INCOME BEFORE INCOME TAX	**466,286,793**	292,236,478
PROVISION FOR INCOME TAX (Note 25)	**(131,719,580)**	(79,947,219)
NET INCOME (Note 27)	**₱334,567,213**	₱212,289,259

See accompanying Notes to Financial Statements.

PRUDENTIAL GUARANTEE AND ASSURANCE INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2015	2014
NET INCOME (Note 21)	**₱334,567,213**	₱212,289,259
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) that will be reclassified to profit or loss in subsequent periods:		
Net changes in the revaluation reserve on available-for-sale financial assets (Note 6)	**(72,152,444)**	13,984,543
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Remeasurements on defined benefit plan, net of tax effect (Note 16)	**(4,111,443)**	(4,849,941)
Total other comprehensive income (loss)	**(76,263,887)**	9,134,602
TOTAL COMPREHENSIVE INCOME	**₱258,303,326**	₱221,423,861

See accompanying Notes to Financial Statements.

PRUDENTIAL GUARANTEE AND ASSURANCE INCORPORATED

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 18)	Contributed Surplus (Note 18)	Contingency Surplus (Note 18)	Revaluation Reserve on Available-for-sale Financial Assets (Note 6)	Remeasurements on Defined Benefit Plan (Note 16)	Retained Earnings	Total
As of January 1, 2015	**₱250,000,000**	**₱23,691,470**	**₱169,066,267**	**₱93,311,546**	**(₱76,816,271)**	**₱1,116,709,828**	**₱1,575,962,840**
Net income for the year	**–**	**–**	**–**	**–**	**–**	**334,567,213**	**334,567,213**
Other comprehensive income (loss)	**–**	**–**	**–**	**(72,152,444)**	**(4,111,443)**	**–**	**(76,263,887)**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**(72,152,444)**	**(4,111,443)**	**334,567,213**	**258,303,326**
At December 31, 2015	**₱250,000,000**	**₱23,691,470**	**₱169,066,267**	**₱21,159,102**	**(₱80,927,714)**	**₱1,451,277,041**	**₱1,834,266,166**
As of January 1, 2014	₱250,000,000	₱23,691,470	₱119,066,267	₱79,327,003	(₱71,966,330)	₱904,420,569	₱1,304,538,979
Net income for the year	–	–	–	–	–	212,289,259	212,289,259
Other comprehensive income (loss)	–	–	–	13,984,543	(4,849,941)	–	9,134,602
Total comprehensive income (loss) for the year	–	–	–	13,984,543	(4,849,941)	212,289,259	221,423,861
Infusion of additional capital (Note 18)	–	–	50,000,000	–	–	–	50,000,000
At December 31, 2014	₱250,000,000	₱23,691,470	₱169,066,267	₱93,311,546	(₱76,816,271)	₱1,116,709,828	₱1,575,962,840

See accompanying Notes to Financial Statements.

PRUDENTIAL GUARANTEE AND ASSURANCE INCORPORATED
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱466,286,793**	₱292,236,478
Adjustments for:		
Interest expense	**68,254,846**	193,474,245
Depreciation and amortization (Notes 10, 11 and 24)	**50,482,564**	63,331,168
Dividend income (Notes 21 and 29)	**(3,535,327)**	(4,697,673)
Interest income (Note 21)	**(31,111,150)**	(25,602,607)
Gain on sale of AFS financial assets	**(39,094,691)**	(7,858,116)
Gain on sale of fixed assets (Notes 9, 10 and 22)	**(6,887)**	(274,106)
Impairment loss on AFS financial assets (Notes 6 and 21)	**4,332,133**	2,007,942
Fair value loss on financial assets at fair value through profit or loss (Note 6)	**335,466**	1,158,500
Loss (gain) on redemption - FVPL (Notes 6 and 21)	**(144,087)**	93,264
Operating income before working capital changes	**515,799,660**	513,869,095
Decrease (increase) in:		
Reinsurance assets	**1,192,745,473**	1,021,963,383
Insurance receivables	**(477,449,882)**	371,881,802
Loans and receivables	**446,721,399**	(330,432,243)
Deferred acquisition costs	**(51,308,641)**	(105,472,088)
Other assets	**(130,440,033)**	(143,683,998)
Increase (decrease) in:		
Insurance contract liabilities	**(1,356,708,256)**	(1,285,951,899)
Insurance payables	**305,690,050**	386,635,507
Accounts payable and accrued expenses	**535,680,657**	(538,271,490)
Deferred reinsurance commissions	**27,550,120**	(11,325,603)
Net pension obligation	**(24,767,359)**	(23,997,041)
Other liabilities	**(10,075,191)**	152,977,744
Net cash generated from operations	**973,437,997**	8,193,169
Income tax paid	**(14,938,856)**	(18,888,331)
Net cash from (used in) operating activities	**958,499,141**	(10,695,162)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**₱29,666,338**	₱25,608,557
Dividends received	**3,006,760**	4,697,673
Acquisitions of:		
Financial assets at fair value through profit or loss (Note 6)	**(35,843,791)**	(86,414,482)
Property and equipment (Note 10)	**(97,795,616)**	(79,513,559)
Available-for-sale financial assets (Notes 6 and 29)	**(56,876,053)**	(84,177,964)
Investment property (Note 9)	**–**	(1,380,000)
Proceeds from disposals and maturities of:		
Available-for-sale financial assets (Notes 6 and 29)	**102,532,972**	222,680,127
Financial assets at fair value through profit or loss (Note 6)	**31,000,000**	59,800,000
Investment property (Note 9)	**–**	288,000
Property and equipment (Note 10)	**16,782**	67,102
Net cash from (used in) investing activities	**(24,292,608)**	61,655,454

(Forward)

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES		
Infusion of additional capital (Note 18)	**₱–**	₱50,000,000
Interest paid	**(68,254,846)**	(193,474,245)
Payments of loans payable (Note 15)	**(89,500,000)**	(49,287,781)
Net cash used in financing activities	**(157,754,846)**	(192,762,026)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**776,451,687**	(141,801,734)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,453,724,351**	2,595,526,085
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,230,176,038**	₱2,453,724,351

See accompanying Notes to Financial Statements.

1. Corporate Information

Prudential Guarantee and Assurance Incorporated (the Company) was incorporated in the Philippines to engage in the business and operation of all kinds of insurance on sea, land and air, of properties, goods and merchandise, transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company was registered with the Securities and Exchange Commission (SEC) on February 20, 1950. On March 8, 1999, it was approved by at least a majority of the Board of Directors (BOD) and the stockholders owning and representing at least two-thirds (2/3) of the outstanding capital stock, that the Articles of Incorporation will be amended to extend the existence of the Company to another fifty (50) years from its original expiry date. The Philippine SEC approved the Amended Articles of Incorporation on September 27, 1999.

The registered office address of the Company is Coyiuto House, 119 C. Palanca, Jr. Street, Legaspi Village, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD of the Company on April 29, 2016.

2. Summary of Significant Accounting Policies

Basis of Preparation
The financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value.

The accompanying financial statements are presented in Philippine Peso (₱), which is also the Company’s functional currency. All amounts are rounded to the nearest peso values, unless otherwise indicated.

Statement of Compliance
The accompanying 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.

The nature and impact of each new standard and amendment is described below:

- 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. The amendment has no impact to the Company.

<u>Annual Improvements to PFRSs 2010-2012 cycle</u>
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and do not 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 amendment has no impact to the Company.

- 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. The amendment has no impact to the Company.

- 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. The application of these amendments has no material impact on the disclosure on the company financial statements.

<u>Annual Improvements to PFRSs 2011-2013 cycle</u>
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and do not 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).

Standards issued but not yet effective
Enumerated below are standards issued but not yet effective as of to date of issuance of the company financial statements. The Company will adopt relevant standards when these become effective. The Company does not expect the adoption of these new and amended PFRS to have significant impact on the company financial statements.

Deferred

- 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. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

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. These amendments are not expected to have any impact to the Company since it has no intangible assets.

- 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, 2016, 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* (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. The Company is currently assessing the impact of adopting this standard.

- 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 IFRS 16 is not expected to have any significant impact on the Company's financial statements.

Use of Estimates, Assumptions and Judgments
The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities

and contingent liabilities at the end of the reporting period as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the end of the reporting period, the actual outcome may differ from these estimates, possibly significantly. For further information on critical accounting estimates and judgments, refer to Note 3.

Product Classification

Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted 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 policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment Contracts

Investment Contracts mainly transfer financial risk but can also transfer insignificant risk.

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

Foreign Currency Transactions and Translations

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are recognized in profit or loss, except where it relates to equity securities where gains or losses are recognized in other comprehensive income.

Fair Value Measurement

The Company measures financial instruments, such as financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets, at fair value at each reporting date.

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

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

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

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

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

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

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

- *Level 1* - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- *Level 2* - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable
- *Level 3* - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable

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

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.

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

<u>Short-term Investments</u>
Short term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

<u>Insurance Receivables</u>
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 the statement of income.

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

<u>Financial Instruments</u>
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 of the consideration given (in case of an asset) or received (in the case of a liability). 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: financial assets at FVPL, AFS financial assets, loans and receivables and held to maturity (HTM). The Company classifies its financial liabilities into financial liabilities at FVPL and other 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 end of the reporting period.

As of December 31, 2015 and 2014, the Company's financial instruments are in the nature of financial assets at FVPL, AFS financial assets, loans and receivables and other financial liabilities.

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 the statement of income 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 the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets or financial liabilities at FVPL
This category consists of financial assets or financial liabilities that are held for trading or designated by management as at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets or financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or (b) the assets or liabilities are part of a group of financial assets or liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset or financial liabilities contains an embedded derivative that would need to be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in the statement of income, included under the fair value gains account.

The Company's financial assets at FVPL as of December 31, 2015 and 2014 consist of government securities bills, which were designated as financial assets at FVPL upon initial recognition. There are no financial liabilities at FVPL recorded by the Company as of December 31, 2015 and 2014.

Loans and receivables
Loans and receivables are nonderivative 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 at FVPL. This accounting policy relates to the statement of financial position captions: (a) "Cash and cash equivalents", (b) "Insurance receivables", (c) "Loans and receivables" and (d) "Accrued income".

