

FPG Insurance Co., Inc.
*(formerly Federal Phoenix Assurance Co.,
Inc.)*

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
FPG Insurance Co., Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of FPG Insurance Co., Inc., (formerly Federal Phoenix Assurance Co., Inc.), 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 FPG Insurance Co., Inc. 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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of FPG Insurance Co., Inc.'s management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Dyle S. Garcia

Partner

CPA Certificate No. 0097907

SEC Accreditation No. 1285-A (Group A),

February 25, 2013, valid until April 30, 2016

Tax Identification No. 201-960-347

BIR Accreditation No. 08-001998-102-2015,

November 25, 2015, valid until November 24, 2018

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

March 15, 2016



FPG INSURANCE CO., INC.**STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2015	2014
ASSETS		
Cash and Cash Equivalents (Notes 4 and 26)	₱591,135,711	₱652,048,496
Short-term Investments (Notes 4 and 26)	1,295,042	8,895,509
Insurance Receivables - net (Notes 5, 26 and 27)	1,253,181,998	1,022,439,113
Financial Assets (Notes 6 and 26)		
Available-for-sale financial assets	1,531,948,982	1,667,294,737
Loans and receivables	52,796,746	34,596,820
Reinsurance Assets (Notes 7, 13 and 26)	1,497,280,702	2,730,398,982
Accrued Income (Notes 8 and 26)	12,330,277	12,815,078
Deferred Acquisition Costs (Note 9)	239,921,708	205,854,234
Investment Properties - net (Note 10)	2,647,947	2,647,947
Property and Equipment - net (Notes 11 and 22)	46,794,962	49,819,369
Net Pension Asset (Note 24)	-	352,290
Deferred Tax Asset (Note 25)	19,855,631	2,352,316
Other Assets (Notes 12 and 26)	220,808,632	192,850,657
	₱5,469,998,338	₱6,582,365,548
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 13, 14 and 26)	₱2,891,559,483	₱4,079,584,367
Insurance payables (Notes 15, 26 and 27)	811,584,749	861,450,449
Accounts payable and accrued expenses (Notes 16, 17 and 26)	602,324,323	466,977,943
Deferred reinsurance commissions (Note 9)	81,939,042	72,846,234
Net pension liability (Note 24)	27,655,187	-
	4,415,062,784	5,480,858,993
Equity		
Capital stock (Note 18)	350,000,000	350,000,000
Reserve for fluctuation on available-for-sale financial assets (Notes 6 and 18)	142,128,800	214,952,524
Remeasurement gains (losses) on defined benefit obligation (Note 24)	(8,049,353)	5,924,336
Retained earnings (Note 18):		
Unappropriated	558,350,992	518,124,580
Appropriated	12,505,115	12,505,115
	1,054,935,554	1,101,506,555
	₱5,469,998,338	₱6,582,365,548

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2015	2014
Gross earned premiums on insurance contracts (Notes 13, 19 and 27)	₱3,377,441,133	₱3,141,887,862
Reinsurers' share of gross earned premiums on insurance contracts (Notes 13, 19 and 27)	1,729,244,218	1,624,106,346
Net insurance earned premiums	1,648,196,915	1,517,781,516
Commission income (Notes 9 and 27)	188,182,680	173,346,311
Gain on sale of available-for-sale financial assets (Note 6)	15,416,892	51,580,693
Investment income (Note 20)	79,003,747	83,027,810
Foreign exchange gain - net	1,344,506	5,555,827
Miscellaneous income	2,574,776	-
Gain on sale of property and equipment	-	377,374
Other income	286,522,601	313,888,015
Total Income	1,934,719,516	1,831,669,531
Gross insurance contract benefits and claims paid (Notes 13 and 21)	2,200,956,599	1,698,575,627
Reinsurers' share of gross insurance contract benefits and claims paid (Notes 13 and 21)	(1,315,069,821)	(945,642,534)
Gross change in insurance contract liabilities (Note 21)	(1,354,261,530)	671,276,905
Reinsurers' share of gross change in insurance contract liabilities (Note 21)	1,261,345,389	(652,306,320)
Net insurance benefits and claims	792,970,637	771,903,678
Expenses		
Commission expense (Notes 9 and 27)	527,510,863	504,808,801
Operating expenses (Note 22)	507,470,839	435,868,828
Provision for impairment losses on AFS financial assets (Note 6)	12,879,285	-
Interest expense (Note 15)	747,029	590,177
Other expenses	1,048,608,016	941,267,806
Total Benefits, Claims and Other Expenses	1,841,578,653	1,713,171,484
Income before income tax	93,140,863	118,498,047
Current (Note 25)	24,429,042	21,073,782
Deferred (Note 25)	(11,514,591)	(5,246,694)
Income tax expense (Note 25)	12,914,451	15,827,088
NET INCOME (Note 29)	₱80,226,412	₱102,670,959

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31	
	2015	2014
NET INCOME	₱80,226,412	₱102,670,959
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Items that will be reclassified to profit or loss in subsequent periods:</i>		
Change in fair value of available-for-sale financial assets (Note 6)	(72,823,724)	25,616,996
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement losses on defined benefit obligation, net of tax effect	(13,973,689)	(4,778,096)
Total other comprehensive income (loss)	(86,797,413)	20,838,900
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱6,571,001)	₱123,509,859

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	Capital Stock (Note 18)	Revaluation Reserve on Available-for-Sale Financial Assets	Remeasurement gains (losses) on Defined benefit obligation (Note 24)	Retained Earnings (Note 18)		Total
				Unappropriated	Appropriated	
As of January 1, 2015	₱350,000,000	₱214,952,524	₱5,924,336	₱518,124,580	₱12,505,115	₱1,101,506,555
Net income for the year	–	–	–	80,226,412	–	80,226,412
Other comprehensive loss	–	(72,823,724)	(13,973,689)	–	–	(86,797,413)
Total comprehensive income (loss) for the year	–	(72,823,724)	(13,973,689)	80,226,412	–	(6,571,001)
Cash dividends (Note 18)	–	–	–	(40,000,000)	–	(40,000,000)
As of December 31, 2015	₱350,000,000	₱142,128,800	(₱8,049,353)	₱558,350,992	₱12,505,115	₱1,054,935,554
As of January 1, 2014	₱310,000,000	₱189,335,528	₱10,702,432	₱455,453,621	₱12,505,115	₱977,996,696
Net income for the year	–	–	–	102,670,959	–	102,670,959
Other comprehensive income (loss)	–	25,616,996	(4,778,096)	–	–	20,838,900
Total comprehensive income for the year	–	25,616,996	(4,778,096)	102,670,959	–	123,509,859
Stock dividends (Note 18)	40,000,000	–	–	(40,000,000)	–	–
As of December 31, 2014	₱350,000,000	₱214,952,524	₱5,924,336	₱518,124,580	₱12,505,115	₱1,101,506,555

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱93,140,863	₱118,498,047
Adjustments for:		
Depreciation and amortization (Notes 11 and 22)	27,465,766	28,511,457
Provision for Impairment loss on AFS financial assets (Note 6)	12,879,285	–
Dividend income (Note 20)	(7,417,686)	(7,704,379)
Loss (gain) on sale of:		
Property and equipment (Note 11)	–	(377,374)
Available-for-sale financial assets (Note 6)	(15,416,892)	(51,580,693)
Interest income (Note 20)	(71,586,061)	(75,323,431)
Interest expense (Notes 15 and 17)	747,029	590,177
Operating income before working capital changes	39,812,304	12,613,804
Changes in operating assets and liabilities		
Decrease (increase) in:		
Insurance receivables	(230,742,885)	(54,360,801)
Short-term investments	7,600,467	(91,800)
Loans and receivables	(18,199,926)	(7,717,101)
Reinsurance assets	1,233,118,280	(719,217,504)
Deferred acquisition costs	(34,067,474)	(23,970,193)
Other assets	(27,957,975)	(34,942,675)
Increase (decrease) in:		
Insurance contract liabilities	(1,188,024,884)	863,787,246
Insurance payables	(49,865,700)	83,274,501
Deferred reinsurance commissions	9,092,808	8,738,912
Accounts payable and accrued expenses	135,346,380	28,355,063
Pension obligation	8,045,064	5,763,467
Net cash generated from (used in) operations	(115,843,541)	162,232,919
Interest paid	(747,029)	(590,177)
Income tax paid	(24,429,042)	(21,073,782)
Net cash from (used in) operating activities	(141,019,612)	140,568,960
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Available-for-sale financial assets (Note 6)	308,759,937	308,769,406
Property and equipment (Note 11)	–	946,446
Interest received	74,502,902	76,548,402
Dividends received (Note 20)	7,417,686	7,704,379
Acquisitions of:		
Available-for-sale financial assets (Note 6)	(246,132,339)	(311,105,354)
Property and equipment (Note 11)	(24,441,359)	(15,699,933)
Net cash from investing activities	120,106,827	67,163,346

(Forward)



	Years Ended December 31	
	2015	2014
CASH FLOWS FROM FINANCING ACTIVITY		
Dividends paid	(P40,000,000)	P-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(60,912,785)	₱207,732,306
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	652,048,496	444,316,190
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱591,135,711	₱652,048,496

See accompanying Notes to Financial Statements.



FEDERAL PHOENIX ASSURANCE CO., INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

FPG Insurance Co., Inc. (formerly Federal Phoenix Assurance Co., Inc.) (the Company) is a nonlife insurance company incorporated in the Philippines in 1958. The Company offers insurance coverages for fire and allied perils, motor, casualty, marine, medical, personal accident and engineering. The Company has nine (9) branches located in Dagupan, Alabang, Davao, Angeles, Cagayan de Oro, Batangas, Quezon City, Cebu and Libis.

In a special Board of Directors' (BOD) meeting on November 12, 2007, it was approved that the Articles of Incorporation will be amended to extend the existence of the Company to another fifty years from its original expiry date. The Philippine Securities and Exchange Commission (SEC) approved the Amended Articles of Incorporation on January 29, 2008.

In a special BOD meeting on November 19, 2014, it was approved that the Articles of Incorporation and By-laws will be amended to change the Company's name from Federal Phoenix Assurance Co., Inc. to FPG Insurance Co., Inc. On January 5, 2015 and February 3, 2015, the amendment of Articles of Incorporation and By-laws was approved by the Insurance Commission (IC) and SEC, respectively.

The Company's equity is being held by Golden Eight Group Limited (56%), a holding company incorporated in the British Virgin Islands and F.E. Zuellig, Inc. (44%), a holding company incorporated in the Philippines.

The accompanying financial statements were authorized for issue by the BOD on March 15, 2016.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value.

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

Statement of Compliance

The financial statements of the Company are 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.

- 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. This amendment is not relevant to the Company since it has no defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs 2010-2012 cycle

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

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
 - A performance condition must contain a service condition
 - A performance target must be met while the counterparty is rendering service
 - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
 - A performance condition may be a market or non-market condition
 - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Company shall consider this amendment for future business combinations.
- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.



- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs 2011 - 2013 cycle

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

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
 - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
 - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.
- PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.



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 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.

- International Financial Reporting Standards (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, International Accounting Standards (IAS) 17.

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

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 reporting date, the actual outcome may differ from these estimates, possibly significantly. For further information on critical estimates and judgments, refer to Note 3.



Foreign Currency Transactions and Translations

The functional and presentation currency of the Company is the Philippine Peso (₱). 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 taken to the statement of income, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income.

Product Classification

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

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

Fair value measurement

The Company measures financial instruments at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment property carried at cost are disclosed in Note 26.

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 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 input that is significant to the fair value measurement is directly or indirectly observable
- *Level 3* - Valuation techniques for which the lowest level 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 re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) and at the end of each reporting period.

Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Short-term Investments

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

Insurance Receivables

Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. 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 following the derecognition criteria of financial assets.

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. Financial assets can be classified in any of the following categories: held-to-maturity (HTM) investments, financial assets at FVPL, AFS investments, and loans and receivables. Financial



liabilities can be classified as at FVPL or as other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

As of December 31, 2015 and 2014, the Company's financial instruments are in the nature of 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' difference) 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 classified in this category are designated by management on initial recognition when the following criteria are met:

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

Financial assets 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. Interest earned or incurred is recorded as interest income or interest expense, respectively, while dividend income is recorded when the right to receive the payment has been established.

In 2015 and 2014, the Company has not classified any of its financial assets or financial liabilities as at FVPL.



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.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVPL. This accounting policy relates to the statement of financial position captions: (a) "Cash and Cash Equivalents", (b) "Short-term Investments", (c) "Insurance Receivables", which arise primarily from premiums due from policyholders, agents and brokers, ceding companies and reinsurers; (d) "Loans and Receivables", and (e) "Accrued Income".

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

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets include government securities, equity investments and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments 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 investments are reported as 'Reserve for fluctuation 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 provisions for impairment losses in the statement of income. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as "Gain (loss) on sale of available-for-sale financial assets" in the statement of income.



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

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. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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 integral parts 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, accounts payable and accrued expenses and dividends payable that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable).

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it has a contractual obligation to:

- Deliver cash or another financial asset to another entity or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.

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

Offsetting

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

Impairment of Financial Assets

The Company assesses at each end of the reporting period whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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 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 carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to 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.

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.

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

AFS investments carried at fair value

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 statement of income - 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 the case of debt instruments classified as AFS financial assets, 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 recorded as part of "Investment income" in the statement of income. If, in subsequent year, the fair value of a debt instrument increases 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 investments carried at cost

If there is 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.

Reinsurance Assets

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date 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 charged against 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 for insurance contracts. 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 right are extinguished or expired or when the contract is transferred to another party.

When the Company enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Company initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as Insurance payables in the liabilities section of the company statement of financial position will be withheld and recognized as Funds held for reinsurers and included as part of the Insurance payables in the liabilities section of the company statement of financial position. The amount withheld is generally released after a year. Funds held by ceding companies are accounted for in the same manner.

Deferred Acquisition Costs (DAC)

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method except for the marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged against the statement of income. The unamortized acquisition costs are shown as deferred acquisition costs in the Assets section of the statement of financial position.



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 against the statement of income. The deferred acquisition cost is also considered in the liability adequacy test for each end of the reporting period.

Investment Property

Land held for long term rental yields and/or for capital appreciation is classified as investment property.

In the same way, land held for currently undetermined future use is an investment property.

Investment property is carried at cost net of any impairment in value.

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

Transfers are made to investment property when there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the statement of income during the financial period in which they are incurred.

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

	Years
Computer equipment	3
Leasehold improvements	3
Transportation equipment	5
Office furniture, fixtures and equipment	3

Leasehold improvements are amortized over the estimated useful life of the improvement or the term of the lease, whichever is shorter.

The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.



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

Impairment of Non-financial Assets

The Company assesses at each end of the reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in 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 and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining estimated useful life.

Creditable Withholding Taxes (CWTs)

Creditable withholding pertains to the tax paid by the Company that is 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)

Revenue, expenses and assets are recognized net of the amount of sales tax except:

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



The net amount of tax recoverable from, or payable to, the tax authority is included as part of “Other Assets” or “Accounts Payable and Accrued Expenses” in the statement of financial position.

Insurance Contract Liabilities

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

Provision for Unearned Premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as provision for unearned premiums as part of insurance contract liabilities and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in 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.

Provision for Claims Reported and Incurred But Not Reported (IBNR) Losses

Provision for claims reported and IBNR losses are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserve is recognized. The liability is derecognized when the contract expires, is discharged or is cancelled.

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 provision for unearned premiums 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.

Pension Cost

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting 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.

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 is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to additional paid-in capital account. Share issuance costs incurred as necessary part of completing an equity transaction are accounted for as part of that transaction and are treated as a deduction from additional paid-in capital from previous share issuance. If the additional paid-in capital account is not sufficient, the excess is deducted from retained earnings.

Additional paid-in capital includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.



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

Revenue Recognition

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

Premiums 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 from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of the reporting period is accounted for as provision for unearned premiums and presented as part of insurance contract liabilities in the liabilities section of the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums shown as part of reinsurance assets presented in the assets section of the statement of financial position. The net changes in these accounts between reporting dates are included in the determination of net insurance revenue.

Reinsurance Commissions

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

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Dividend income

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



Benefits and Claims

Benefits and claims consist of benefits and claims paid to policyholders, which includes changes in the valuation of Insurance contract liabilities, except for changes in the Provision for unearned premiums which are recorded in premium income. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims. Insurance claims are recorded on the basis of notifications received.

Expenses

Operating expenses and interest expense, except for lease agreements, are recognized as expense 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) 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. Operating lease payments are recognized as an expense in the statement of income 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.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Income Tax

Current Tax

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

Deferred Tax

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



Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax 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 benefits of unused tax credits and NOLCO can be utilized.

The carrying amount of deferred 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 profit will be available to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period. Current tax and deferred tax relating to items recognized as other comprehensive income is also recognized in the statement of other comprehensive income.

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in 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 a borrowing cost.

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. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefit is probable.

Events After the Reporting Period

Any post year-end event that provides additional information about the Company's position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.



3. Significant Accounting Estimates and Judgments

The preparation of the financial statements in accordance with PFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

Product classification

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

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

Operating Lease Commitments - Company as Lessee

The Company has entered into property leases. Substantially, all the risks and benefits incidental to ownership of the leased item are not transferred to the Company. The future minimum rental payable under non-cancellable operating lease amounted to ₱54,358,674 (see Note 28).

Distinction between investment properties and owner-occupied properties

The Company determines whether a property qualifies as investment property. In making this judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in providing services.

When properties comprise a portion that is held to earn rentals or for capital appreciation and another portion is held for use in the production or supply of goods or services or for administrative purpose, and these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making this judgment.

Estimates

Claims Liability Arising from Insurance Contracts

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision. 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.



Nonlife insurance claims provisions are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. Historical claims development is mainly analyzed by accident years, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor 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 historic claims development data on which the projections are based.

The carrying values of provision for outstanding claims and IBNR amounted to ₱1,307,181,558 and ₱2,661,443,088 as of December 31, 2015 and 2014, respectively (see Note 13).

Fair Values of Financial Assets

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value of these financial assets and liabilities would affect profit or loss and equity.

The carrying value of AFS financial assets amounted to ₱1,531,948,982 and ₱1,667,294,737 as of December 31, 2015 and 2014, respectively (see Note 6).

Impairment of Financial Assets

The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more or 'prolonged' as continuous decline for more than six (6) months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

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

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



The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Insurance receivables, net of allowance for doubtful accounts amounted to ₱1,253,181,998 and ₱1,022,439,113 as of December 31, 2015 and 2014, respectively (see Note 5).

Loans and receivables amounted to ₱52,796,746 and ₱34,596,820 as of December 31, 2015 and 2014, respectively (see Note 6).

The Company has recognized impairment loss on its AFS financial assets amounting to ₱12,879,285 in 2015 (nil in 2014) (see Note 6).

Estimated Useful Lives of Property and Equipment

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

The carrying value of property and equipment amounted to ₱46,794,962 and ₱49,819,369 as of December 31, 2015 and 2014, respectively (see Note 11).

Impairment of Non-financial Assets

The Company assesses impairment on investment properties and property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Company considers important which could trigger an impairment review include the following:

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

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

As of December 31, 2015 and 2014, investment properties and property and equipment amounted to ₱49,442,909 and ₱52,467,316, respectively (see Notes 10 and 11).

Pension Benefits

The determination of pension obligation and other employee benefits 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 these plans, 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 each end of the reporting period. Refer to Note 24 for the details of assumptions used in the calculation. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately as other comprehensive income in the statement of comprehensive. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

The Company's net pension obligation amounted to ₱27,655,187 as of December 31, 2015 and net pension asset of ₱352,290 as of December 31, 2014 (see Note 24).

Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position. It is possible, however, that the results of operations could be materially affected by changes in the estimates.

4. Cash and Cash Equivalents and Short-term Investments

Cash and Cash Equivalents

This account consists of:

	2015	2014
Cash on hand	₱213,800	₱203,500
Cash in banks	237,326,885	435,903,650
Short-term deposits	353,595,026	215,941,346
	₱591,135,711	₱652,048,496

Cash in banks earn interests at the respective bank's deposit rates. Short-term deposits are made for varying periods of up to three months or less depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates.

Short-term Investments

Short-term investments pertain to time deposits with terms of more than 90 days but less than 360 days and earn interest at the respective short-term investment rates.

Interest income earned from cash and cash equivalents and short-term investments amounted to ₱1,350,859 and ₱1,395,028 in 2015 and 2014, respectively (Note 20).



5. Insurance Receivables - net

This account consists of:

	2015	2014
Due from:		
Brokers and agents	₱1,072,057,110	₱824,078,622
Ceding companies and reinsurers	27,980,895	52,200,852
Reinsurance recoverable on paid losses	164,398,946	157,414,592
	1,264,436,951	1,033,694,066
Less: Allowance for doubtful accounts	11,254,953	11,254,953
	₱1,253,181,998	₱1,022,439,113

All insurance receivables are due within one year or less.