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any 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 recorded as "Interest income" in the statement of income. The loss arising from impairment of such loans and receivables are recognized in the statement of income. Any effects of restatement of foreign currency-denominated assets are recognized in the 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 as financial assets at FVPL, HTM financial assets 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 are subsequently measured at fair value. For AFS debt securities, the effective yield component of it, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. Interest earned on holding AFS are recorded as "Interest income" in the statement of income using the effective interest rate. Dividends earned on holding AFS are recognized in the statement of income when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS are reported as "Revaluation reserve on available-for-sale financial assets" in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized as Impairment losses on AFS in the statement of income under the Investment and other income - net account. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Where the Company holds more than one investment in the same security, the cost used is determined using the weighted average method.

When the fair value of an unquoted AFS equity instruments cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value, these investments are carried at cost, less any allowance for impairment losses.

The Company's AFS as of December 31, 2015 and 2014 consist primarily of listed shares in the Philippine Stock Exchange and country and club shares which were designated as AFS upon initial recognition.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the 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 securities. 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 an integral part of the effective interest rate. Gains and losses are recognized in income 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 the statement of income. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

In 2015 and 2014, the Company has not classified any of its financial assets as HTM investments.

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 the statement of income.

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

Impairment of Financial Assets
The Company assesses at each end of the reporting period 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.

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually 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 objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset'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. Time value is generally not considered when the effect of discounting is not material. 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 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.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of income. 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 the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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
In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement - is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

In case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recognized in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

AFS financial assets carried at cost
If there is an objective evidence that an impairment loss 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 has been incurred, 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.

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

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized 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.

Where 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 consideration that the Company could be required to repay.

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

<u>Reinsurance</u>
The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances recoverable from unpaid losses incurred by the Company with coverage from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and the deferred reinsurance premiums and are in accordance with the reinsurance contract.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract, and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income.

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. Premiums and claims on assumed reinsurance are recognized 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 expire, are extinguished or when the contract is transferred to another party.

<u>Deferred Acquisition Costs (DAC)</u>
Commission and other acquisition costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged to expense in proportion to the

premium revenue recognized. Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract except for marine cargo where commissions for the last two months of the year are recognized as expense the following year. Amortization is charged against the statement of income. The unamortized acquisition costs are shown in the assets section of the Statement of Financial Position as Deferred acquisition costs. All other acquisition costs are recognized as incurred.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the statement of income. The DAC is also considered in the liability adequacy test for each end of the reporting period.

Investment Property

Investment property is measured initially at cost, including transaction costs. Investment property pertains to property that is held to earn rent income or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

The Company's investment property consists of parcels of land which is carried at cost less any impairment loss.

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

Transfers are made to investment property when there is a change in use, evidenced by ending 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. Transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any 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. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is calculated using the straight-line method over the estimated useful life of the corresponding asset. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful life. The estimated useful lives of items of property and equipment are as follows:

	Years
Office furniture, fixtures and equipment	5-10
Transportation equipment	5-10
Leasehold improvements	10
Building and building improvements	20

Computer Software
Cost associated with the acquisition or maintaining computer software programs are recognized as expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Company, which will generate economic benefits beyond one year, are recognized as intangible assets.

Expenditure which enhances or extends the performance of computer software programs beyond their original specifications are capitalized and added to the original cost of the software. Computer software development costs are recognized as assets are carried at cost less accumulated amortization. The costs are amortized using the straight-line method over their estimated useful lives of five (5) years.

Impairment of Nonfinancial Assets
The Company assesses at each reporting date whether there is an indication that property and equipment, investment property and computer software 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.

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 such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining estimated useful life.

Creditable Withholding Taxes (CWTs)
Creditable withholding taxes pertain to the taxes paid by the Company withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under "Other assets" account.

At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company. If these CWTs are claimed as a refund, these will be recorded as a receivable under "Loans and receivables" account.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of these CWTs.

Value-added Tax (VAT)
The input value added tax pertains to the 12% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services and is separately presented under the "Other assets" account.

Output VAT pertains to the 12% tax due on the sale of insurance policies and other goods or services by the Company and is included in the "Taxes payable" under the "Accounts Payable and Accrued Expenses" account.

Insurance Contract Liabilities
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. 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 premiums for the last two months are considered earned the following year. The change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized 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
Provision for claims reported and IBNR are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date 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. The liability is derecognized when the contract is discharged, cancelled or has expired.

Liability adequacy test
At each reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of related DAC assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged against the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The reserve for unexpired risk is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

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

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

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified 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 other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements recognized in OCI after the initial adoption of PAS 19 (Revised) are not closed to any other equity account.

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

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

Equity
Capital stock represents the value of shares that have been issued at par. Proceeds and or fair value of considerations received in excess of par value, if any, are recognized as “Contributed

Surplus". The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of the transaction and are deducted from "Contributed Surplus".

Contingency surplus pertains to capital infusions of shareholders to cover any deficiency in the solvency requirements by Insurance Commission and can be withdrawn only upon approval of the same.

Retained earnings include all the accumulated earnings of the Company less any dividends declared.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits associated with the transaction 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 revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Premiums 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 of the last two months of the year. The portion of the premiums written and assumed that relate to the unexpired periods of the policies as of reporting date are accounted for as provision for unearned premiums and presented in the liabilities section of the statement of financial position under "Insurance contract liabilities" account. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums and presented in the assets section of the statement of financial position under "Reinsurance assets" account. 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 contracts using the 24th method except for 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 relates to the unexpired periods of the policies at the reporting date is accounted for as deferred reinsurance commissions and presented in the liabilities section of the statement of financial position.

Interest income
Interest income is recognized in the statement of income 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 method.

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

Contingent profit commission
The contingent profit commission represents the allowance from the reinsurers to the Company based on a predetermined percentage of the profit realized by the reinsurers on the business ceded by the Company.

Rental income
Rental income is recognized on a straight-line basis over the term of the lease agreement.

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

Benefits and claims
Gross benefits and claims consists of benefits and claims paid to policyholders, which include changes in the gross valuation of insurance contract liabilities, except for gross changes in the provision for unearned premiums which are recorded in gross premiums earned. 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 and are offset against the related claims. Insurance claims are recorded on the basis of notification received.

Other underwriting expenses
Other underwriting expense pertains to the costs incurred by the Company prior to the issuance of policies to its policyholders. These costs include expenses for technical inspections, actuarial reviews and other work that is necessary to determine whether or not to accept the risks to be written. These costs are recognized as expense as they are incurred.

General expenses
General expenses are recognized in the statement of income as they 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; or
d. There is a substantial change to the asset.

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

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments on operating leases are recognized on a straight-line basis over the lease term.

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. The Company has not entered into a finance lease in 2015 and 2014.

Company as a Lessee
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remains with the lessor. Operating lease payments are recognized as an expense in the statements of comprehensive income on a straight-line basis over the lease term.

Company as a Lessor
Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

<u>Income Tax</u>
Current tax
Current tax assets and liabilities 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 substantively enacted at the end of the reporting period.

Deferred income tax
Deferred income 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefit of the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of MCIT and unused NOLCO can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are credited to or charged against income for the period. Current tax and deferred income tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the statement of income.

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

Provisions
Provisions are recognized only 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 the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the 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. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

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

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

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

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

Classification of financial assets
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 prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Operating leases - Company as Lessee
The Company has entered into commercial property leases with various lessors. The Company has determined that the lessors retain all the significant risks and rewards of ownership of the leased properties, thus, the Company accounts for them as operating leases.

Operating leases - Company as a Lessor
The Company has entered into commercial property leases on its building. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of this property and so accounts for the contracts as operating leases.

Distinction between investment property and owner-occupied property
The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generates cash flows independently of the other assets held by the entity. Owner-occupied property generates cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Determination of fair values of financial assets
Fair value determinations for financial assets are based generally on listed market prices or broker or dealer price quotations. 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. The use of assumptions could produce materially different estimates of fair value.

Valuation of insurance contract liabilities
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 IBNR claims at the end of the reporting period. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claims settlement trends to predict future claims settlement trends. At each end of the reporting period, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Insurance contract liabilities are not discounted for the time value of money.

The 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 claim 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 claims reported and IBNR amounted to ₱1,846,340,972 and ₱2,723,388,991 as of December 31, 2015 and 2014, respectively (see Notes 12 and 28).

Impairment of AFS equity financial assets
The Company determines that AFS equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Company treats ‘significant’ generally as 20% or more and ‘prolonged’ as greater than twelve (12) months for equity securities. In addition, the Company evaluates among other factors, the normal volatility in share price for quoted securities, and the future cash flows and the discount factors for unquoted securities. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As of December 31, 2015 and 2014, the carrying value of the Company’s AFS equity financial assets amounted to ₱244,663,769 and ₱327,710,574, respectively. Impairment losses recognized on AFS equity financial assets amounted to ₱4,332,133 and ₱2,007,942 in 2015 and 2014, respectively (see Note 6).

Estimation of allowance for impairment losses on receivables
The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. 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, the length of the Company’s relationship with the debtor, the debtor’s payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates.

The carrying value of insurance receivables amounted to ₱1,594,800,441 and ₱1,117,350,559 as of December 31, 2015 and 2014, respectively. The allowance for impairment losses on insurance receivables amounted to ₱58,987,948 and ₱52,609,712 as of December 31, 2015 and 2014, respectively (see Note 5).

The carrying value of loans and receivables amounted to ₱93,277,668 and ₱539,999,067 as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, no allowance for impairment losses on loans and receivables is provided (see Note 6).

Estimation of useful lives of property and equipment and computer software
The Company reviews annually the estimated useful lives of property and equipment and computer software based on expected asset utilization. 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 would increase recorded depreciation and amortization expense and decrease the related asset accounts.

The Company’s review indicated that the actual lives of building and building improvements were longer than the estimated useful lives used for depreciation purposes in the Company’s financial statements. As a result, effective January 1, 2015, the Company changed its estimates of the useful lives of its building and building improvements to better reflect the estimated periods during which these assets will remain in service. The estimated useful lives of the building and building improvements that previously averaged ten years were increased to an average of 20 years. The effect of this change in estimate reduced 2015 depreciation expense by ₱20,849,384 and increased 2015 net income by ₱14,594,569.

As of December 31, 2015 and 2014, the carrying value of property and equipment amounted to ₱582,081,748 and ₱531,656,229, respectively (see Note 10), while the carrying value of computer software amounted to ₱1,706,876 and ₱4,303,854, respectively (see Note 11).