The following table shows aging information of insurance receivables balances:

December 31, 2015

	1 to 90 days	91 to 120 days	121 to 150 days	151 to 210 days	> 210 days	Total
Due from brokers and agents	₱996,642,062	₱20,811,293	₱17,472,603	₱27,535,259	₱9,595,893	₱1,072,057,110
Due from ceding companies and reinsurers	13,745,053	-	-	-	14,235,842	27,980,895
Reinsurance recoverable on paid losses	48,467,547	19,377,484	9,360,246	26,366,079	60,827,590	164,398,946
	₱1,058,854,662	₱40,188,777	₱26,832,849	₱53,901,338	₱84,659,325	₱1,264,436,951

December 31, 2014

	1 to 90 days	91 to 120 days	121 to 150 days	151 to 210 days	> 210 days	Total
Due from brokers and agents	₱770,229,300	₱33,770,493	₱17,032,396	₱1,413,068	₱1,633,365	₱824,078,622
Due from ceding companies and reinsurers	24,662,900	2,016,390	1,309,896	4,994,549	19,217,117	52,200,852
Reinsurance recoverable on paid losses	21,234,767	2,746,820	684,148	88,391,593	44,357,264	157,414,592
	₱816,126,967	₱38,533,703	₱19,026,440	₱94,799,210	₱65,207,746	₱1,033,694,066

As of December 31, 2015 and 2014, allowance for doubtful accounts for insurance receivables determined on an individual basis follows:

	2015			Total
	Due from brokers and agents	Due from ceding companies and reinsurers	Reinsurance recoverable on paid losses	
Balance at beginning of year	₱1,633,365	₱4,786,592	₱4,834,996	₱11,254,953
Provision (reversals)	2,559,856	(4,786,592)	2,226,736	-
Balance at end of year	₱4,193,221	₱-	₱7,061,732	₱11,254,953
Individually impaired	₱4,193,221	₱-	₱7,061,732	₱11,254,953

	2014			Total
	Due from brokers and agents	Due from ceding companies and reinsurers	Reinsurance recoverable on paid losses	
Balance at beginning of year	₱2,952,434	₱1,506,016	₱6,796,503	₱11,254,953
Provision (reversals)	(1,319,069)	3,280,576	(1,961,507)	-
Balance at end of year	₱1,633,365	₱4,786,592	₱4,834,996	₱11,254,953
Individually impaired	₱1,633,365	₱4,786,592	₱4,834,996	₱11,254,953



6. Financial Assets

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

	2015	2014
AFS financial assets	₱1,531,948,982	₱1,667,294,737
Loans and receivables	52,796,746	34,596,820
	₱1,584,745,728	₱1,701,891,557

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

a) AFS financial assets

	2015	2014
Quoted securities - at fair value:		
Government debt securities:		
Local currency	₱1,138,471,504	₱1,206,308,370
Corporate bonds	-	25,000,000
Listed equity securities:		
Common shares	378,937,478	423,186,367
Club shares	14,520,000	12,780,000
	1,531,928,982	1,667,274,737
Non-quoted securities - at cost:		
Unlisted equity securities	20,000	20,000
Total AFS financial assets recognized in the statement of financial position	₱1,531,948,982	₱1,667,294,737

The costs or amortized cost of AFS financial assets are as follows:

	2015	2014
Quoted securities - at cost or amortized cost:		
Government debt securities:		
Local currency	₱1,005,727,936	₱1,008,159,976
Corporate bonds	-	25,000,000
Listed equity securities:		
Common shares - net of allowance for impairment amounting to ₱12,879,285 in 2015 and nil in 2014.	382,872,246	417,962,237
Club shares	1,200,000	1,200,000
	1,389,800,182	1,452,322,213
Non-quoted securities - at cost:		
Unlisted equity securities	20,000	20,000
Total AFS financial assets at cost or amortized cost	₱1,389,820,182	₱1,452,342,213

The amounts recognized and transferred to the statement of income due to impairment amounted to ₱12,879,285 and nil in 2014.



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

At January 1, 2014	₱1,588,968,446
Additions	311,105,354
Disposals	(308,769,406)
Net amortization of bond premium	(1,207,346)
Fair value gains credited to other comprehensive income	77,197,689
At December 31, 2014	1,667,294,737
Additions	246,132,339
Disposals	(308,759,937)
Net amortization of bond premium	(2,432,040)
Fair value losses credited to other comprehensive income	(57,406,832)
Impairment loss	(12,879,285)
At December 31, 2015	₱1,531,948,982

The rollforward analysis of the revaluation reserve on AFS financial assets follows:

	2015	2014
Balance at beginning of year	₱214,952,524	₱189,335,528
Unrealized fair value gains (losses)	(70,286,117)	77,197,689
Realized fair value gains transferred to profit or loss	(2,537,607)	(51,580,693)
Balance at end of year	₱142,128,800	₱214,952,524

As of December 31, 2015 and 2014, government securities deposited with the IC in accordance with the provision of the Insurance Code (the Code) amounted to ₱65,000,000. These deposited government securities serves as security for the benefit of policyholders and creditors of the Company.

b) *Loans and receivables*

	2015	2014
Accounts receivables	₱45,578,754	₱27,616,895
Employee receivables	7,217,992	6,979,925
	₱52,796,746	₱34,596,820

The following table shows aging information of loans and receivables:

December 31, 2015

	1 to 30 days	31 to 60 days	61 to 120 days	121 to 180 days	> 180 days	Total
Accounts receivable	₱130,192	₱13,263,526	₱1,384,879	₱1,425,742	₱29,374,415	₱45,578,754
Employee receivables	771,057	795,568	796,843	1,515,111	3,339,413	7,217,992
	₱901,249	₱14,059,094	₱2,181,722	₱2,940,853	₱32,713,828	₱52,796,746

December 31, 2014

	1 to 30 days	31 to 60 days	61 to 120 days	121 to 180 days	> 180 days	Total
Accounts receivable	₱68,398	₱1,015,639	₱976,527	₱491,589	₱25,064,742	₱27,616,895
Employee receivables	616,477	502,973	838,505	1,287,528	3,734,442	6,979,925
	₱684,875	₱1,518,612	₱1,815,032	₱1,779,117	₱28,799,184	₱34,596,820



7. **Reinsurance Assets**

This account consists of:

	2015	2014
Reinsurance recoverable on unpaid losses (see Note 13)	₱849,111,194	₱2,110,456,583
Deferred reinsurance premiums (see Note 13)	648,169,508	619,942,399
	₱1,497,280,702	₱2,730,398,982

8. **Accrued Income**

This account consists of accrued interest income from:

	2015	2014
Interest income on:		
AFS debt securities	₱12,312,273	₱12,774,079
Cash and cash equivalents and short-term investments	18,004	40,999
	₱12,330,277	₱12,815,078

9. **Deferred Acquisition Costs and Deferred Reinsurance Commissions**

Deferred Acquisition Costs

The rollforward analysis of this account follows:

	2015	2014
At January 1	₱205,854,234	₱181,884,041
Costs deferred during the year	561,578,337	528,778,994
Amortization during the year	(527,510,863)	(504,808,801)
At December 31	₱239,921,708	₱205,854,234

Deferred Reinsurance Commissions

The rollforward analysis of this account follows:

	2015	2014
At January 1	₱72,846,234	₱64,107,322
Income deferred during the year	197,275,488	182,085,223
Amortization during the year	(188,182,680)	(173,346,311)
At December 31	₱81,939,042	₱72,846,234



10. Investment Properties

This account consists of real estate properties foreclosed from former insurance agents of the Company located in Bulacan, San Mateo, Cabanatuan City, Quezon City, Tagaytay and Antipolo. The fair values of the properties were estimated using the Sales Comparison Approach. This is a comparative approach that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

As of December 31, 2015 and 2014, the estimated fair values of the properties amounted to ₱118,480,000. The valuation was performed by an independent appraiser.

Description of valuation techniques used and key inputs to valuation on investment properties:

Location	Valuation techniques	Significant unobservable inputs	Range (weighted average)
San Miguel, Bulacan	Sales Comparison Approach	Estimated Computed Value per sqm	₱134 to ₱149 (₱140)
		Net price (₱/sq.m)	₱122 to ₱135
		Internal Factor	
		Location	-10%
		Size	+20%
		Time Element	0%
Brgy. Silangan, San Mateo, Rizal	Sales Comparison Approach	Estimated Computed Value per sqm	₱346 to ₱432 (₱400)
		Net price (₱/sq.m)	₱315 to ₱900
		Internal Factor	
		Location	-20% to -10%
		Size	-15% to +10%
		Accessibility/Visibility	-20% to 0%
Brgy. Kalikid Sur, Cabanatuan City	Sales Comparison Approach	Estimated Computed Value per sqm	₱405 to ₱589 (₱515)
		Net price (₱/sq.m)	₱405 to ₱736
		Internal Factor	
		Location	0%
		Size	-20% to 0%
		Time Element	0%
Quezon City	Sales Comparison Approach	Estimated Computed Value per sqm	₱3,506 to ₱3,868 (₱3,700)
		Net price (₱/sq.m)	₱4,675 to ₱5,525
		Internal Factor	
		Location	-20% to 0%
		Size	-10% to +5%
		Road Frontage	-10% to 0%
Time Element	-10% to 0%		
		Algebraic Sum of Internal Factor	-30% to -20%



Location	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Brgy. Mali, San Mateo, Rizal	Sales Comparison Approach	Estimated Computed Value per sqm	₱117 to ₱288 (₱200)
		Net price (₱/sq.m)	₱132 to ₱400
		Internal Factor	
		Location	-10% to +10%
		Size	-9% to -8%
		Accessibility/Visibility	-10% to +5%
		Time Element	0%
Brgy. Sungay, Tagaytay	Sales Comparison Approach	Estimated Computed Value per sqm	₱4,500 to ₱6,750 (₱5,900)
		Net price (₱/sq.m)	₱4,500 to ₱6,750
		Internal Factor	
		Location	0%
		Size	0%
		Beach Front	0%
		Topography	0%
Brgy. Sta. Cruz, Antipolo City	Sales Comparison Approach	Estimated Computed Value per sqm	₱4,109 to ₱5,099 (₱4,600)
		Net price (₱/sq.m)	₱4,500 to ₱4,950
		Internal Factor	
		Location	-20% to 0%
		Size/Shape	+3%
		Time Element	0%
		Algebraic Sum of Internal Factor	-17% to +3%

11. Property and Equipment

The rollforward analysis of this account follows:

	2015				Total
	Computer Equipment	Leasehold Improvements	Transportation Equipment (see Notes 16 and 17)	Office Furniture, Fixtures and Equipment	
Cost					
At January 1, 2015	₱31,041,643	₱42,453,857	₱34,556,597	₱18,087,730	₱126,139,827
Additions	6,976,023	6,007,723	8,588,071	2,869,542	24,441,359
At December 31, 2015	38,017,666	48,461,580	43,144,668	20,957,272	150,581,186
Accumulated depreciation and amortization					
At January 1, 2015	20,366,755	21,666,195	22,474,188	11,813,320	76,320,458
Depreciation and amortization during the year (Note 22)	7,360,982	8,736,226	6,301,016	5,067,542	27,465,766
At December 31, 2015	27,727,737	30,402,421	28,775,204	16,880,862	103,786,224
Net book value as of December 31, 2015	₱10,289,929	₱18,059,159	₱14,369,464	₱4,076,410	₱46,794,962



	2014				Total
	Computer Equipment	Leasehold Improvements	Transportation Equipment (see Notes 16 and 17)	Office Furniture, Fixtures and Equipment	
Cost					
At January 1, 2014	₱24,299,390	₱39,560,642	₱33,180,988	₱15,503,767	₱112,544,787
Additions	6,742,253	2,893,215	3,480,502	2,583,963	15,699,933
Disposals	—	—	(2,104,893)	—	(2,104,893)
At December 31, 2014	31,041,643	42,453,857	34,556,597	18,087,730	126,139,827
Accumulated depreciation and amortization					
At January 1, 2014	12,289,745	12,439,942	18,234,211	6,380,924	49,344,822
Depreciation and amortization during the year (Note 22)	8,077,010	9,226,253	5,775,798	5,432,396	28,511,457
Disposals	—	—	(1,535,821)	—	(1,535,821)
At December 31, 2014	20,366,755	21,666,195	22,474,188	11,813,320	76,320,458
Net book value as of December 31, 2014	₱10,674,888	₱20,787,662	₱12,082,409	₱6,274,410	₱49,819,369

12. Other Assets

This account consists of:

	2015	2014
Creditable withholding tax	₱178,398,110	₱155,348,442
Prepaid expenses	28,412,089	22,380,785
Deposits	13,975,843	15,098,840
Security fund	22,590	22,590
	₱220,808,632	₱192,850,657

13. Insurance Contract Liabilities and Reinsurance Assets

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (see Note 7)	Net 2015	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (see Note 7)	Net 2014
Provision for claims reported and loss adjustment expenses	₱1,244,771,384	₱849,111,194	₱395,660,190	₱2,594,508,079	₱2,110,456,583	₱484,051,496
Provision for IBNR	62,410,174	—	62,410,174	66,935,009	—	66,935,009
Total claims reported and IBNR	1,307,181,558	849,111,194	458,070,364	2,661,443,088	2,110,456,583	550,986,505
Provision for unearned premiums	1,584,377,925	648,169,508	936,208,417	1,418,141,279	619,942,399	798,198,880
Total Insurance Contract Liabilities	₱2,891,559,483	₱1,497,280,702	₱1,394,278,781	₱4,079,584,367	₱2,730,398,982	₱1,349,185,385



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

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (see Note 7)	Net 2015	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (see Note 7)	Net 2014
At January 1	₱2,661,443,088	₱2,110,456,583	₱550,986,505	₱1,990,166,183	₱1,458,150,262	₱532,015,921
Claims incurred during the year	851,219,904	53,724,432	797,495,472	2,389,201,387	1,597,948,855	791,252,532
Increase (decrease) in IBNR (see Note 21)	(4,524,835)	-	(4,524,835)	(19,348,855)	-	(19,348,855)
Claims paid during the year (see Note 21)	(2,200,956,599)	(1,315,069,821)	(885,886,778)	(1,698,575,627)	(945,642,534)	(752,933,093)
At December 31	₱1,307,181,558	₱849,111,194	₱458,070,364	₱2,661,443,088	₱2,110,456,583	₱550,986,505

Provision for unearned premiums may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (see Note 7)	Net 2015	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (see Note 7)	Net 2014
At January 1	₱1,418,141,279	₱619,942,399	₱798,198,880	₱1,225,630,938	₱553,031,216	₱672,599,722
New policies written during the year (see Note 19)	3,543,677,779	1,757,471,327	1,786,206,452	3,334,398,203	1,691,017,529	1,643,380,674
Premiums earned during the year (see Note 19)	(3,377,441,133)	(1,729,244,218)	(1,648,196,915)	(3,141,887,862)	(1,624,106,346)	(1,517,781,516)
At December 31	₱1,584,377,925	₱648,169,508	₱936,208,417	₱1,418,141,279	₱619,942,399	₱798,198,880

14. Insurance Contract Liabilities and Reinsurance Assets -Terms, Assumptions and Sensitivities

Terms and Conditions

The major classes of general insurance written by the Company include motor, property, casualty, marine and engineering. Risks under these policies usually cover a 12-month duration.

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

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

The measurement process primarily includes projections of future claims through use of historical experience statistics. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by class of business. In addition, claims are usually assessed by loss adjusters.

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. 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. Consequently, the ultimate liabilities will vary as a result of subsequent developments.



Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent years' financial statements.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, 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.

Sensitivities

The table below shows the impact of changes in certain important assumptions in general insurance business. The interrelation of these assumptions will have an important impact in the computation of the final liabilities.

2015

	Change in Assumption	Impact on insurance contract liabilities - net of reinsurance assets	Impact on profit before tax	Impact on equity
Average claim costs	-3.00%	(32,226,927)	32,226,927	22,558,849
Average number of claims	8.00%	69,995,875	(69,995,875)	(48,997,113)

2014

	Change in Assumption	Impact on insurance contract liabilities - net of reinsurance assets	Impact on profit before tax	Impact on equity
Average claim costs	-8.00%	(₱70,275,310)	₱70,275,310	₱49,192,717
Average number of claims	+15.00%	115,086,536	(115,086,536)	(80,560,575)



Loss Development Triangle

The tables that follow present the development of the estimated ultimate claims costs on a gross and net reinsurance basis for the years 2006 and prior to 2015. The tables show the cumulative amounts of the estimated ultimate claims costs during successive years related to each accident year. The increase from the original estimate is due to the combination of a number of factors, including claims being settled for larger amounts than originally expected. The original estimate will also increase or decrease, as more information becomes known about the individual claims and overall claim frequency and severity.

2015

Accident Year	2006 and prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Estimate of ultimate claims costs:											
At the end of accident year	P2,636,114,285	P443,104,354	P636,356,290	P2,257,878,954	P448,731,836	P1,019,968,706	P925,722,497	P2,028,516,617	P2,291,517,062	P1,064,534,155	P1,064,534,155
One year later	2661,491,044	460,369,058	675,770,059	1,778,443,598	445,692,289	1,110,920,652	1,140,893,162	2,132,963,083	2,305,310,938	-	2,305,310,938
Two years later	2,653,769,179	521,157,233	619,526,641	1,616,049,062	429,887,967	1,099,132,100	1,118,179,517	2,160,388,700	-	-	2,160,388,700
Three years later	2,654,821,539	516,579,210	584,817,015	1,619,691,807	429,515,482	1,095,623,582	962,574,524	-	-	-	962,574,524
Four years later	2,653,102,513	526,591,623	595,624,268	1,633,825,892	428,598,504	1,027,443,377	-	-	-	-	1,027,443,377
Five years later	2,617,880,797	529,881,651	594,215,610	1,633,381,716	427,544,062	-	-	-	-	-	427,544,062
Six years later	2,624,907,511	530,113,505	596,512,430	1,617,170,987	-	-	-	-	-	-	1,617,170,987
Seven years later	2,626,189,930	530,840,795	592,900,739	-	-	-	-	-	-	-	592,900,739
Eight years later	2,624,659,928	534,726,837	-	-	-	-	-	-	-	-	534,726,837
Nine years later	2,618,140,450	-	-	-	-	-	-	-	-	-	2,618,140,450
Current estimate of cumulative claims	2,618,140,450	534,726,837	592,900,739	1,617,170,987	427,544,062	1,027,443,377	962,574,524	2,160,388,700	2,305,310,938	1,064,534,155	13,310,734,769
Cumulative payments to date	(2,617,724,515)	(524,385,662)	(567,617,781)	(1,616,666,738)	(424,641,937)	(1,001,904,030)	(957,393,407)	(1,905,749,697)	(1,799,687,551)	(587,781,893)	(12,003,553,211)
Total gross insurance liabilities included in the statement of financial position	P415,935	P10,341,175	P25,282,958	P504,249	P2,902,125	P25,539,347	P5,181,117	P254,639,003	P505,623,387	P476,752,262	P1,307,181,558



Accident Year	2006 and prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Estimate of ultimate claims costs:											
At the end of accident year	₱1,669,394,666	₱312,073,565	₱423,125,401	₱4,568,441,001	₱455,381,798	₱425,879,198	₱593,124,559	₱857,102,734	₱740,577,740	₱794,720,561	₱794,720,561
One year later	1,718,773,140	323,251,411	437,033,992	373,124,540	510,266,101	444,979,107	648,594,005	905,759,169	803,801,205	-	803,801,205
Two years later	1,710,765,244	323,053,888	436,097,288	355,039,607	500,926,019	441,880,364	632,788,511	862,053,239	-	-	862,053,239
Three years later	1,710,801,193	316,813,530	436,097,288	356,168,858	500,845,717	440,212,273	635,303,605	-	-	-	635,303,605
Four years later	1,710,389,820	316,813,530	442,522,884	355,852,528	500,570,163	433,074,793	-	-	-	-	433,074,793
Five years later	1,711,106,525	319,917,865	441,160,729	355,786,606	499,602,537	-	-	-	-	-	499,602,537
Six years later	1,718,133,239	320,167,611	442,876,957	355,616,022	-	-	-	-	-	-	355,616,022
Seven years later	1,719,488,939	320,482,691	439,932,362	-	-	-	-	-	-	-	439,932,362
Eight years later	1,717,958,937	322,613,252	-	-	-	-	-	-	-	-	322,613,252
Nine years later	1,711,388,752	-	-	-	-	-	-	-	-	-	1,711,388,752
Current estimate of cumulative claims	1,711,388,752	322,613,252	439,932,362	355,616,022	499,602,537	433,074,793	635,303,605	862,053,239	803,801,205	794,720,561	6,858,106,328
Cumulative payments to date	(1,710,988,638)	(317,081,974)	(434,021,516)	(355,121,326)	(496,775,808)	(431,233,784)	(631,346,270)	(848,302,699)	(756,480,309)	(418,683,640)	(6,400,035,964)
Total net insurance liabilities included in the statement of financial position	₱400,114	₱5,531,278	₱5,910,846	₱494,696	₱2,826,729	₱1,841,009	₱3,957,335	₱13,750,540	₱47,320,896	₱376,036,921	₱458,070,364



15. Insurance Payables

This account consists of:

	2015	2014
Due to reinsurers and ceding companies (see Notes 26 and 27)	₱699,298,320	₱755,002,226
Funds held for reinsurers (see Notes 26 and 27)	112,286,429	106,448,223
	₱811,584,749	₱861,450,449

The rollforward analysis of insurance balances payable follows:

	Due to Reinsurers	Funds Held for Reinsurers	Total
At January 1, 2014	₱714,991,590	₱63,184,358	₱778,175,948
Arising during the year	1,316,934,503	236,181,580	1,553,116,083
Utilized	(1,276,923,867)	(192,917,715)	(1,469,841,582)
At December 31, 2014	755,002,226	106,448,223	861,450,449
Arising during the year	1,469,266,385	254,513,654	1,723,780,039
Utilized	(1,524,970,291)	(248,675,448)	(1,773,645,739)
At December 31, 2015	₱699,298,320	₱112,286,429	₱811,584,749

Interest expense on funds held for reinsurers amounted to ₱747,029 and ₱590,177 in 2015 and 2014, respectively.