Evaluation of impairment of property and equipment, investment property and computer software
The Company assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the 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 assets; and
- significant negative industry or economic trends.

As of December 31, 2015 and 2014, The Company has not recognized any impairment losses on its nonfinancial assets.

Recognition of deferred income tax assets
The Company reviews the carrying amounts of deferred income tax assets at each end of the reporting period and reduces it to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Company believes that it will generate sufficient taxable profit to allow all or part of the deferred income tax assets to be utilized.

As of December 31, 2015 and 2014, the Company has recognized deferred income tax assets amounting to ₱219,272,096 and ₱173,884,282, respectively (see Note 25).

Estimation of pension obligation
The determination of pension obligation and cost of pension is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates.

Due to the long-term nature of this plan, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately in other comprehensive income in the period in which they arise. 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 obligations. See Note 16 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2015	2014
Cash on hand	**₱329,800**	₱562,595
Special fund	**2,791,099**	2,291,099
Cash in banks (Note 28)	**2,112,759,212**	1,766,776,412
Short-term deposits in commercial banks (Note 28)	**1,114,295,927**	684,094,245
	₱3,230,176,038	₱2,453,724,351

Cash in banks earns interest at the respective bank deposit rates (see Note 21). Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing short-term deposit rates (see Note 21).

5. Insurance Receivables - Net

This account consists of:

	2015	2014
Due from agents and brokers	**₱679,742,316**	₱206,409,992
Reinsurance recoverable on paid losses	**899,405,480**	837,565,320
Due from ceding companies	**74,640,593**	125,984,959
	1,653,788,389	1,169,960,271
Less allowance for impairment losses	**58,987,948**	52,609,712
	₱1,594,800,441	₱1,117,350,559

The aging analysis of insurance receivables follows:

December 31, 2015

	1 to 30 days	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**121 to 360 days**	**Over 360 days**	**Total**
Due from brokers and agents	**₱202,916,777**	**₱204,914,297**	**₱133,138,239**	**₱126,918,495**	**₱11,854,508**	**₱–**	**₱679,742,316**
Reinsurance recoverable on paid losses	**122,825,265**	**55,763,944**	**43,678,499**	**142,643,425**	**326,868,760**	**207,625,587**	**899,405,480**
Due from ceding companies	**17,212,858**	**23,568,493**	**16,959,922**	**11,319,425**	**5,533,650**	**46,245**	**74,640,593**
	₱342,954,900	**₱284,246,734**	**₱193,776,660**	**₱280,881,345**	**₱344,256,918**	**₱207,671,832**	**₱1,653,788,389**

December 31, 2014

	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	Total
Due from brokers and agents	₱132,572,119	₱35,322,829	₱38,515,044	₱–	₱–	₱–	₱206,409,992
Reinsurance recoverable on paid losses	239,952,257	98,323,790	190,490,718	23,666,412	115,331,921	169,800,222	837,565,320
Due from ceding companies	97,322,878	8,117,405	8,708,010	8,299,635	3,500,057	36,974	125,984,959
	₱469,847,254	₱141,764,024	₱237,713,772	₱31,966,047	₱118,831,978	₱169,837,196	₱1,169,960,271

The following is a reconciliation of the changes in allowance for impairment losses for insurance receivables:

	2015			
	Reinsurance recoverable on paid losses	**Due from ceding companies**	**Funds held by ceding companies**	**Total**
At January 1	**₱52,609,712**	**₱–**	**₱–**	**₱52,609,712**
Additions (Note 24)	**6,378,236**	**–**	**–**	**6,378,236**
At December 31	**₱58,987,948**	**₱–**	**₱–**	**₱58,987,948**

	2014			
	Reinsurance recoverable on paid losses	Due from ceding companies	Funds held by ceding companies	Total
At January 1	₱51,001,046	₱–	₱–	₱51,001,046
Additions (Note 24)	1,608,666	–	–	1,608,666
At December 31	₱52,609,712	₱–	₱–	₱52,609,712

As of December 31, 2015 and 2014, Reinsurance recoverable on paid losses with carrying values amounting to ₱58,987,948 and ₱52,609,712, respectively, were specifically identified to be impaired and were fully provided with allowances.

6. Financial Assets

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

	2015	2014
Financial assets at FVPL (Note 28)	**₱94,148,872**	₱89,496,460
AFS financial assets	**244,663,769**	327,710,574
Loans and receivables - net	**93,277,668**	539,999,067
	₱432,090,309	₱957,206,101

a) *Financial Assets at FVPL*

Financial assets at FVPL consist of treasury bills and notes denominated in Philippine Peso, which were designated as at FVPL upon initial recognition.

The rollforward analysis of financial assets at FVPL follows:

	2015	2014
Balance at beginning of year	**₱89,496,460**	₱64,133,742
Acquisitions	**35,843,791**	86,414,482
Fair value losses	**(335,466)**	(264,736)
Gain (loss) on redemption (Note 21)	**144,087**	(93,264)
Amortization of premium	**–**	(893,764)
Disposals/maturities	**(31,000,000)**	(59,800,000)
Balance at end of year	**₱94,148,872**	₱89,496,460

b) *AFS Financial Assets*

This account consists of:

	2015	2014
Quoted securities - at fair value		
Listed equity securities:		
Common shares	**₱168,328,250**	₱267,140,615
Preferred shares	**31,109,560**	13,224,000
Club shares	**39,775,000**	39,570,000
Nonquoted securities - at cost		
Unlisted common shares	**5,450,959**	5,450,959
Club shares	**–**	2,325,000
Total AFS financial assets recognized in the statements of financial position	**₱244,663,769**	₱327,710,574

	2015	2014
Quoted securities - at cost		
Listed equity securities		
Common shares - net of impairment loss of ₱2,287,133 and ₱2,007,942 in 2015 and 2014, respectively (Note 21)	**₱187,563,208**	₱212,470,069
Preferred shares	**29,057,500**	13,000,000
Club shares - net of impairment loss of ₱2,045,000 in 2015 (Note 21)	**1,433,000**	1,153,000
Nonquoted securities - at cost		
Unlisted common shares	**5,450,959**	5,450,959
Club shares	**–**	2,325,000
Total AFS financial assets at cost	**₱223,504,667**	₱234,399,028

The rollforward analysis of AFS financial assets follows:

	2015	2014
At January 1	**₱327,710,574**	₱446,378,021
Acquisitions (Note 29)	**56,876,053**	84,177,964
Disposals (Note 29)	**(102,532,972)**	(222,680,127)
Fair value gains (losses) recognized in other comprehensive income	**(37,389,886)**	19,834,716
At December 31	**₱244,663,769**	₱327,710,574

As of December 31, 2015 and 2014, movements of revaluation reserve on available-for-sale financial assets follow:

	2015	2014
At January 1	**₱93,311,546**	₱79,327,003
Fair value gains (losses) recognized in other comprehensive income	**(37,389,886)**	19,834,716
Transferred to profit or loss	**(39,094,691)**	(7,858,115)
Impairment loss (Note 21)	**4,332,133**	2,007,942
At December 31	**₱21,159,102**	₱93,311,546

c) *Loans and Receivables - net*

This account consists of:

	2015	2014
Short-term investments (Note 28)	**₱82,521,147**	₱328,926,775
Employee receivables (Note 19)	**9,296,659**	8,655,287
Mortgage loans receivables (Note 19)	**580,569**	–
Other receivables	**879,293**	202,417,005
	₱93,277,668	₱539,999,067

Short-term investments interest rate ranges from 0.50% to 1.50% and 0.38% to 4.50% in 2015 and 2014, respectively.

In 2015, the Company collected unpaid portion of the proceeds from sale of investments in shares of stocks classified as 'AFS financial assets' amounting to ₱201,870,211 which was classified as 'Other receivables' as of December 31, 2014.

7. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs

The rollforward analysis of this account follows:

	2015	2014
At beginning of the year	**₱608,253,556**	₱502,781,468
Cost deferred during the year	**1,378,306,474**	1,292,577,006
Amortization during the year	**(1,326,997,833)**	(1,187,104,918)
At end of the year	**₱659,562,197**	₱608,253,556

Deferred Reinsurance Commissions

The rollforward analysis of this account follows:

	2015	2014
At beginning of the year	**₱21,976,701**	₱33,302,304
Income deferred during the year	**141,527,478**	148,165,105
Amortization during the year	**(113,977,358)**	(159,490,708)
At end of the year	**₱49,526,821**	₱21,976,701

8. **Reinsurance Assets**

This account consists of:

	2015	2014
Reinsurance recoverable on unpaid losses (Note 12)	**₱1,194,292,367**	₱2,170,198,716
Deferred reinsurance premiums (Note 12)	**849,191,680**	1,066,030,804
	₱2,043,484,047	₱3,236,229,520

9. **Investment Property**

The investment property pertains to three (3) parcels of land acquired and foreclosed which are held for capital appreciation. As of December 31, 2015 and 2014, the carrying value of investment property amounted to ₱20,994,381 and ₱19,322,381, respectively.

The first parcel of land is composed of 18 residential lots with an area of 300 square meters (sqm) each. This is located in Alta Mira Subdivision, Puerto Azul, Brgy. Sapang, Ternate, Cavite. As of March 12, 2014, the fair market value of the first parcel of land is ₱17,820,000 determined using the Market Data Approach. The fair values of the properties are based on valuations performed by CAL-FIL Appraisal And Management, Inc. (CFAMI), an accredited independent valuer. CFAMI is a specialist in valuing these types of investment properties.

Market Data approach is a technique which requires the establishment of comparable property by reducing comparative sales and listings to a common denominator with the subject. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. Comparisons are premised on the factors of location, land use, physical characteristics of the land and time element.

The highest and best use of the first parcel of land is to convert the same for residential use. For strategic reasons, the property is not being used in this manner.

The second parcel of land is located in Brgy. Malabog Daraga, Albay. This is composed of five (5) residential lots, with an area of 240 sqm each. The fair market value of the land cannot be measured reliably due to its location. The land is found near the base of Mt. Mayon making it exposed to the constant threats posed by the volcano. The market for comparable properties is inactive and alternative reliable measurements of fair value are not available. In 2014, the Company has sold three (3) parcels of land for ₱288,000 with book values amounting to ₱17,895 resulting to a gain on sale of ₱270,105.