16. Accounts Payable and Accrued Expenses

This account consists of:

	2015	2014
Accounts payable	₱170,776,167	₱154,481,185
Commissions payable	186,411,952	126,165,363
Deferred output vat	115,189,434	72,766,720
Premium deposit	30,706,813	35,576,353
Accrued expenses	72,447,738	34,515,020
VAT payable	14,401,360	25,476,501
Other taxes payable	11,258,337	17,166,368
Others	1,132,522	830,433
	₱602,324,323	₱466,977,943

17. Lease Obligation

The Company entered into several 5-year finance leases on transportation equipment. Monthly lease payments are subject to annual repricing depending on the bank's prevailing base rate plus 4.5% or treasury bill rate plus 6.5%, whichever is lower. Final lease payments amounting to ₱482,090 were made in 2013. The Company did not enter into finance leases in 2014 and 2015. Interest expense on lease obligation amounted to nil in 2015 and 2014.



18. Equity

Capital Stock Issued

The details of this account follows:

	2015	2014
<i>Authorized shares</i>		
Class A - ₱10 par value	28,800,000	28,800,000
Class B - ₱10 par value	7,200,000	7,200,000
<i>Issued shares</i>		
Class A (nonvoting):		
Authorized and issued 28,000,000 shares in 2015 and 2014	₱280,000,000	₱280,000,000
Class B (voting):		
Authorized and issued 7,000,000 shares in 2015 and 2014	70,000,000	70,000,000
Balance at end of the year	₱350,000,000	₱350,000,000

In a special meeting on September 23, 2014, the BOD issued a resolution and the stockholders approved the declaration of stock dividends amounting to ₱40,000,000 divided into 3,200,000 Class A shares and 800,000 Class B shares with par value of ₱10 per share out of the retained earnings as of December 31, 2013. This is to comply with the Insurance Commission on the minimum Paid-up Capital (PUC) requirement per Department Order No. 27-06 and Department Order No. 15-2012.

On March 12, 2015, the BOD approved the declaration of cash dividend amounting to ₱40,000,000 divided into 3,200,000 Class A shares and 800,000 Class B shares with par value of ₱10 per share out of the retained earnings as of December 31, 2014 payable on June 25, 2015.

Retained Earnings

The Company had appropriated ₱12,505,115 of its retained earnings for catastrophic losses.

19. Net Insurance Earned Premiums

Gross earned premiums and reinsurers' share in gross earned premiums on insurance contracts follow:

	2015	2014
<i>Gross premiums on insurance contracts:</i>		
Direct insurance	₱3,408,716,025	₱3,062,276,554
Assumed reinsurance	134,961,754	272,121,649
Total gross premiums on insurance contracts (see Note 13)	3,543,677,779	3,334,398,203
Gross change in provision for unearned premiums (see Note 13)	(166,236,646)	(192,510,341)
Total gross earned premiums on insurance contracts (see Note 13)	₱3,377,441,133	₱3,141,887,862



	2015	2014
Reinsurers' share of insurance contracts premiums:		
Direct insurance	₱1,647,197,550	₱1,485,186,709
Assumed reinsurance	110,273,777	205,830,820
Total reinsurers' share of insurance contracts premiums (see Note 13)	1,757,471,327	1,691,017,529
Reinsurers' share of gross change in provision for unearned premiums (see Note 13)	(28,227,109)	(66,911,183)
Total reinsurers' share of gross earned premiums on insurance contracts (see Note 13)	1,729,244,218	1,624,106,346
Net insurance earned premiums	₱1,648,196,915	₱1,517,781,516

20. Investment Income

This account consists of:

	2015	2014
Interest income on:		
AFS debt securities	₱70,235,202	₱73,928,403
Cash and cash equivalents and short-term investments	1,350,859	1,395,028
Dividend income	7,417,686	7,704,379
	₱79,003,747	₱83,027,810

21. Net Insurance Benefits and Claims

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

	2015	2014
Insurance contracts benefits and claims paid:		
Direct insurance	₱2,067,845,906	₱1,481,892,845
Assumed reinsurance	133,110,693	216,682,782
Total insurance contract benefits and claims paid (see Note 13)	₱2,200,956,599	₱1,698,575,627

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

	2015	2014
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	₱1,250,775,769	₱841,125,038
Assumed reinsurance	64,294,052	104,517,496
Total reinsurers' share of insurance contract benefits and claims paid (see Note 13)	₱1,315,069,821	₱945,642,534



Gross change in insurance contract liabilities:

	2015	2014
Change in insurance contract liabilities:		
Direct insurance	(P1,235,883,465)	P658,094,613
Assumed reinsurance	(113,853,230)	32,531,147
Change in provision for IBNR (see Note 13)	(4,524,835)	(19,348,855)
Total gross change in insurance contract liabilities (see Note 13)	(P1,354,261,530)	P671,276,905

Reinsurers' share of change in insurance contract liabilities:

	2015	2014
Reinsurers' share of change in insurance contract liabilities:		
Direct insurance	(P1,199,632,310)	P614,330,867
Assumed reinsurance	(61,713,079)	37,975,453
Total reinsurers' share of change in insurance contract liabilities (see Note 13)	(P1,261,345,389)	P652,306,320

22. Operating Expenses

This account consists of:

	2015	2014
Personnel expenses (see Notes 23 and 24)	P206,643,711	P181,257,689
Advertising and promotions	119,559,776	79,510,083
Rent, electricity and maintenance (see Note 28)	57,576,232	53,797,409
Transportation and travel	23,168,224	29,634,057
Information technology, communication and supplies	28,102,942	29,547,760
Depreciation and amortization (Note 11)	27,465,766	28,511,457
Professional fees	13,405,158	10,336,138
Entertainment, amusement and recreation	11,061,623	10,689,839
Taxes and licenses	12,385,867	5,580,033
Others	8,101,540	7,004,363
	P507,470,839	P435,868,828

23. Personnel Expenses

This account consists of:

	2015	2014
Salaries and wages	P154,741,876	P141,935,859
Temporary staff fees	18,284,083	14,003,563
Net benefit expense (see Note 24)	8,045,064	5,763,467
SSS, Pag-ibig Fund and other contributions	6,177,136	5,654,897
Employee welfare cost	4,034,234	3,350,041
Others	15,361,318	10,549,862
	P206,643,711	P181,257,689



24. Pension Benefits

Pension plan

The Company has a defined benefit pension plan, covering substantially all of its employees, which requires contribution to be made to administered funds. The plan is administered by a local bank as trustee.

The following tables summarize the components of net benefit expense recognized in the statements of income and the funded status and amounts recognized in the statements of financial position for the plan:

Net Benefit Expense

	2015	2014
Current service cost	₱8,060,881	₱6,985,606
Net interest income	(15,817)	(1,222,139)
Net benefit expense	₱8,045,064	₱5,763,467
Actual return on plan assets	(₱2,788,614)	₱3,843,130

Remeasurement Effects to be Recognized in OCI

	2015	2014
Actuarial gain (loss)	(₱13,690,633)	(₱6,980,083)
Return on assets (excluding amount included in net interest income)	(6,271,780)	154,232
Total amount to be recognized in OCI	(₱19,962,413)	(₱6,825,851)

Net Pension Asset

	2015	2014
Plan assets	₱68,421,213	₱77,576,090
Benefit obligation	(96,076,400)	77,223,800
Net pension asset (liability)	(₱27,655,187)	₱352,290

Changes in fair value (FV) of plan assets are as follows:

	2015	2014
FV of plan assets, beginning of year	₱77,576,090	₱76,315,108
Interest income	3,483,166	3,688,898
Benefits paid	(6,366,263)	(2,582,148)
Actuarial gains (losses)	(6,271,780)	154,232
FV of plan assets, end of year	₱68,421,213	₱77,576,090

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

	2015	2014
PV of defined benefit obligation, beginning of year	₱77,223,800	₱63,373,500
Current service cost	8,060,881	6,985,606
Interest cost	3,467,349	2,466,759
Benefits paid	(6,366,263)	(2,582,148)
Actuarial losses	13,690,633	6,980,083
PV of defined benefit obligation, end of year	₱96,076,400	₱77,223,800



The principal assumptions used in determining pension obligation for the Company's plan are shown below:

	2015	2014
Discount rate	4.88%	4.49%
Rate of salary increases	6.50%	7.00%

The Company's retirement fund is included in a multi-employer retirement fund registered in the name of Zuellig Group of Companies (the Group) and administered by a local bank as trustee. As of December 31, 2015 and 2014, the FV of the Company's equity in the fund amounted to ₱68,421,213 and ₱77,576,090, respectively; representing 79.73% and 77.65% respectively, of the market value of the entire plan assets under trust.

The following is the distribution of the Group's plan assets stated at fair value as of December 31:

	2015	2014
Cash in bank	₱13,337,340	₱4,709,810
Loans and receivables	2,000,000	2,000,000
Investments		
Marketable equity securities	21,453,030	27,097,585
Common trust fund	398,063	517,624
Bonds and government securities	47,953,238	64,873,703
Other receivables	785,125	831,212
Liabilities	(111,623)	(126,224)
Total plan assets	₱85,815,173	₱99,903,710

The Company expects to contribute the amount of ₱27,655,187 to its retirement plan in 2015.

Sensitivities

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		2014	
	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
Discount rate	+1.00%	(₱5,637,366)	+1.00%	(₱5,128,800)
	-1.00	6,513,693	-1.00	6,025,600
Salary increase rate	+1.00	6,123,189	+1.00	5,565,700
	-1.00	(5,422,948)	-1.00	(4,858,100)



Maturity profiles of the undiscounted benefit payments are as follows:

	Expected benefit payments		Total
	Normal Retirement	Other than Normal Retirement	
Less than one year	₱21,889,360	₱4,846,271	₱26,735,631
More than one year to five years	5,272,774	22,555,956	27,828,730
More than five years to 10 years	33,140,174	30,541,554	63,681,728
More than 10 years to 15 years	23,696,217	25,011,442	48,707,659
More than 15 years to 20 years	39,583,032	18,606,970	58,190,002
More than 20 years	90,492,725	23,933,623	114,426,348

The average duration of the defined benefit obligation at the end of the reporting period is 15.15 years.

25. Income Tax

The benefit from income tax consists of:

	2015	2014
Final	₱16,875,007	₱15,301,398
Current	7,554,035	5,772,384
Deferred	(11,514,591)	(5,246,694)
	₱12,914,451	₱15,827,088

The net deferred income tax asset consists of the tax effects of the following:

	2015	2014
Deferred tax assets through profit or loss:		
Excess of provision for unearned premiums per books over tax basis	₱62,718,798	₱37,445,044
Deferred reinsurance commissions	24,581,713	21,853,870
Provision for IBNR losses - net	14,978,442	20,080,503
Allowance for doubtful accounts	3,376,486	3,376,486
Deferred taxes assets through OCI:		
Remeasurement on defined benefit obligation	3,449,723	–
Total deferred tax assets	109,105,162	82,755,903
Deferred tax liabilities:		
Deferred acquisition costs	71,976,513	61,756,271
Deferred reinsurance premiums	17,273,018	16,108,315
Deferred taxes liabilities through OCI:		
Pension obligation	–	2,539,001
Total deferred tax liabilities	89,249,531	80,403,587
	₱19,855,631	₱2,352,316



The table below shows the temporary differences for which no deferred income tax assets have been set up because the Company believes that there will be no future taxable profit against which the benefit from these can be utilized.

	2015	2014
NOLCO	₱55,309,566	₱165,299,177
Accrued expenses	72,447,738	34,515,020
Unamortized past service cost	4,427,713	5,401,653
MCIT	13,652,645	8,597,581
Pension obligation	16,156,111	8,111,047
Provision for claims IBNR-net	12,482,034	-
Unrealized forex loss	127,829	-

The table below shows the movement of the Company's NOLCO during the year:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Date
2013	₱208,041,269	₱152,731,703	-	₱55,309,566	December 31, 2016

As of December 31, 2015, the unexpired excess of MCIT over normal tax, which can be claimed as a deduction against income tax due, are as follows:

Year Incurred	Amount	Expiry Date
2015	₱7,554,035	December 31, 2018
2014	5,772,384	December 31, 2017
2013	326,226	December 31, 2016
	₱13,652,645	

In 2015, the 2012 MCIT amounting to ₱2,498,971 has expired.

A reconciliation of the statutory income tax rate to effective income tax rate follows:

	2015	2014
Statutory income tax rate	30.00%	30.00%
Tax effects of:		
Unrecognized deferred tax assets	(8.76)	4.00
Gain on sale on AFS financial assets	(4.97)	(13.06)
Interest income already subjected to final taxes	(4.94)	(6.16)
Dividend income	(2.39)	(1.95)
Nondeductible expenses	4.92	0.53
Effective income tax rate	13.86%	13.36%

26. Management of Capital, Insurance and Financial Risks

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the individual business unit levels. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.



Capital Management Framework

The primary objectives of the Company's capital management framework are to provide shareholders with a satisfactory return on their investments, financial security to policyholders, prompt payment of obligations and compliance with the regulatory requirements of the IC.

The IC capital requirements are Fixed Capitalization Requirements and Risk-Based Capital (RBC).

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is higher than the minimum capital requirements set by the regulators and the amount computed under the RBC Model.

The premiums received by the Company from policyholders are properly invested not only to provide for policy obligations but also to serve as capital or surplus to provide margin of safety which will attract insurance buyers.

The funds invested shall produce an investment income that will be needed to pay stockholders a fair return. While part of this income are due to favorable loss experience and sound cost management, a major portion of additional profits must be earned by managing the investment portfolio to produce a higher return on investment. While there may be a wide range of investment opportunities, the investment portfolio must always reflect the safety of the funds.

Since these funds are held in fiduciary capacity, the Code contains investment provisions that the Company should observe to protect the interest of the policyholders and of the stockholders. The three (3) general classifications of investment requirements are:

1. Capital Investments - The Company must invest at least 25% of its minimum paid-up capital in bonds or other evidences of debt of the Government of the Philippines or its political subdivisions or in government-owned or controlled corporations and entities, including the BangkoSentral ng Pilipinas.

Furthermore, investments shall at all times be maintained free from any lien or encumbrance and shall be deposited and held by the Commissioner of the IC for the benefit and security of the policyholders.

2. Reserve Investment - The Company must invest 100% of the Reserve for unearned premiums and Reserve funds withheld for authorized reinsurer in common or preferred stocks and government or private bonds, real estate and real estate loans, collateral loans, adequately secured obligations and other securities as may be approved by the Commissioner.
3. Surplus Investment - After complying with the capital and reserve investment requirements, the Company may invest any portion of its funds, representing earned surplus in stocks, bonds, real estate, equities of other financial institutions, engaged in the buying and selling of short term debt instruments, securities issued by registered enterprises under R.A. 5186, otherwise known as the Investment Incentives Act.

To meet its capital management objectives, the Company formed an Investment Management Committee primarily tasked to establish investment strategies consistent with the management objectives and the IC requirements. The Committee had likewise set up limits and control procedures and adequate contingency plans for the Company to withstand both temporary and long term disruption in its ability to fund activities in a timely manner at a reasonable cost.

No changes were made to its capital base, objectives, policies and processes from the previous year.



Fixed Capitalization Requirements

Department of Finance Order (DO) No. 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On August 5, 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 networth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required networth 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

As of December 31, 2015 and 2014, the Company's networth amounted to ₱1,054,935,555 and ₱1,101,506,555, respectively.

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

Risk-based Capital Requirements

IMC No. 7-2006 provides for the RBC framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every non-life 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.

As of December 31, 2015 and 2014, the Company's estimated RBC ratio is 123% and 125%, respectively, based on RBC requirements of ₱681,079,016 and ₱527,174,868, respectively.

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



Circular Letter No. 2015-31 discussed the transition period and full implementation requirements for financial reporting framework (FRF), valuation standards for insurance policy reserves and new risk-based capital framework. The new regulatory requirements in the Circulars shall take effect after a transition period, the purpose of which is to allow the insurance industry to assess the collective impact of implementing FRF, Reserving and RBC2-QIS simultaneously. Full implementation will be June 30, 2016 with transition cut-off date as at January 1, 2016.

Insurance Risk

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

Occurrence risk - the possibility that the number of insured events will differ from those expected.

Severity risk - the possibility that the cost of the events will differ from those expected.

Development risk - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

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

The business of the Company comprises short-term nonlife insurance contracts. For general insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

These risks currently do not vary significantly in relation to the location of the risk insured by the Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

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

- The use and maintenance of management information systems that provide up-to-date, accurate and reliable data on risk exposure at any point in time.
- Guidelines are issued for concluding insurance contracts and assuming insurance risks.
- Pro-active claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.
- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.



Reinsurance

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota-share basis with retention limits varying by product line and territory. 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. Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus, a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

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

	2015			2014		
	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities
Fire	₱790,207,023	₱712,548,956	₱77,658,067	₱1,993,674,718	₱1,812,195,347	₱181,479,371
Motorcar	326,277,206	15,392,950	310,884,256	411,748,610	89,294,637	322,453,973
Casualty	96,140,295	66,062,394	30,077,901	154,200,799	135,140,814	19,059,985
Marine	37,551,908	26,140,529	11,411,379	35,631,587	27,518,672	8,112,915
Engineering	32,006,106	24,438,759	7,567,347	52,772,590	43,185,351	9,587,239
Accident	12,472,785	1,108,761	11,364,024	7,549,350	3,121,762	4,427,588
Medical	962,076	–	962,076	3,125,301	–	3,125,301
Bonds	11,564,159	3,418,845	8,145,314	2,740,133	–	2,740,133
	₱1,307,181,558	₱849,111,194	₱458,070,364	₱2,661,443,088	₱2,110,456,583	₱550,986,505

Financial Instruments

Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, accrued income, insurance payables, and accounts payable and accrued expenses, their carrying values reasonably approximate fair values at year-end.

The fair value of AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market within the bid-offer price range, at the close of business on the reporting date or last trading day as applicable.

The fair value of unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of cash flows and the lack of suitable method at arriving at a reliable fair value are carried at cost.



Fair Value Hierarchy

The Company classifies its financial assets at fair value as follows:

December 31, 2015

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:				
AFS financial assets				
Government debt securities				
Local currency	P1,138,471,504	P-	P-	P1,138,471,504
Listed equity securities	378,937,478	-	-	378,937,478
Golf club shares	14,540,000	-	-	14,540,000
	P1,531,948,982	P-	P-	P1,531,948,982
Assets for which fair values are disclosed:				
Loans and receivables - net				
Accounts Receivables	P-	P45,578,754	P-	P45,578,754
Employee Receivables	-	7,217,992	-	7,217,992
Investment properties	-	-	118,480,000	118,480,000
	-	52,796,746	118,480,000	171,276,746
	P1,531,948,982	P52,796,746	P118,480,000	P1,703,225,728

December 31, 2014

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:				
AFS financial assets				
Government debt securities				
Local currency	P1,206,308,370	P-	P-	P1,206,308,370
Corporate bonds	25,000,000	-	-	25,000,000
Listed equity securities	423,186,367	-	-	423,186,367
Golf club shares	12,800,000	-	-	12,800,000
	P1,667,294,737	P-	P-	P1,667,294,737
Assets for which fair values are disclosed:				
Loans and receivables - net				
Accounts Receivables	P-	P27,616,895	P-	P27,616,895
Employee Receivables	-	6,979,925	-	6,979,925
Investment properties	-	-	118,480,000	118,480,000
	-	34,596,820	118,480,000	153,076,820
	P1,667,294,737	P34,596,820	P118,480,000	P1,820,371,557

The Company uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

- Level 1:* quoted (unadjusted prices) in active markets for identical assets and liabilities
- Level 2:* other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3:* techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data



Fair values of equity and debt instruments classified as AFS financial assets were determined using Level 1.