In 2014, the Company acquired a parcel of land located in Tarlac amounting to ₱1,380,000. The company assessed that the carrying amount of this investment property as of December 31, 2014 approximate the fair value of the investment property given that the property is considered a recent acquisition.

The Company classifies its investment property under Level 3 of the fair value hierarchy.

10. **Property and Equipment - net**

The rollforward analysis of this account as of December 31, 2015 and 2014 follows:

	2015					
	Land	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Building and Building improvements**	**Total**
Cost						
Balance at beginning of year	**₱243,865,415**	**₱237,598,160**	**₱27,476,071**	**₱113,878,258**	**₱236,929,819**	**₱859,747,723**
Reclassification (Note 11)	–	**2,340,773**	–	–	–	**2,340,773**
Additions	–	**33,025,814**	**285,000**	**30,612,357**	**33,872,445**	**97,795,616**
Disposals	–	**(114,306)**	–	–	–	**(114,306)**
Balance at end of year	**243,865,415**	**272,850,441**	**27,761,071**	**144,490,615**	**270,802,264**	**959,769,806**
Accumulated Depreciation						
Balance at beginning of year	–	**158,554,534**	**24,418,512**	**84,692,444**	**60,426,004**	**328,091,494**
Reclassification (Note 11)	–	**39,013**	–	–	–	**39,013**
Depreciation (Note 24)	–	**38,347,371**	**1,027,108**	**5,885,692**	**4,401,791**	**49,661,962**
Disposal	–	**(104,411)**	–	–	–	**(104,411)**
Balance at end of year	–	**196,836,507**	**25,445,620**	**90,578,136**	**64,827,795**	**377,688,058**
Net Book Value	**₱243,865,415**	**₱76,013,934**	**₱2,315,451**	**₱53,912,479**	**₱205,974,469**	**₱582,081,748**

	2014					
	Land	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Building and Building improvements	Total
Cost						
Balance at beginning of year	₱243,865,415	₱222,809,830	₱27,476,071	₱102,835,025	₱183,535,046	₱780,521,387
Additions	–	15,041,307	–	11,077,479	53,394,773	79,513,559
Disposals	–	(252,977)	–	(34,246)	–	(287,223)
Balance at end of year	243,865,415	237,598,160	27,476,071	113,878,258	236,929,819	859,747,723
Accumulated Depreciation						
Balance at beginning of year	–	128,727,308	23,400,906	77,551,551	39,740,886	269,420,651
Depreciation (Note 24)	–	30,051,438	1,017,606	7,140,893	20,685,118	58,895,055
Disposal	–	(224,212)	–	–	–	(224,212)
Balance at end of year	–	158,554,534	24,418,512	84,692,444	60,426,004	328,091,494
Net Book Value	₱243,865,415	₱79,043,626	₱3,057,559	₱29,185,814	₱176,503,815	₱531,656,229

11. **Other Assets**

This account consists of:

	2015	2014
Creditable withholding taxes	**₱309,589,349**	₱219,757,117
Input VAT	**243,512,932**	222,140,788
Refundable deposits	**20,675,071**	13,836,630
Prepayments	**11,876,658**	214,826
Computer software – net	**1,706,876**	4,303,854
Security fund	**104,494**	104,494
Others	**210,000**	–
	₱587,675,380	₱460,357,709

Creditable withholding taxes represent the taxes withheld at source by the counterparty which can be applied against future income tax liability.

Input VAT represents VAT imposed on the Company by its suppliers and contractors for the acquisition of goods and services which can be applied against output VAT liabilities.

Refundable deposits pertain to deposits paid by the Company which are refundable at the end of the contract.

The movements in computer software follow:

	2015	2014
Cost		
At January 1	**₱25,754,866**	₱22,534,879
Reclassification (Note 10)	**(2,340,773)**	–
Additions	**525,384**	3,219,987
At December 31	**23,939,477**	25,754,866
Accumulated amortization		
At January 1	**21,451,012**	17,014,899
Reclassification (Note 10)	**(39,013)**	–
Amortization during the year (Note 24)	**820,602**	4,436,113
At December 31	**22,232,601**	21,451,012
Net book value	**₱1,706,876**	₱4,303,854

12. **Insurance Contract Liabilities and Reinsurance Assets**

Short-term nonlife insurance contract liabilities net of reinsurers' share of 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 and loss adjustment expenses	**₱1,829,156,965**	**₱1,194,291,694**	**₱634,865,271**	₱2,678,129,615	₱2,169,142,378	₱508,987,237
Provision for claims IBNR	**17,184,007**	**673**	**17,183,334**	45,259,376	1,056,338	44,203,038
Total claims reported and IBNR (Note 28)	**1,846,340,972**	**1,194,292,367**	**652,048,605**	2,723,388,991	2,170,198,716	553,190,275
Provision for unearned premiums (Note 28)	**1,805,526,582**	**849,191,680**	**956,334,902**	2,285,186,819	1,066,030,804	1,219,156,015
Total insurance contract liabilities	**₱3,651,867,554**	**₱2,043,484,047**	**₱1,608,383,507**	₱5,008,575,810	₱3,236,229,520	₱1,772,346,290

Provisions for claims reported by policyholders and claims 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	**₱2,723,388,991**	**₱2,170,198,716**	**₱553,190,275**	₱4,126,861,178	₱3,331,831,297	₱795,029,881
Claims incurred during the year	**3,235,560,867**	**2,059,649,293**	**1,175,911,574**	1,748,512,890	475,713,266	1,272,799,624
Claims paid during the year - net of salvage and subrogation (Note 23)	**(4,084,533,517)**	**(3,034,499,977)**	**(1,050,033,540)**	(3,153,448,764)	(1,631,363,903)	(1,522,084,861)
Increase (decrease) in IBNR (Note 23)	**(28,075,369)**	**(1,055,665)**	**(27,019,704)**	1,463,687	(5,981,944)	7,445,631
At December 31	**₱1,846,340,972**	**₱1,194,292,367**	**₱652,048,605**	₱2,723,388,991	₱2,170,198,716	₱553,190,275

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	**₱2,285,186,819**	**₱1,066,030,804**	**₱1,219,156,015**	₱2,167,666,531	₱926,361,606	₱1,241,304,925
New policies written during the year (Note 20)	**7,213,558,270**	**3,750,746,524**	**3,462,811,746**	6,609,968,499	3,147,217,608	3,462,750,891
Premiums earned during the year (Note 20)	**(7,693,218,507)**	**(3,967,585,648)**	**(3,725,632,859)**	(6,492,448,211)	(3,007,548,410)	(3,484,899,801)
At December 31	**₱1,805,526,582**	**₱849,191,680**	**₱956,334,902**	₱2,285,186,819	₱1,066,030,804	₱1,219,156,015

13. Insurance Payables

This account consists of due to reinsurers amounting to ₱1,517,565,568 and ₱1,211,875,518 as of December 31, 2015 and 2014, respectively:

The rollforward analysis of insurance payables follows:

	2015	2014
At January 1	**₱1,211,875,518**	₱825,240,011
Additions (Note 20)	**3,750,746,524**	3,147,217,608
Payments	**(3,445,056,474)**	(2,760,582,101)
At December 31	**₱1,517,565,568**	₱1,211,875,518

14. Accounts Payable and Accrued Expenses

This account consists of:

	2015	2014
Accounts payable (Notes 19 and 28)	**₱730,766,920**	₱212,110,045
Taxes payable	**368,764,447**	480,726,592
Commissions payable (Note 28)	**138,768,550**	21,920,044
Accrued expenses (Note 28)	**36,480,004**	22,670,583
	₱1,274,779,921	₱737,427,264

15. Loans Payable

The rollforward analysis of this account follows:

	2015	2014
Balance at beginning of year	**₱149,547,027**	₱198,834,808
Payments	**(89,500,000)**	(49,287,781)
Balance at end of year	**₱60,047,027**	₱149,547,027

This account represents unsecured short-term and secured long-term loans obtained from banks with annual interest rates ranging from 2.75% to 6.50% in 2015 and 2.75% to 6.50% in 2014.

For 2015 and 2014, the interest expense on loans amounted to ₱3.8 million and ₱6.6 million, respectively.

16. **Net Pension Benefit Obligation**

The Company has a funded, non-trustee, and noncontributory defined benefit retirement plan covering all of its employees.

The following tables summarize the components of the "Net pension benefit expense" recognized in the statement of income under "General expenses" account (Note 24), "Remeasurements on defined benefit plan" recognized in the statement of comprehensive income, and the unfunded status recognized in the statement of financial position for the retirement plan.

Net pension benefit expense

	2015	2014
Current service cost	**₱18,177,900**	₱17,839,128
Net interest cost	**7,904,931**	8,063,830
Net pension benefit expense	**₱26,082,831**	₱25,902,958

Remeasurement effects to be recognized in OCI

	2015	2014
Actuarial (gain) loss on:		
Due to change in financial assumption	**(₱9,431,689)**	(₱6,977,320)
Due to change in demographic assumption	**1,184,219**	–
Due to experience	**12,873,957**	13,338,529
	4,626,487	6,361,209
Return on assets (excluding amount included in net interest cost)	**1,247,002**	567,277
Total loss to be recognized in OCI	**₱5,873,489**	₱6,928,486

Net pension obligation

	2015	2014
Present value of pension benefit obligation	**₱275,004,409**	₱248,329,783
Fair value of plan assets	**116,657,668**	71,089,173
Net pension obligation	**₱158,346,741**	₱177,240,610

The reconciliation of the present value of defined benefit obligation is as follows:

	2015	2014
At January 1	**₱248,329,783**	₱230,997,577
Interest cost	**11,075,508**	9,586,399
Current service cost	**18,177,900**	17,839,128
Benefits paid	**(7,205,269)**	(16,454,530)
Actuarial losses on obligation	**4,626,487**	6,361,209
At December 31	**₱275,004,409**	₱248,329,783

The principal actuarial assumptions used in determining pension benefit obligation are as follows:

	2015	2014
Salary increase rate	**5.00%**	5.00%
Discount rate	**4.89%**	4.46%

The movements in the fair value of the plan assets follow:

	2015	2014
At January 1	**₱71,089,173**	₱36,688,413
Interest income	**3,170,577**	1,522,567
Return on assets (excluding amount included in net interest cost)	**(1,247,002)**	(567,277)
Contributions	**50,850,189**	49,900,000
Benefits paid	**(7,205,269)**	(16,454,530)
At December 31	**₱116,657,668**	₱71,089,173
Actual return on plan assets	**₱1,923,575**	₱955,290

The distribution of plan assets as of December 31, 2015 and 2014 follows:

	2015	2014
Cash on hand and in banks	**₱104,739,624**	₱62,614,863
Investment in commercial bills	**292,950**	292,950
Receivables	**11,625,094**	8,181,360
	₱116,657,668	₱71,089,173

The Company expects to contribute ₱44,495,224 to its defined benefit plan in 2016.