There have been no reclassifications from Level 1 to Level 2 category.

Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities and insurance 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 risks that the Company primarily faces due to the nature of its investments and liabilities are credit risk, liquidity risk and interest rate risk.

The Company's objectives in managing exposure to financial risks include providing financial security to policyholders, ensure prompt payment of its obligations and to provide owners with a satisfactory return on their investments.

To ensure that these objectives are met, the Company's policies and procedures require monitoring of financial risks by the Chief Financial Officer and regularly reviewed by the BOD.

Credit risk

Credit risk is a risk due to uncertainty in a counterparty's (also called an obligor) ability to meet its obligation.

Management has established a Credit Control policy, which provides for terms of business and credit reference criteria. The policy requires that financial references are obtained for each agent and broker when credit is given. Credit terms are set for the counterparty but these are withdrawn or restricted when these are breached. Any deviation from the policy requires justification subject to approval by the Management.

The Company's procedures provide for the monitoring of the counterparty's ability to meet its obligations through regular review of each account. Statements of accounts with covering letter are regularly sent to agents and brokers reminding them of their outstanding balances and to follow up payment. Reconciliation of accounts is also done on a regular basis.

The Credit Control policy is regularly reviewed by the Management and amended as necessary.

For cash and cash equivalents and investments, the Company considers the safety of the investment, yield or income, liquidity, diversification, capital growth and appreciation.

The following are the acceptable instruments set up by the Investment Committee in order of priority:

1. Government Securities
2. Special Savings Accounts/ Bank Promissory Notes
3. Commercial papers with credit rating of 2 for short term and B for long term
4. Preferred and Common stocks (Blue Chip stocks only)



The table below shows the maximum exposure to credit risk for the components of its statement of financial position.

	2015	2014
Cash and cash equivalents (see Note 4)	₱590,921,911	₱651,844,996
Insurance receivables (see Note 5)	1,264,436,951	1,033,694,066
Short-term investments (see Note 4)	1,295,042	8,895,509
Financial assets:		
AFS (see Note 6)	1,531,948,982	1,667,294,737
Loans and receivables (see Note 6)	52,796,746	34,596,820
Accrued income (see Note 8)	12,330,277	12,815,078
	₱3,453,729,909	₱3,409,141,206

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

December 31, 2015

	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Satisfactory		
Cash and cash equivalents	₱590,921,911	₱-	₱-	₱590,921,911
Short-term investments	1,295,042	-	-	1,295,042
Insurance receivables:				
Due from brokers and agents	-	996,642,062	75,415,048	1,072,057,110
Due from ceding companies and reinsurers	-	13,745,053	14,235,842	27,980,895
Reinsurance recoverable on paid losses	-	67,845,031	96,553,915	164,398,946
Financial assets:				
AFS financial assets:				
Government debt securities	1,138,471,504	-	-	1,138,471,504
Listed equity securities	352,768,125	-	26,169,353	378,937,478
Club shares	14,520,000	-	-	14,520,000
Unlisted equity securities	20,000	-	-	20,000
Loans and receivables:				
Accounts receivable	-	45,578,754	-	45,578,754
Employee receivables	-	7,217,992	-	7,217,992
Accrued income	12,330,277	-	-	12,330,277
Total	₱2,110,326,859	₱1,131,028,892	₱212,374,158	₱3,453,729,909

December 31, 2014

	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Satisfactory		
Cash and cash equivalents	₱651,844,996	₱-	₱-	₱651,844,996
Short-term investments	8,895,509	-	-	8,895,509
Insurance receivables:				
Due from brokers and agents	-	770,229,300	53,849,322	824,078,622
Due from ceding companies and reinsurers	-	26,679,290	25,521,562	52,200,852
Reinsurance recoverable on paid losses	-	23,981,587	133,433,005	157,414,592
Financial assets:				
AFS financial assets:				
Government debt securities	1,206,308,370	-	-	1,206,308,370
Corporate bonds	25,000,000	-	-	25,000,000
Listed equity securities	423,186,367	-	-	423,186,367
Club shares	12,780,000	-	-	12,780,000
Unlisted equity securities	20,000	-	-	20,000
Loans and receivables:				
Accounts receivable	-	27,616,895	-	27,616,895
Employee receivables	-	6,979,925	-	6,979,925
Accrued income	12,815,078	-	-	12,815,078
Total	₱2,340,850,320	₱855,486,997	₱212,803,889	₱3,409,141,206



The Company uses a credit rating concept based on the borrowers and counterparties' overall creditworthiness, as follows:

Investment grade - This rating class is given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations. These financial assets have the smallest degree of financial risk.

Satisfactory - This rating class is given to borrowers and counterparties who possess above average capacity to meet its obligations.

The tables below show the analysis of age of financial assets that are past-due or impaired.

December 31, 2015

	Age analysis of Past-Due Financial Assets but not Impaired			Total Past Due but not Impaired	Past-Due and Impaired	Total
	< 30 days	31 to 90 days	Over 91 days			
Insurance receivables:						
Due from agents and brokers	₱20,811,293	₱45,007,861	₱5,402,673	₱71,221,827	₱4,193,221	₱75,415,048
Due from ceding companies and reinsurers	-	-	14,235,842	14,235,842	-	14,235,842
Reinsurance recoverable on paid losses	9,360,246	26,366,079	53,765,858	89,492,183	7,061,732	96,553,915
AFS financial	-	-	-	-	26,169,353	26,169,353
Total	₱30,171,539	₱71,373,940	₱73,404,373	₱174,949,852	₱37,424,306	₱212,374,158

December 31, 2014

	Age analysis of Past-Due Financial Assets but not Impaired			Total Past Due but not Impaired	Past-Due and Impaired	Total
	< 30 days	31 to 90 days	Over 91 days			
Insurance receivables:						
Due from agents and brokers	₱33,770,493	₱18,445,464	₱-	₱52,215,957	₱1,633,365	₱53,849,322
Due from ceding companies and reinsurers	1,309,896	4,994,549	14,430,525	20,734,970	4,786,592	25,521,562
Reinsurance recoverable on paid losses	684,148	88,391,593	39,522,268	128,598,009	4,834,996	133,433,005
Total	₱35,764,537	₱111,831,606	₱53,952,793	₱201,548,936	₱11,254,953	₱212,803,889

Liquidity risk

Liquidity or funding 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.

Liquidity risk is a risk due to uncertain liquidity. An institution may suffer liquidity problem when its credit rating falls. The Company is also exposed to liquidity risk if markets on which it depends on are subject to loss of liquidity.



It is the Company's objective to develop a plan that will provide a well-balanced cash flow to ensure that enough cash is available to meet its obligations and to fund its operational requirements. A well-managed cash flow statement will yield positive cash balance in compliance to the requirement of the IC.

To meet these objectives, the Company prepares a Cash Flow Plan which entails forecasting and tabulating all significant cash inflows relating to premiums paid by policyholders, interest received from investments and others, and analyzing in detail the timing of expected payments relating to supplies, wages, other expenses, capital expenditure, dividends, tax, and others. Excess funds resulting from positive cash flows are invested in short term placements and high yielding government securities.

The table below summarizes the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual amounts based on remaining contractual maturity, or for the insurance contract liabilities, based on the estimated timing of net cash outflows.

December 31, 2015

	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	No term	Total
Cash and cash equivalents	₱591,135,711	₱-	₱-	₱-	₱-	₱591,135,711
Short-term investments	1,295,042	-	-	-	-	1,295,042
Insurance receivables	1,253,181,998	-	-	-	-	1,253,181,998
Financial assets						
AFS financial assets	51,123,097	-	241,975,424	845,372,983	393,477,478	1,531,948,982
Loans and receivables	52,796,746	-	-	-	-	52,796,746
Reinsurance assets	849,111,194	-	-	-	-	849,111,194
Accrued income	12,330,277	-	-	-	-	12,330,277
Total financial assets	₱2,810,974,065	₱-	₱241,975,424	₱845,372,983	₱393,477,478	₱4,291,799,950
Insurance contract liabilities	₱1,307,181,558	₱-	₱-	₱-	₱-	₱1,307,181,558
Insurance payables	811,584,749	-	-	-	-	811,584,749
Accounts payable and accrued expenses	430,768,379	-	-	-	-	430,768,379
Total financial liabilities	₱2,549,534,686	₱-	₱-	₱-	₱-	₱2,549,534,686

December 31, 2014

	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	No term	Total
Cash and cash equivalents	₱652,048,496	₱-	₱-	₱-	₱-	₱652,048,496
Short-term investments	8,895,509	-	-	-	-	8,895,509
Insurance receivables	1,022,439,113	-	-	-	-	1,022,439,113
Financial assets						
AFS financial assets	-	53,003,716	180,462,503	997,842,151	435,986,367	1,667,294,737
Loans and receivables	34,596,820	-	-	-	-	34,596,820
Reinsurance assets	2,110,456,583	-	-	-	-	2,110,456,583
Accrued income	12,815,078	-	-	-	-	12,815,078
Total financial assets	₱3,841,251,599	₱53,003,716	₱180,462,503	₱997,842,151	₱435,986,367	₱5,508,546,336
Insurance contract liabilities	₱2,661,443,088	₱-	₱-	₱-	₱-	₱2,661,443,088
Insurance payables	861,450,449	-	-	-	-	861,450,449
Accounts payable and accrued expenses	315,992,001	-	-	-	-	315,992,001
Total financial liabilities	₱3,838,885,538	₱-	₱-	₱-	₱-	₱3,838,885,538

Market risk

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



Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Company manages market risk by evenly distributing capital among investment instruments.

The Company structures the levels of market risk it accepts through a sound market risk policy based on specific guidelines set by the Investment Committee. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation and portfolio limit structure. Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

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, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements.

The Company's financial assets are denominated in the same currencies as its insurance liabilities which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

The following table summarizes the Company's exposure to foreign currency exchange risk as of December 31, 2015 and 2014:

	2015		2014	
	US\$	PHP	US\$	PHP
Assets				
Cash and cash equivalents	\$1,590,626	₱74,620,676	\$6,104,256	₱272,799,410
Insurance receivables	5,318,956	248,953,975	1,247,807	57,108,907
	\$6,909,582	₱323,574,651	\$7,352,063	₱329,908,317
Liabilities				
Other insurance payables	\$5,864,521	₱272,436,908	\$4,245,195	₱190,912,986

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities).

December 31, 2015

	Change in variables	Impact on profit before tax Increase (Decrease)
USD	+₱2	₱2,090,120
USD	-₱1	(1,045,060)



December 31, 2014

	Change in variables	Impact on profit before tax Increase (Decrease)
USD	+₱2	₱6,213,737
USD	-₱1	(3,106,868)

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

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 interest rate risk. The Company's fixed rate investments in particular are exposed to fair value interest rate risk.

The Company's market risk policy requires it to manage interest rate risk by investing in fixed rate instruments.

The following table shows the information relating to the Company's financial instruments that are exposed to fair value interest rate risk presented by maturity profile.

	Interest Rates	Maturity				Total
		Within 1 year	1-3 years	3-5 years	Over 5 years	
AFS financial assets						
2015	1.00% - 4.00%	₱51,123,097	₱-	₱241,975,424	₱845,372,983	₱1,138,471,504
2014	1.00% - 5.00%	₱-	₱53,003,716	₱180,462,503	₱997,842,151	₱1,231,308,370

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects adjustments on revaluing fixed rate available-for-sale financial assets).

December 31, 2015

	Change in variables	Impact on equity Increase (Decrease)
Peso	+100 basis points	(₱79,424,934)
	-50 basis points	43,404,145

December 31, 2014

	Change in variables	Impact on equity Increase (Decrease)
Peso	+100 basis points	(₱90,964,300)
	-50 basis points	49,900,992



Price risk

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

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

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investment, diversification plan and limits on investments.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects changes in fair value of available-for-sale financial assets).

December 31, 2015

	Change in Variable	Impact on equity Increase (Decrease)
Market Index 1	+10.41%	₱39,839,594
	-10.41%	(39,839,594)

December 31, 2014

	Change in Variable	Impact on equity Increase (Decrease)
Market Index 1	+12.99%	₱52,682,019
	-12.99%	(52,682,019)

27. Related Party Transactions

Significant related party transactions are summarized below:

- a. Compensation of key management personnel

Key management personnel of the Company include all management staff.

The summary of compensation of key management personnel is as follows:

	2015	2014
Salaries and wages	₱55,164,852	₱51,633,873
Other employee benefits	766,582	685,958



b. Transactions with related parties consist mainly of the following activities:

Category	Amount		Outstanding Balance		Terms		Conditions
	2015	2014	2015	2014	2015	2014	
<i>Companies under common control</i>							
Premiums							
Metro Drug Inc.	₱616,631	₱957,690	₱-	₱-	90-day	90-day	Not applicable
Bridgebury Realty Corp.	16,192,272	12,511,368	15,781,007	-	90-day	90-day	Not applicable
Interphil Laboratories Inc.	5,456,225	6,038,701	198,381	-	90-day	90-day	Not applicable
Mercator Holdings and Mgt Corp.	1,163,477	1,359,007	-	-	90-day	90-day	Not applicable
Zuellig Family Foundation	384,382	297,187	4,708	-	90-day	90-day	Not applicable
Zuellig Pharma Asia Pacific	620,873	503,436	975	-	90-day	90-day	Not applicable
Zuellig Pharma Corp.	67,598,404	91,156,222	501,781	-	90-day	90-day	Not applicable
Lease							
Bridgebury Realty Corp.							
Rent expense	18,308,389	18,377,389	-	-	5-year operating lease	Refundable at the end of	Not applicable
Security deposit	5,981,403	5,981,403	5,981,403	5,789,403	the lease term	Three-month advance	Not applicable
Prepaid rent	10,466,339	9,150,659	10,466,339	4,646,312	of the lease term	payments to be applied	Not applicable



28. Lease Commitments

The Company entered into the following lease agreements:

- a. Five-year lease for an office space for its Cebu branch effective May 16, 2011 until May 15, 2016. The stipulated monthly rent of ₱54,904 shall have an escalation rate of 10.0% on its second and third year. Free rent will be applied on the first month of lease.
- b. Five-year lease for its main office premises effective October 15, 2012 until October 14, 2017 with stipulated monthly rent amounted to ₱1,447,449, a one-year storage lease effective December 17, 2014 to December 16, 2015 with stipulated monthly rent of ₱23,683 and five-year parking lease effective October 15, 2012 to October 14, 2017 with stipulated monthly rent of ₱84,000 and a one-year parking lease effective January 1, 2015 to December 31, 2015 with stipulated monthly rent of ₱9,000.
- c. Three-year lease of an office space for its Davao branch effective July 1, 2014 to June 30, 2017. The stipulated monthly rent of ₱31,944 shall have an escalation rate of 5.0% on the second year.
- e. Two-year lease of an office space for its Angeles branch effective February 1, 2015 to January 31, 2017. The stipulated monthly rent of ₱58,682 shall have an escalation rate of 8.0% on the second year.
- f. One-year lease of an office space for its Lipa branch effective January 15, 2015 to January 14, 2016. The stipulated monthly rent of ₱25,366 shall have an escalation rate of 5.0% every year.
- g. Three-year lease of an office and parking space for its Binondo satellite office effective September 1, 2014 to August 31, 2017 with stipulated monthly rent of ₱30,214, shall have an escalation rate of 5% on the second year and a parking lease of ₱2,500 monthly.
- h. Five-year lease of an office space for its Alabang branch effective November 24, 2014 to November 24, 2019 with stipulated monthly rent of ₱50,504, shall have an escalation rate of 6% on the second year and a parking lease of ₱2,500 monthly.
- i. Lease of an office space for its Quezon City branch as follows:

Unit	Period	Monthly Rent	Escalation rate
Unit 602	February 1, 2012 to January 31, 2020	₱73,205	5% on the third year
Unit 604	February 1, 2012 to January 31, 2020	18,222	5% on the third year
Unit 601-A	January 1, 2015 to December 31, 2020	55,341	5% on the third year
Unit 601-B	April 16, 2012 to April 15, 2020	29,882	5% on the third year
Unit 605	July 1, 2012 to June 30, 2020	14,053	5% on the third year
Storage Area	July 1, 2012 to June 30, 2020	2,014	

- j. Three-year lease of an office space for its Dagupan branch effective June 1, 2013 to May 31, 2016 with a stipulated monthly rent of ₱16,000.
- k. Two-year lease of an office space for its Cagayan de Oro branch effective April 1, 2015 to April 1, 2017. The stipulated monthly rent of ₱27,000 shall have an annual escalation rate of 5.0% every year.



- l. One-year lease of an office space for its Libis branch effective September 15, 2015 to September 14, 2016 with stipulated monthly rent of ₱54,210.
- m. Two-year lease of an office space for its Las Piñas satellite office effective January 1, 2015 to December 31, 2016 with stipulated monthly rent of ₱29,040.
- n. One-year lease of an office space for its Iloilo satellite office effective March 1, 2015 to February 28, 2016 with stipulated monthly rent of ₱8,000.
- o. One-year lease of an office space for its Bacolod branch effective December 15, 2015 to December 15, 2016 with stipulated monthly rent of ₱8,000.
- p. One-year lease of an office space for its Laguna satellite office effective January 1, 2015 to December 31, 2015 with stipulated monthly rent of ₱11,000.
- q. Three-year lease of an office space for its Caloocan satellite office effective September 1, 2015 to August 31, 2018 with stipulated monthly rent of ₱39,069 and have an escalation rate of 5% on the third year.
- r. Two-year lease of an office space for FPAC Business Lounge effective December 16, 2014 to December 15, 2016. The stipulated monthly rent of ₱198,450 shall have an escalation rate of 5% on the second year. One-year parking lease with stipulated monthly rent of ₱6,000.
- s. Two-year lease of an office space for its Tarlac satellite office effective April 1, 2014 to March 31, 2016 with stipulated monthly rent of ₱12,000.
- t. Two-year lease of an office space for its General Santos satellite office effective May 1, 2015 to April 30, 2017 with stipulated monthly rent of ₱15,600 and have an escalation rate of 10% on the second year.

Rent expense charged against operations amounted to ₱29,808,870 and ₱27,596,438 in 2015 and 2014, respectively.

29. Reconciliation of PFRS Net Income to Statutory Net Income

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

	2015	2014
PFRS net income	₱80,226,412	₱102,670,959
Add (deduct):		
Deferred acquisition costs - net	(24,974,667)	(15,231,281)
Difference in change in provision for unearned premiums - net	80,363,505	75,263,515
Tax effect of PFRS adjustments	(16,616,651)	(18,009,670)
Statutory net income	₱118,998,599	₱144,693,523



30. Contingent Liabilities

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no material liabilities are likely to result.

31. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by RR15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year:

Output Value Added Tax (VAT)

The Company is a VAT-registered company with output VAT declaration of ₱351,418,527 for the year based on the amount reflected in the Premium Income account of ₱2,928,487,728.

The Company has zero-rated sales amounting to ₱186,268,056.

Input VAT

The amount of VAT Input taxes claimed are broken down as follows:

	2015
Balance at January 1	₱7,971,728
Current year's domestic purchases/payments for:	
Purchase of goods	4,792,600
Payment for services	117,377,692
	130,142,020
Total Input VAT claimed during the year	119,592,230
Balance at December 31	₱10,549,790

Documentary Stamp Tax (DST)

The DST paid on the following transactions are:

Transaction	DST
Policies of insurance upon property	₱415,735,027
Compulsory Third Party Liability (CTPL)	945,860
Accident and Health	785,920

Other Taxes and Licenses

Details of other taxes, local and national, including real estate taxes, license and permit fees follow:

Local:

License and Permit Fees	₱244,192
Real Estate Taxes	74,292
Total	₱318,484



National:

Tax Deficiency	₱3,890,238
Fees paid to Insurance Commission	3,686,747
Licenses of agents	2,363,608
LTO Car Registration Fees	1,271,855
Fringe Benefit Tax	782,642
DST on Customized cheque	18,000
BIR Annual Registration	9,000
DST on Licenses of agents	7,515
Certification fees	400
Others	37,378
Total	₱12,067,383

Other taxes paid are:

	Amount
Fire service tax	₱10,449,050
Local government tax	6,468,657
Premium tax	2,795,223

Withholding Taxes

The amount of withholding taxes paid/accrued for the year amounted to:

	2015
Expanded withholding taxes	₱72,021,133
Withholding taxes on compensation and benefits	26,195,593
Final withholding taxes	3,540,157
	₱101,756,883

Tax Contingencies

The Company is under preliminary tax audit for taxable year 2012 and 2013. The Company has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