Sensitivity analysis
The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

2015

	Change in variables	Increase (Decrease)
Discount rate	**+0.50%**	**(₱8,653,290)**
	-0.50%	**11,049,043**
Salary increase rate	**+1.00%**	**21,994,883**
	-1.00%	**(15,356,870)**

2014

	Change in variables	Increase (Decrease)
Discount rate	+0.50%	(₱10,062,880)
	-0.50%	11,445,721
Salary increase rate	+1.00%	22,658,545
	-1.00%	(17,481,330)

Maturity profile
Shown below is the maturity analysis of the undiscounted benefits payments as of the end of the reporting period:

Less than one (1) year	₱107,197,890
More than one (1) year to five (5) years	46,817,502
More than five (5) years to 10 years	118,471,584
More than 10 years to 15 years	195,386,327
More than 15 years to 20 years	200,927,054
More than 20 years	709,946,870
Total	₱1,378,747,227

The average duration of the defined benefit obligation at the end of the reporting period is 17 years.

17. **Other Liabilities**

This account consists of:

	2015	2014
Customers' deposits	**₱239,966,259**	₱224,543,968
Others	**89,231,609**	114,729,091
	₱329,197,868	₱339,273,059

Customers' deposits pertain to security deposits from policyholders holding bond insurance policies.

18. **Equity**

Capital Stock
This account consists of the following:

	2015		2014	
Common Stock - ₱100 par value	**Shares**	**Amount**	Shares	Amount
Authorized	**3,000,000**	**₱300,000,000**	3,000,000	₱300,000,000
Paid-up	**2,500,000**	**250,000,000**	2,500,000	250,000,000

Contributed Surplus
This represents the original contribution of the stockholders of the Company, in addition to the paid-up capital stock, in order to comply with the pre-licensing requirement as provided under the Code.

Contingency Surplus
In 2014, one of the Company's stockholders made an additional contribution in the form of cash amounting to ₱50,000,000 and treated as contingency surplus of the Company in anticipation of the increasing capital requirements provided in the Code. This can only be withdrawn upon the approval of Insurance Commission (IC).

19. Related Party Transactions

Transactions between related parties are based on terms similar to those offered to non-related parties. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individual or corporate entities. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Summary of significant transactions with related parties in the ordinary course of business follows:

a. Receivables from related parties are as follow:

	Outstanding Balance			
Category	**2015**	2014	Terms	Conditions
Due from ceding companies				
Under Common Control				
PGA Sompo Insurance Corp. (PSIC)	**₱21,461,342**	₱87,259,037	(A)	(B)
Loans and receivables				
Control				
Key Management Personnel	**₱1,223,736**	₱1,071,648	(A)	(B)

(A) 90-day credit term, non-interest bearing
(B) Unsecured, no impairment

b. Payable to a related party is as follows:

	Outstanding Balance			
Category	**2015**	2014	Terms	Conditions
Under Common Control				
Due to reinsurers				
PSIC	**₱2,567,196**	₱870,328	(A)	–

(A) 90-day credit term, non-interest bearing

c. Stocks invested to a related party are as follow:

	Outstanding Balance	
Category	**2015**	2014
Under Common Control		
Oriental Petroleum and Mineral Corporation	**₱140,786,851**	₱180,811,758

d. Income from related parties are as follow:

	Amount/Volume	
Category	**2015**	2014
Premiums		
Under Common Control		
National Grid Corporation	**₱65,892,867**	₱14,936,250
PGA Cars	**5,876,404**	1,898,731

Category	Amount/Volume 2015	2014
PSIC	**286,331**	25,001
FLFCI	**70,000**	8,750
R. Coyiuto Securities, Inc. (RCSI)	**93,457**	–
	₱72,219,059	₱16,868,732

Rental Income		
Under Common Control		
PSIC	**₱6,838,905**	₱7,098,813
PGA Cars	**4,800,000**	4,800,000
First Life Financial Co., Inc. (FLFCI)	**96,425**	
	₱11,735,330	₱11,898,813

Service Income		
Under Common Control		
PSIC	**₱1,561,579**	₱1,824,224

e. Expenses incurred for related parties are as follow:

Category	Amount/Volume 2015	2014
Short-term Benefits		
Control		
Key Management Personnel	**₱114,210,202**	₱92,154,328

Claims and Benefits		
Under Common Control		
URC	**₱39,194,504**	₱399,098
PSIC	**523,852**	1,204,358
	₱39,718,356	₱1,603,456

Rental Expenses		
Under Common Control		
RCSI	**₱2,174,959**	₱ 2,061,888
PGA Cars	**240,000**	720,000
Canon Marketing (Phils) Inc.	**287,472**	184,334
Guarantee Development Corporation	**11,936,160**	11,936,160
	₱14,638,591	₱14,902,382

Insurance Expenses		
Under Common Control		
PSIC	**₱2,070,132**	₱2,131,069
FLFCI	**1,961,774**	1,504,315
	₱4,031,906	₱3,635,384

Transportation Expenses		
Under Common Control		
Pioneer Tours Corporation	**₱4,478,583**	₱4,494,042

Category	Amount/Volume **2015**	 2014
Claims and Benefits		
Under Common Control		
URC	**₱39,194,504**	₱399,098
PSIC	**523,852**	1,204,358
	₱39,718,356	₱1,603,456
Stationeries and Supplies		
Under Common Control		
Canon Marketing (Phils) Inc.	**₱363,749**	₱372,979
Advertising Expense		
Under Common Control		
PGA Cars	**₱374,759**	₱–

20. Net Premiums Earned

Net premiums earned consist of the following:

	2015	2014
Gross premiums on insurance contracts:		
Direct	**₱6,543,526,745**	₱5,467,650,723
Assumed (Note 19)	**670,031,525**	1,142,317,776
Total gross premiums on insurance contracts (Note 12)	**7,213,558,270**	6,609,968,499
Gross change in provision for unearned premiums (Note 12)	**479,660,237**	(117,520,288)
Total gross premiums earned on insurance contracts	**7,693,218,507**	6,492,448,211
Reinsurers' share of gross premiums on insurance contracts:		
Direct	**3,236,558,794**	2,391,994,266
Assumed (Note 19)	**514,187,730**	755,223,342
Total reinsurers' share of gross premiums on insurance contracts (Note 12)	**3,750,746,524**	3,147,217,608
Reinsurers' share of gross change in provision for unearned premiums (Note 12)	**216,839,124**	(139,669,198)
Total reinsurers' share of gross premiums earned on insurance contracts	**3,967,585,648**	3,007,548,410
Net premiums earned	**₱3,725,632,859**	₱3,484,899,801

21. **Investment and Other Income** - net

This account consists of:

	2015	2014
Interest income from:		
Cash and cash equivalents and short-term investments	**₱28,491,900**	₱23,656,077
Financial assets at FVPL	**2,485,017**	1,712,088
Employee and mortgage receivables	**134,233**	234,442
Dividend income	**3,535,327**	36,300,073
Impairment loss on AFS equity assets (Note 6)	**(4,332,133)**	(2,007,942)
Gain (loss) on redemption - FVPL (Note 6)	**144,087**	(93,264)
	₱30,458,431	₱59,801,474

22. **Other Income**

This account consists of:

	2015	2014
Contingent profit commission	**₱62,760,277**	₱87,307,757
Rental income (Note 19)	**13,522,678**	13,118,269
Service income (Note 19)	**1,561,579**	1,824,224
Gain on sale of fixed assets	**6,887**	274,106
Others (Note 19)	**464,557**	94,090
	₱78,315,978	₱102,618,446

23. **Insurance Contract Benefits and Claims**

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

	2015	2014
Insurance contract benefits and claims paid (Note 12):		
Direct	**₱3,983,941,777**	₱3,101,164,815
Assumed	**100,591,740**	52,283,949
Total insurance contract benefits and claims paid	**₱4,084,533,517**	₱3,153,448,764

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

	2015	2014
Reinsurers' share of insurance contract benefits and claims paid (Note 12):		
Direct	**₱3,034,499,977**	(₱1,631,363,903)
Assumed	–	–
Total reinsurers' share of insurance contract benefits and claims paid	**₱3,034,499,977**	(₱1,631,363,903)

Gross change in insurance contract benefits and claims liabilities:

	2015	2014
Change in provision for claims reported and loss adjustment expenses (Note 12):		
Direct	**(₱858,046,045)**	(₱1,470,464,378)
Assumed	**9,073,395**	65,528,504
Change in provision for claims IBNR	**(28,075,369)**	1,463,687
Total gross change in insurance contract benefits and claims liabilities	**(₱877,048,019)**	(₱1,403,472,187)

Reinsurers' share of change in insurance contract benefits and claims liabilities:

	2015	2014
Reinsurers' share of change in insurance provision for claims reported and loss adjustment expenses (Note 12):		
Direct	**₱974,850,684**	₱1,167,614,525
Assumed	**–**	–
RI share of change in provision for claims IBNR	**1,055,665**	(5,981,944)
Total reinsurers' share of change in insurance contract benefits and claims liabilities	**₱975,906,349**	₱1,161,632,581

24. **General Expenses**

This account consists of:

	2015	2014
Salaries, wages and benefits (Note 19)	**₱427,171,126**	₱378,869,220
Service fees	**94,221,684**	82,409,348
Communications, light and water	**65,568,323**	53,484,364
Entertainment, amusement and recreation	**51,897,654**	53,006,097
Depreciation and amortization (Notes 10 and 11)	**50,482,564**	63,331,168
Rent (Note 19)	**47,815,908**	50,267,115
Stationery and supplies	**28,589,522**	30,146,570
Net pension benefit expense (Note 16)	**26,082,831**	25,902,958
Professional fees	**18,274,090**	12,841,430
Transportation	**13,375,092**	32,985,012
Advertising	**8,958,952**	15,231,060
Repairs and maintenance	**8,904,134**	11,567,287
Taxes and licenses	**8,088,857**	8,375,966
Provision for bad debts expense (Note 5)	**6,378,236**	–
Insurance	**5,852,677**	12,365,496
Subscriptions	**1,613,983**	3,711,798
Others	**3,464,714**	4,062,888
	₱866,740,347	₱838,557,777

25. **Income Tax**

The Company's provision for income tax consists of:

	2015	2014
Current	**₱9,839,399**	₱14,422,509
Final	**5,099,457**	4,465,821
Deferred	**116,780,724**	61,058,889
	₱131,719,580	₱79,947,219

The current provision for income tax represents MCIT for both 2015 and 2014.

The components of the net deferred tax liabilities are as follows:

	2015	2014
Deferred tax assets through profit or loss:		
NOLCO	**₱61,123,305**	₱56,103,030
Excess of provision for deferred reinsurance premiums per books over per tax basis	**26,417,259**	–
Excess MCIT	**29,230,189**	19,390,790
Allowance for impairment losses	**17,696,384**	15,782,914
Unamortized pension cost	**17,287,891**	9,581,443
Deferred reinsurance commissions	**14,858,046**	6,593,010
Pension benefit obligation	**12,820,716**	20,250,924
Provision for claims IBNR	**5,155,000**	13,260,912
	184,588,790	140,963,023
Deferred tax assets through OCI:		
Remeasurements on pension	**34,683,306**	32,921,259
Total deferred tax assets	**219,272,096**	173,884,282
Deferred tax liabilities:		
Excess of provision for unearned premiums per books over per tax basis	**286,651,135**	83,488,505
Deferred acquisition costs	**197,868,659**	182,476,067
Excess of provision for deferred reinsurance premiums per books over per tax basis	**–**	63,727,561
Unrealized forex gain	**11,640,838**	8,174,558
Prepaid rent	**2,176,998**	64,448
Total deferred tax liabilities	**498,337,630**	337,931,139
Net deferred tax liabilities	**(₱279,065,534)**	(₱164,046,857)

As of December 31, 2015, the Company has NOLCO and MCIT that can be claimed as deduction from future taxable profit:

Year Incurred	Year of Expiry	NOLCO	MCIT
2015	2018	₱16,734,250	₱9,839,399
2014	2017	–	14,422,509
2013	2016	187,010,101	4,968,281
		₱203,744,351	₱29,230,189

The movements of NOLCO are as follows:

	2015	2014
At January 1	**₱187,010,101**	₱214,312,128
Additions (applications)	**16,734,250**	(27,302,027)
At December 31	**₱203,744,351**	₱187,010,101

The movements of MCIT are as follows:

	2015	2014
At January 1	**₱19,390,790**	₱4,968,281
Additions	**9,839,399**	14,422,509
At December 31	**₱29,230,189**	₱19,390,790

Movements in net deferred tax liability comprise of:

	2015	2014
At beginning of the year	**(₱164,046,857)**	(₱105,066,515)
Amounts credited to (charged against) statements of income	**(116,780,724)**	(61,058,888)
Amount credited to (charged against) statements of comprehensive income	**1,762,047**	2,078,546
At end of the year	**(₱279,065,534)**	(₱164,046,857)

The reconciliation of provision for income tax computed at the statutory corporate income tax rate to provision for income tax shown in the statements of income follows:

	2015	2014
At statutory income tax rate	**₱139,886,038**	₱87,670,943
Adjustments for:		
Gain on sale - AFS	**(11,728,407)**	(2,357,434)
Interest income subjected to final taxes	**(9,293,075)**	(7,610,449)
Dividend income	**(1,060,598)**	(10,890,022)
Loss (gain) on redemption - FVPL	**(43,226)**	27,979
FV losses - FVPL	**100,640**	79,421
Impairment losses - AFS	**1,299,640**	602,383
Nondeductible interest expense	**3,066,715**	2,511,448
Nondeductible EAR	**4,392,398**	5,447,129
Final taxes paid	**5,099,457**	4,465,821
	₱131,719,582	₱79,947,219

26. **Contingencies**

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident in 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 that no material liabilities are likely to result.

27. Reconciliation of Net Income under PFRS to Statutory Net Income

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

	2015	2014
Net income under PFRS	**₱334,567,212**	₱212,289,259
Add (deduct):		
Difference in provision for unearned premiums – net	**(376,726,033)**	(150,901,163)
Deferred acquisition costs - net	**(23,758,521)**	(116,797,692)
Increase in IBNR - net	**(27,019,704)**	7,445,631
Tax effect of adjustments	**128,251,277**	78,075,967
Statutory net income	**₱35,314,231**	₱30,112,002

28. Management of Capital, Insurance and Financial Risks

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., minimum statutory networth and risk-based capital requirements).

Capital Management Framework
The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders.

The Company reviews the capital requirements through monthly computation of the minimum statutory networth and the RBC which is 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 the annual BOD meeting. Evidently they have shown their commitment to comply with this regulation, same as prior years when they willingly infused additional cash as the need arise.

Minimum Statutory Networth
On August 15, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the “New Insurance Code” which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

Networth	**Compliance Date**
₱250,000,000	June 30, 2013
550,000,000	December 31 ,2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

On January 13, 2015, the IC issued the Circular Letter (CL) No. 2015-02-A which provides for the clarification of minimum capital requirements under Sections 194, 197, 200 and 289 of the New Insurance Code. The said circular supersedes the Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008.

The minimum networth requirement must remain unimpaired for the continuance of the license.

As of December 31, 2015 and 2014, the estimated statutory net worth of the Company amounted to ₱1,905,354,480 and ₱1,650,921,363, respectively.

The final networth can be determined only after the accounts of the Company have been examined by IC.

Risk-based Capital Requirements
The Amended Code provides that the Commissioner may require the adoption of the risk-based capital approach and other internationally accepted forms of capital framework. Together with the insurance industry, the IC is currently in the process of adopting a new RBC approach that would be more tailored to the Philippine insurance industry. Pending the adoption of the new RBC approach, the provisions of IMC No. 7-2006 shall still be used for purposes of the December 31, 2015 and 2014 financial reporting.

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 Networth divided by the RBC requirement. Networth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of networth 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
Networth	**₱1,905,354,480**	₱1,650,921,363
RBC requirement	**859,472,750**	1,120,253,049
RBC Ratio	**221.69%**	147.37%

The final RBC ratio can be determined only after the accounts of the Company have been examined by IC.

Pursuant to Section 194 of the Amended Insurance Code (R.A. 10607), the Insurance Commission conducted a review of the current Risk-based Capital (RBC) Framework contained in Insurance Memorandum Circulars Numbered 6-2006 and 7-2006 both dated October 5, 2006. On June 10, 2015, the Insurance Commission issued Circular Letter No. 2015-30 requiring all non-life insurance to participate in parallel runs for the RBC 2-QIS (Quantitative Impact Study).

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

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

The majority of reinsurance business ceded is placed on a quota share basis with retention limits. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

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

The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The business of the Company mainly comprises of short-term nonlife insurance contract.

The Company principally issued the following types of general insurance contracts: fire, engineering, marine, motor car, personal accident and miscellaneous casualty.

The table below sets out the concentration of the claims liabilities as of December 31, 2015 and 2014 by type of contract (see Note 12).

	Gross Contract Liabilities	**Reinsurers Share of Liabilities**	**Net 2015**	Gross Contract Liabilities	Reinsurers Share of Liabilities	Net 2014
Fire	**₱988,092,089**	**₱768,060,095**	**₱220,031,994**	₱1,863,078,946	₱1,610,416,878	₱252,662,068
Motorcar	**285,315,889**	**7,119,318**	**278,196,571**	149,623,534	14,925,409	134,698,125
Engineering	**269,342,642**	**203,369,822**	**65,972,820**	467,589,794	408,522,894	59,066,900
Personal accident	**12,921,466**	**696,609**	**12,224,857**	16,273,415	177,424	16,095,991
Others	**290,668,886**	**215,046,523**	**75,622,363**	226,823,302	136,156,111	90,667,191
	₱1,846,340,972	**₱1,194,292,367**	**₱652,048,605**	₱2,723,388,991	₱2,170,198,716	₱553,190,275

The most significant risk arises from climate changes and natural disasters. These risks vary significantly in relation to the location of the risk insured by the Company, type of risks insured and in respect of commercial and business interruption, insurance by industry.

The Company also 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 also has limited its exposure level by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's risk appetite as decided by management.

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

Other key assumptions include variation in interest, delays in settlement and changes in foreign currency rates.

Sensitivities
In insurance, as a rule, there may be claims filed in the current year that would attach policies issued in the previous years. This in effect makes claims provision highly sensitive as represented by the table below. Other unpredictable circumstances like legislative uncertainties make it impossible to quantify claims. Also, due to delays arising between occurrence of claims and their subsequent reporting to and settlement by the Company, the outstanding claim provisions cannot be ascertained with confidence at the end of the reporting period.

As a result, the final liabilities will change as a result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent financial statements.

The table below shows the impact of changes in certain important assumptions in general insurance business while other assumptions remain unchanged. The interrelation of these assumptions will have an important impact in the computation of the final liabilities. But these assumption changes should be done on an individual basis to show the effect on the claims liabilities. It is worthwhile mentioning that these assumptions are nonlinear and larger or smaller impacts cannot be seen from these results.

Sensitivity analysis as of December 31, 2015 and 2014 follows:

	December 31, 2015			
	Change in Assumption	**Increase (decrease) on Gross Insurance Liabilities**	**Increase (decrease) on Net Insurance Liabilities**	**Increase (decrease) on Profit Before Income Tax**
Average claim costs	**Increase by 10%**	**₱320,748,549**	**₱114,889,187**	**(₱114,889,187)**
Average number of claims	**Increase by 10%**	**408,453,35**	**105,003,354**	**(105,003,354)**

	December 31, 2014			
	Change in Assumption	Increase (decrease) on Gross Insurance Liabilities	Increase (decrease) on Net Insurance Liabilities	Increase (decrease) on Profit Before Income Tax
Average claim costs	Increase by 10%	₱267,784,695	₱50,898,724	(₱50,898,724)
Average number of claims	Increase by 10%	241,006,226	166,294,296	(166,294,296)

Loss Development Triangle

The table below is an exhibit that shows the development of claims over a period of time. It shows the cumulative incurred claims for each successive accident year at each reporting date, together with cumulative claims as of December 31, 2015.

Accident Year	2005 & Prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Estimate of ultimate claims costs:												
At the end of accident year	₱27,918,052,886	₱988,717,008	₱717,408,183	₱742,285,772	₱3,059,418,085	₱1,148,049,095	₱2,615,567,594	₱2,099,691,887	₱3,748,592,453	₱2,589,564,147	₱3,680,977,390	₱3,680,977,390
One year later	9,996,550,849	1,824,996,282	1,437,479,909	1,274,059,648	3,248,544,323	1,204,097,252	3,394,215,106	4,087,957,286	1,732,673,699	2,430,178,116		2,430,178,116
Two years later	10,252,799,010	2,026,976,847	1,566,141,542	1,302,214,434	3,816,527,406	1,306,193,984	3,725,588,895	3,622,191,986	1,920,443,608			1,920,443,608
Three years later	10,322,806,986	2,093,897,383	1,584,032,963	1,316,175,282	4,241,410,016	1,481,212,254	3,724,894,216	3,644,866,156				3,644,866,156
Four years later	10,340,078,177	2,097,094,315	1,594,748,095	1,353,007,522	4,307,456,541	1,478,377,955	3,787,178,409					3,787,178,409
Five years later	10,340,694,696	2,102,274,423	1,595,961,997	1,355,380,791	4,309,834,696	1,506,520,383						1,506,520,383
Six years later	10,341,395,129	2,102,252,611	1,599,757,540	1,355,421,458	4,312,606,631							4,312,606,631
Seven years later	10,362,197,788	2,117,320,340	1,599,724,970	1,355,536,239								1,355,536,239
Eight years later	10,363,900,968	2,117,419,328	1,600,064,606									1,600,064,606
Nine years later	10,372,334,900	2,117,702,550										2,117,702,550
Ten years later	10,362,070,282											10,362,070,282
Current estimate of cumulative claims	10,362,070,282	2,117,702,550	1,600,064,606	1,355,536,239	4,312,606,631	1,506,520,383	3,787,178,409	3,644,866,156	1,920,443,608	2,430,178,116	3,680,977,390	36,718,144,369
Cumulative payments to date	10,361,836,910	2,117,702,550	1,600,062,762	1,355,527,753	4,312,245,519	1,506,471,228	3,786,331,957	3,634,299,617	1,692,862,984	1,867,235,796	2,637,226,321	34,871,803,397
Total gross insurance liabilities included in the statement of financial position	₱233,372	₱–	₱1,844	₱8,486	₱361,112	₱49,155	₱846,452	₱10,566,538	₱227,580,624	₱562,942,320	₱1,043,751,069	₱1,846,340,972

Accident Year	2005 & Prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Estimate of ultimate claims costs:												
At the end of accident year	₱2,910,473,182	₱529,826,214	₱452,123,244	₱451,262,706	₱ 478,062,307	₱ 483,757,572	₱127,414,610	₱381,092,266	₱1,312,802,031	₱1,393,065,099	₱1,278,128,832	₱1,278,128,832
One year later	3,316,557,419	974,748,462	919,668,479	883,008,527	494,756,741	504,230,399	392,918,564	531,922,337	1,935,838,186	2,441,433,071		2,441,433,071
Two years later	3,445,521,510	1,076,045,025	1,007,160,392	890,146,087	508,394,382	556,056,344	411,109,945	546,134,556	2,569,836,206			2,569,836,206
Three years later	3,462,976,667	1,087,354,747	1,008,057,305	897,283,648	524,360,058	564,769,036	414,190,708	563,887,115				563,887,115
Four years later	3,468,812,313	1,090,225,043	1,011,599,522	902,605,805	527,399,553	577,574,770	417,259,063					417,259,063
Five years later	3,469,278,847	1,093,250,723	1,013,941,911	902,890,597	528,217,723	590,427,259						590,427,259
Six years later	3,471,191,261	1,094,655,638	1,014,017,646	903,000,999	529,330,958							529,330,958
Seven years later	3,479,143,548	1,094,806,315	1,014,331,427	903,119,888								903,119,888
Eight years later	3,495,500,344	1,095,089,537	1,014,645,207									1,014,645,207
Nine years later	3,508,763,208	1,095,372,759										1,095,372,759
Ten years later	3,509,734,078											3,509,734,078
Current estimate of cumulative claims	3,509,734,078	1,095,372,759	1,014,645,207	903,119,888	529,330,958	590,427,259	417,259,063	563,887,115	2,569,836,206	2,441,433,071	1,278,128,832	14,913,174,436
Cumulative payments to date	3,509,500,706	1,095,372,759	1,014,643,363	903,111,402	528,969,846	590,378,104	416,456,211	557,649,881	2,506,766,269	2,345,358,846	792,918,445	14,261,125,831
Total gross insurance liabilities included in the statement of financial position	₱233,372	₱–	₱1,844	₱8,486	₱361,112	₱49,155	₱802,852	₱6,237,234	₱63,069,938	₱96,074,225	₱485,210,387	₱652,048,605

Financial Instruments
Due to the short-term nature of cash and cash equivalents, insurance receivables, loans and receivables, accrued income, insurance payables, accounts payable and accrued expenses, loans payable and other liabilities, their carrying values reasonably approximate fair values as at December 31, 2015 and 2014.

The fair value of financial instruments under financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the end of the reporting period or the last trading day as applicable. Unquoted AFS equity financial assets are carried at cost.

Fair value Hierarchy
The following table provides the fair value hierarchy of the Company's financial assets as of December 31, 2015 and 2014:

	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
AFS financial assets (Note 6)				
Listed equity securities				
Common shares	**₱168,328,250**	**₱–**	**₱–**	**₱168,328,250**
Preferred shares	**31,109,560**	**–**	**–**	**31,109,560**
Club shares	**39,775,000**	**–**	**–**	**39,775,000**
Financial assets at FVPL (Note 6)				
Government debt securities				
Local currency	**94,148,872**	**–**	**–**	**94,148,872**
Investment Properties	**–**	**–**	**20,872,000**	**20,872,000**
	₱333,361,682	**₱–**	**₱20,872,000**	**₱354,233,682**

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
AFS financial assets (Note 6)				
Listed equity securities				
Common shares	₱267,140,615	₱–	₱–	₱267,140,615
Preferred shares	13,224,000	–	–	13,224,000
Club shares	39,570,000	–	–	39,570,000
Financial assets at FVPL (Note 6)				
Government debt securities				
Local currency	89,496,360	–	–	89,496,360
Investment Properties	–	–	19,200,000	19,200,000
	₱409,430,975	₱–	₱19,200,000	₱428,630,975

There were no transfers between level 1 and level 2, and no transfers into and out of level 3 fair value measurement during 2015 and 2014.

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

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

Prior to extending credit, the Company manages its credit risk by assessing the credit quality of its counterparty.

Another method by which the Company manages its credit risk exposure is through credit analysis. This is a process of assessing the credit quality of a counterparty which is a process that entails judgment.

The credit policy group reviews all information about the counterparty which may include the counterparty's statement of financial position, statements of income and other market information. The nature of the obligation is likewise considered. Based upon this analysis, the credit analyst assigns the counterparty a credit rating to determine whether or not credit may be provided. Credit risk limit is also used to manage credit exposure which specifies exposure limits 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*	**₱3,227,055,139**	₱2,450,870,657
Insurance receivables:		
Due from brokers and agents	**679,742,316**	206,409,992
Due from ceding companies	**899,405,480**	837,565,320
Reinsurance recoverable on paid losses	**74,640,593**	125,984,959
Financial assets:		
Financial assets at FVPL	**94,148,872**	89,496,460
Loans and receivables		
Short-term investments	**82,521,147**	328,926,775
Employee receivables	**9,296,659**	8,655,287
Mortgage loans receivable	**580,569**	–
Other receivables	**879,293**	202,417,005
Accrued income	**3,798,659**	1,825,280
Total	**₱5,072,068,727**	₱4,252,151,735

**Amount excluding cash on hand and special fund*

The following table provides information regarding the credit risk exposure of the Company as of December 31, 2015 and 2014 classifying financial assets according to the Company's credit ratings of the counterparties.

December 31, 2015

	Neither past due nor impaired		Past due	
	High	**Medium**	**or impaired**	**Total**
Cash and cash equivalents*	**₱3,227,055,139**	**₱–**	**₱–**	**₱3,227,055,139**
Insurance receivables				
Due from agents and brokers	**407,831,074**	**133,138,239**	**138,773,003**	**679,742,316**
Due from ceding companies	**40,781,351**	**16,959,922**	**16,899,320**	**74,640,593**
Reinsurance recoverable on paid losses	**178,789,209**	**43,678,499**	**677,137,772**	**899,605,480**
Financial assets				
Financial assets at FVPL	**94,148,872**	**–**	**–**	**94,148,872**
Loans and receivables	**93,277,668**	**–**		**93,277,668**
Accrued income	**3,798,659**	**–**	**–**	**3,798,659**
Total financial assets	**₱4,045,681,972**	**₱193,776,660**	**₱832,810,095**	**₱5,072,268,727**

**Amount excluding cash on hand and special fund*

December 31, 2014

	Neither past due nor impaired		Past due	
	High	Medium	or impaired	Total
Cash and cash equivalents*	₱2,450,870,657	₱–	₱–	₱2,450,870,657
Insurance receivables				
Due from agents and brokers	167,894,948	38,515,044	–	206,409,992
Due from ceding companies	105,440,283	8,708,010	11,836,666	125,984,959
Reinsurance recoverable on paid losses	338,276,047	190,490,718	308,798,555	837,565,320
Financial assets				
Financial assets at FVPL	89,496,460	–	–	89,496,460
Loans and receivables	539,999,067	–	–	539,999,067
Accrued income	1,825,280	–	–	1,825,280
Total financial assets	₱3,693,802,742	₱237,713,772	₱320,635,221	₱4,252,151,735

**Amount excluding cash on hand and special fund*

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, financial assets at FVPL, and accrued income - High grade pertains to cash and cash equivalents deposited or invested in local banks belonging to the top 10 rankings and FVPL with counterparties having a strong capacity to meet its obligation.

Insurance receivables and loans and receivables - High grade pertains to receivables from counterparties with strong capacity to meet its obligation and has no default in payment history; medium grade pertains to receivables that are usually collected beyond 60 days. Accounts beyond the standard 90-day credit term are classified as 'past due'.

The tables below show the aging analysis of past due but not impaired and impaired financial assets:

December 31, 2015

	Past due but not impaired						
	1 to 30 days	**31 to 120 days**	**121 to 240 days**	**Over 240 days**	**Total**	**Impaired**	**Total**
Reinsurance recoverable on paid losses	**₱142,643,425**	**₱326,868,760**	**₱–**	**₱148,637,639**	**₱618,149,824**	**₱58,987,948**	**₱677,137,772**
Due from ceding companies	**11,319,425**	**5,533,650**	**–**	**46,245**	**16,899,320**	**–**	**16,899,320**
Due from agents and brokers	**126,918,495**	**11,854,508**	**–**	**–**	**138,773,003**	**–**	**138,773,003**
	₱280,881,345	**₱344,256,918**	**₱–**	**₱148,683,884**	**₱773,822,147**	**₱58,987,948**	**₱832,810,095**

December 31, 2014

	Past due but not impaired						
	1 to 30 days	31 to 120 days	121 to 240 days	Over 240 days	Total	Impaired	Total
Reinsurance recoverable on paid losses	₱23,666,412	₱115,331,921	₱–	₱117,190,510	₱256,188,843	₱52,609,712	₱308,798,555
Due from ceding companies	8,299,635	3,500,057	–	36,974	11,836,666	–	11,836,666
	₱31,966,047	₱118,831,978	₱–	₱117,227,484	₱268,025,509	₱52,609,712	₱320,635,221

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated. The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts. The Company manages liquidity through a liquidity risk policy which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; set up of contingency funding plans; specifies the sources of funding and the events that would trigger the plan; determines concentration of funding sources; reports liquidity risk exposures and breaches; monitoring compliance with liquidity risk policy and reviews liquidity risk policy for pertinence and changing environment.

The table below analyzes financial assets and liabilities of the Company, as well as the claims payable and related recoverable on reinsurers, into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates as of December 31, 2015 and 2014.

December 31, 2015

	Up to a year	1-3 years	No term	Total
Financial assets at FVPL	**₱89,289,478**	**₱4,859,394**	**₱–**	**₱94,148,872**
AFS financial assets	**–**	**–**	**244,663,769**	**244,663,769**
Loans and receivables – net				
Cash on hand	**329,800**	**–**	**–**	**329,800**
Special fund	**2,791,099**	**–**	**–**	**2,791,099**
Cash in banks	**2,112,759,212**	**–**	**–**	**2,112,759,212**
Short-term deposits in commercial banks	**1,114,295,927**	**–**	**–**	**1,114,295,927**
Insurance receivables - net	**1,594,800,441**	**–**	**–**	**1,594,800,441**
Reinsurance recoverable on unpaid losses	**899,605,480**	**–**	**–**	**899,605,480**
Short-term investments	**82,521,147**	**–**	**–**	**82,521,147**
Employee receivables	**9,296,659**	**–**	**–**	**9,296,659**
Mortgage loans receivable	**580,569**	**–**	**–**	**580,569**
Other receivables	**879,293**	**–**	**–**	**879,293**
Accrued income	**3,798,659**	**–**	**–**	**3,798,659**
Total financial assets	**₱5,910,947,764**	**₱4,859,394**	**₱244,663,769**	**₱6,160,470,927**
Other financial liabilities				
Insurance payables	**₱1,517,565,568**	**₱–**	**₱–**	**₱1,517,565,568**
Accounts payable and accrued expenses*	**906,015,474**	**–**	**–**	**906,015,474**
Loans payable	**60,047,027**	**–**	**–**	**60,047,027**
Other liabilities	**329,197,868**	**–**	**–**	**329,197,868**
Provision for claims reported and IBNR claims	**17,184,007**	**–**	**–**	**17,184,007**
Total financial liabilities	**₱2,830,009,944**	**₱–**	**₱–**	**₱2,830,009,944**
Net excess liquidity (deficit)	**₱3,080,937,820**	**₱4,859,394**	**₱244,663,769**	**₱3,330,460,983**

**Amount excluding statutory liability.*

December 31, 2014

	Up to a year	1-3 years	No term	Total
Financial assets at FVPL	₱30,855,913	₱58,640,547	₱–	₱89,496,460
AFS financial assets	–	–	327,710,575	327,710,575
Loans and receivables – net				
Cash on hand	562,595	–	–	562,595
Special fund	2,291,099	–	–	2,291,099
Cash in banks	1,766,776,412	–	–	1,766,776,412
Short-term deposits in commercial banks	684,094,245	–	–	684,094,245
Insurance receivables – net	1,117,350,560	–	–	1,117,350,560
Reinsurance recoverable on unpaid losses	2,170,198,716	–	–	2,170,198,716
Short-term investments	328,926,775	–	–	328,926,775
Employee receivables	8,655,287	–	–	8,655,287
Mortgage loans receivable	–	–	–	–
Other receivables	202,417,005	–	–	202,417,005
Accrued income	1,825,280	–	–	1,825,280
Total financial assets	₱6,313,953,887	₱58,640,547	₱327,710,575	₱6,700,305,009
Other financial liabilities				
Insurance payables	₱1,211,875,518	₱–	₱–	₱1,211,875,518
Accounts payable and accrued expenses*	256,700,672	–	–	256,700,672
Loans payable	149,547,027	–	–	149,547,027
Other liabilities	339,273,055	–	–	339,273,055
Provision for claims reported and IBNR claims	2,723,388,991	–	–	2,723,388,991
Total financial liabilities	₱4,680,785,263	₱–	₱–	₱4,680,785,263
Net excess liquidity (deficit)	₱1,633,168,624	₱58,640,547	₱327,710,575	₱2,019,519,746

**Amount excluding statutory liability.*

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are based on management's best estimate leveraging its past experiences.

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

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

a) Currency risk
The Company's principal transactions are carried out in Philippine peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar and Japanese Yen, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements

The Company maintains US Dollar-denominated and Japanese Yen-denominated fixed deposits to meet its dollar obligations from its dollar insurance products.

The following tables show the details of the Company's foreign currency-denominated monetary assets and their Philippine peso equivalents.

	2015			
	USD	**PHP**	**Japanese Yen**	**PHP**
Cash and cash equivalents	**\$18,765,245**	**₱883,092,412**	**¥ 6,959,773**	**₱2,728,231**
Loans and receivables - net	**1,753,531**	**82,521,147**	**–**	**–**
	\$20,518,776	**₱965,613,559**	**¥ 6,959,773**	**₱2,728,231**

	2014			
	USD	PHP	Japanese Yen	PHP
Cash and cash equivalents	\$13,147,828	₱587,970,880	¥ 8,946,567	₱3,315,598
Loans and receivables - net	7,332,889	327,926,775	–	–
	\$20,480,717	₱915,897,655	¥ 8,946,567	₱3,315,598

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Company's income before tax.

December 31, 2015

Currency	**Change in exchange rate**	**Impact on income before tax Increase (decrease)**
US Dollar	**+4%**	**₱38,624,542**
	–4%	**(38,624,542)**
Japanese Yen	**+10%**	**272,823**
	–10%	**(272,823)**

December 31, 2014

Currency	Change in exchange rate	Impact on income before tax Increase (decrease)
US Dollar	+5%	₱45,794,883
	–5%	(45,794,883)
Japanese Yen	+10%	117,909
	–10%	(117,909)

There is no other impact on the Company's equity other than those already affecting the statement of income.

b) *Interest rate risk*
Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value risk. The Company's financial assets at FVPL in particular is exposed to fair value risk.

The Company's market risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

The following tables show information relating to the Company's financial instruments which are subject to interest rates based on maturity profile:

December 31, 2015

	Interest rate (%)	Maturity Within a year	1-3 years	Total
Cash in banks (Note 4)	**0.25 to 1.00**	**₱2,112,759,212**	**₱–**	**₱2,112,759,212**
Short-term deposits in commercial banks (Note 4)	**0.75 to 4.75**	**1,114,295,927**	**–**	**1,114,295,927**
Short-term investments (Note 6)	**0.50 to 1.50**	**82,521,147**	**–**	**82,521,147**
Financial assets at FVPL (Note 6)	**0.00 to 9.13**	**89,289,478**	**4,859,394**	**94,148,872**
Loans payable (Note 15)	**2.75 to 6.50**	**20,000,000**	**40,047,027**	**60,047,027**

December 31, 2014

	Interest rate (%)	Maturity Within a year	1-3 years	Total
Cash in banks (Note 4)	0.25 to 1.00	₱1,766,776,412	₱–	₱1,766,776,412
Short-term deposits in commercial banks (Note 4)	0.88 to 4.75	684,094,245	–	684,094,245
Short-term investments (Note 6)	0.38 to 4.50	328,926,775	–	328,926,775
Financial assets at FVPL (Note 6)	0.00 to 9.13	30,855,913	58,640,547	89,496,460
Loans payable (Note 15)	2.75 to 6.50	149,547,027	–	149,547,027

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on revaluing fixed rate FVPL financial assets. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

	Change in variables	Impact on income before tax Increase (decrease)
December 31, 2015		
	+100 basis points	**(₱337,156)**
	–100 basis points	**340,779**
December 31, 2014		
	+100 basis points	(₱570,556)
	–100 basis points	815,489

There is no impact on the Company's equity other than those already affecting net income.

c) *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 (other than those arising from interest rate risk or currency risk), principally, its AFS equity financial assets.

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.

The analysis below is performed for reasonably possible movements in the key variable, with all other variables held constant, showing the impact on equity that reflects changes in fair value of AFS financial assets on the Company's listed equity securities.

December 31, 2015

Market index	**Change in equity prices**	**Impact on equity Increase (decrease)**
PSEi 2015	**+12.46%**	**₱16,360,767**
PSEi 2015	**–12.46%**	**(16,360,767)**

December 31, 2014

Market index	Change in equity prices	Impact on equity Increase (decrease)
PSEi 2014	+29.36%	₱57,811,928
PSEi 2014	–29.36%	(57,811,928)

29. **Notes to Statements of Cash Flows**

In 2014, the Company received shares of stocks of Top Frontier from San Miguel Corporation as property dividends amounting to ₱31,602,000. The said shares were classified under 'Available-for- sale financial assets' (Note 6).