

Bankers Assurance Corporation
*(A Wholly Owned Subsidiary of Malayan
Insurance Co., Inc.)*

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Bankers Assurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Bankers Assurance Corporation (a wholly owned subsidiary of Malayan Insurance 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.



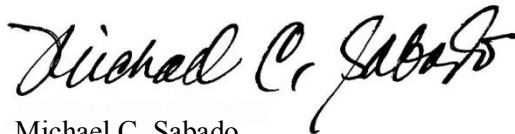
Opinion

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

Report on the Supplementary Information Required Under Revenue Regulations 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 for the purpose of filing with the Bureau of Internal Revenue is presented by the management of Bankers Assurance Corporation in a separate schedule. Revenue Regulations No. 15-2010 requires the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule No. 68, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.



Michael C. Sabado

Partner

CPA Certificate No. 89336

SEC Accreditation No. 0664-AR-2 (Group A),

March 26, 2014, valid until March 25, 2017

Tax Identification No. 160-302-865

BIR Accreditation No. 08-001998-73-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5321688, January 4, 2016, Makati City

April 4, 2016



BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)
STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|--|---------------------|----------------|
| | 2015 | 2014 |
| ASSETS | | |
| Cash and Cash Equivalents | | |
| (Notes 4, 21, 24 and 25) | ₱63,531,434 | ₱60,725,847 |
| Insurance Receivables - net (Notes 5, 24 and 25) | 57,199,463 | 57,143,907 |
| Financial Assets (Notes 6, 21, 24 and 25) | | |
| Available-for-sale financial assets | 603,282,873 | 770,390,802 |
| Loans and receivables - net | 94,723,421 | 95,705,762 |
| Accrued Income (Notes 24 and 25) | 2,400,338 | 2,390,718 |
| Deferred Acquisition Costs (Note 7) | 20,135,570 | 17,877,955 |
| Reinsurance Assets (Notes 8, 12 and 24) | 58,135,231 | 54,791,744 |
| Property and Equipment - net (Note 9) | 8,343,773 | 12,301,154 |
| Deferred Tax Assets - net (Note 19) | 1,922,052 | 621,224 |
| Other Assets (Notes 11 and 24) | 16,640,773 | 12,719,486 |
| Total Assets | ₱926,314,928 | ₱1,084,668,599 |
| LIABILITIES AND EQUITY | | |
| Liabilities | | |
| Insurance contract liabilities (Notes 12, 17 and 24) | 198,645,063 | 196,246,428 |
| Insurance payables (Notes 13, 21, 24 and 25) | 52,869,584 | 54,304,078 |
| Accounts payable and accrued expenses (Notes 14, 21, 24 and 25) | 39,624,996 | 44,585,948 |
| Deferred reinsurance commission (Note 7) | 9,282 | - |
| Net pension obligation (Note 10) | 3,108,459 | 1,797,815 |
| Income tax payable | 275,311 | - |
| Total Liabilities | 294,532,695 | 296,934,269 |
| Equity | | |
| Capital stock (Note 23) | 250,000,000 | 250,000,000 |
| Capital in excess of par value | 50,000 | 50,000 |
| Revaluation reserve on available-for-sale financial assets (Note 6) | 337,802,487 | 517,231,837 |
| Remeasurement losses on net pension obligation (Note 10) | (377,121) | (207,134) |
| Retained earnings | 44,306,867 | 20,659,627 |
| Total Equity | 631,782,233 | 787,734,330 |
| | ₱926,314,928 | ₱1,084,668,599 |

See accompanying Notes to Financial Statements.



BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

STATEMENTS OF INCOME

| | Years Ended December 31 | |
|--|--------------------------------|---------------------|
| | 2015 | 2014 |
| INCOME | | |
| Gross premiums earned | ₱79,135,487 | ₱84,020,366 |
| Reinsurers' share of gross premiums earned | (4,608,227) | (22,475,881) |
| Net premiums earned (Notes 12 and 15) | 74,527,260 | 61,544,485 |
| Investment and other income - net (Note 16) | 40,862,662 | 43,626,256 |
| Commission income (Notes 7 and 21) | 16,923 | 18,720 |
| Other income | 40,879,585 | 43,644,976 |
| Total income | 115,406,845 | 105,189,461 |
| BENEFITS, CLAIMS AND EXPENSES | | |
| Gross insurance contract benefits and claims paid | 23,274,905 | 85,419,674 |
| Reinsurers' share of gross insurance contract benefits and claims paid | (5,540,755) | (75,321,267) |
| Gross change in insurance contract liabilities | (1,560,785) | (150,428,130) |
| Reinsurers' share of gross change in insurance contract liabilities | (3,112,940) | 180,141,246 |
| Net insurance benefits and claims (Notes 12 and 17) | 13,060,425 | 39,811,523 |
| General expenses (Note 18) | 34,117,694 | 31,656,545 |
| Commission expense (Note 7) | 23,887,423 | 22,589,967 |
| Investment and other expense (Note 6) | 8,333,435 | - |
| Other underwriting expenses | 11,993,824 | 14,043,658 |
| Other Expenses | 78,332,376 | 68,290,170 |
| Total Benefits, Claims and Other Expenses | 91,392,801 | 108,101,693 |
| INCOME (LOSS) BEFORE INCOME TAX | 24,014,044 | (2,912,232) |
| PROVISION FOR INCOME TAX (Note 19) | 366,804 | 886,460 |
| NET INCOME (LOSS) (Note 22) | ₱23,647,240 | (₱3,798,692) |

See accompanying Notes to Financial Statements.



BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|--|--------------------------------|---------------------|
| | 2015 | 2014 |
| Net Income (Loss) | ₱23,647,240 | (₱3,798,692) |
| Other Comprehensive Income (Loss) | | |
| <i>Item that will be reclassified to profit or loss in subsequent periods:</i> | | |
| Net change on fair values of available-for-sale financial assets (Note 6) | (179,429,350) | 51,653,708 |
| <i>Item that will not be reclassified to profit or loss in subsequent periods:</i> | | |
| Remeasurement gain (loss) on net pension obligation, net of tax effect (Note 10) | (169,987) | 210,403 |
| | (179,599,337) | 51,864,111 |
| Total Comprehensive Income (Loss) | (₱155,952,097) | ₱48,065,419 |

See accompanying Notes to Financial Statements.



BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

STATEMENTS OF CHANGES IN EQUITY

| | For the Year Ended December 31, 2015 | | | | | Total |
|--|--------------------------------------|--------------------------------------|--|--|-----------------------------------|---------------------|
| | Capital Stock (Note 23) | Capital in Excess of Par Value | Revaluation Reserve on Available-for- Sale Financial Assets (Note 6) | Remeasurement losses on Net Pension Obligation (Note 10) | Retained Earnings (Note 23) | |
| As of January 1, 2015 | ₱250,000,000 | ₱50,000 | ₱517,231,837 | (₱207,134) | ₱20,659,627 | ₱787,734,330 |
| Net income for the year | – | – | – | – | 23,647,240 | 23,647,240 |
| Other comprehensive loss | – | – | (179,429,350) | (169,987) | – | (179,599,337) |
| Total comprehensive income (loss) | – | – | (179,429,350) | (169,987) | 23,647,240 | (155,952,097) |
| Balance as of December 31, 2015 | ₱250,000,000 | ₱50,000 | ₱337,802,487 | (₱377,121) | ₱44,306,867 | ₱631,782,233 |

| | For the Year Ended December 31, 2014 | | | | | Total |
|--|--------------------------------------|--------------------------------------|--|--|-----------------------------------|---------------------|
| | Capital Stock (Note 23) | Capital in Excess of Par Value | Revaluation Reserve on Available-for- Sale Financial Assets (Note 6) | Remeasurement losses on Net Pension Obligation (Note 10) | Retained Earnings (Note 23) | |
| As of January 1, 2014 | ₱250,000,000 | ₱50,000 | ₱465,578,129 | (₱417,537) | ₱24,458,319 | ₱739,668,911 |
| Net loss for the year | – | – | – | – | (3,798,692) | (3,798,692) |
| Other comprehensive income | – | – | 51,653,708 | 210,403 | – | 51,864,111 |
| Total comprehensive income (loss) | – | – | 51,653,708 | 210,403 | (3,798,692) | 48,065,419 |
| Balance as of December 31, 2014 | ₱250,000,000 | ₱50,000 | ₱517,231,837 | (₱207,134) | ₱20,659,627 | ₱787,734,330 |

See accompanying Notes to Financial Statements.



BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|--------------------------------|---------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income (loss) before income tax | ₱24,014,044 | (₱2,912,232) |
| Adjustments for: | | |
| Provision for impairment losses (Note 6) | 8,330,851 | – |
| Depreciation and amortization (Notes 9 and 18) | 4,408,152 | 4,299,883 |
| Provision for bad debts (Notes 5 and 18) | 3,156,274 | 2,347,452 |
| Gain on sale of available-for-sale financial assets (Notes 6 and 16) | (2,455,839) | (369,271) |
| Unrealized foreign exchange gain (Note 16) | (5,393,276) | (438,348) |
| Interest income (Note 16) | (8,565,378) | (9,741,004) |
| Dividend income (Note 16) | (24,570,384) | (31,206,113) |
| Operating loss before changes in working capital | (1,075,556) | (38,019,633) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Insurance receivables - net | (1,291,819) | 21,709,194 |
| Loans and receivables - net | 982,341 | (69,721,467) |
| Deferred acquisition costs | (2,257,615) | (9,448,568) |
| Reinsurance assets | (3,343,487) | 180,142,368 |
| Increase (decrease) in: | | |
| Insurance contract liabilities | 2,398,635 | (126,586,593) |
| Insurance payables | (1,434,494) | 24,472,526 |
| Accounts payable and accrued expenses | (4,960,953) | 16,000,712 |
| Deferred reinsurance commission | 9,282 | (262) |
| Net pension obligation (Note 10) | 1,067,806 | 825,801 |
| Net cash used in operations | (9,905,860) | (625,922) |
| Income tax paid | (1,305,451) | – |
| Net cash used in operating activities | (11,211,311) | (625,922) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from disposals/maturities of: | | |
| Available-for-sale financial assets | 35,376,942 | 1,930,655 |
| Dividends received | 24,634,979 | 31,210,793 |
| Interest received | 8,826,353 | 9,904,536 |
| Acquisitions of: | | |
| Available-for-sale financial assets (Note 6) | (52,851,138) | – |
| Property and equipment (Note 9) | (450,771) | (771,112) |
| Increase in other assets | (3,935,306) | (4,113,866) |
| Net cash provided by investing activities | 11,601,059 | 38,161,006 |

(Forward)



| | Years Ended December 31 | |
|---|--------------------------------|--------------------|
| | 2015 | 2014 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | ₱2,415,839 | (₱168,514) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 2,805,587 | 37,366,570 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 60,725,847 | 23,359,277 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4) | ₱63,531,434 | ₱60,725,847 |

See accompanying Notes to Financial Statements.



BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Bankers Assurance Corporation (the Company), a wholly owned subsidiary of Malayan Insurance Co., Inc. (MICO), was incorporated in the Philippines to engage in nonlife insurance business dealing with all kinds of insurance such as fire, marine, motorcar, personal accident, miscellaneous casualty, engineering, bonds and aviation, except life insurance.

The Company was incorporated on September 6, 1955. On August 12, 2004, the Board of Directors (BOD) and stockholders approved the amendment of the Articles of Incorporation extending the corporate term for another 50 years from September 6, 2005, which was approved by the Philippine Securities and Exchange Commission (SEC) on October 13, 2006.

The registered office address of the Company is 4th Floor, Yuchengco Tower 1, No. 500 Quintin Paredes St., Binondo, Manila.

The Company's ultimate parent is Pan Malayan Management and Investment Corporation (PMMIC).

The accompanying financial statements were approved and authorized for issue by the BOD of the Company on April 4, 2016.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following amended PFRS and Philippine Accounting Standards (PAS) interpretations which became effective beginning January 1, 2015. Except as otherwise stated, the adoption of these 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.



Annual Improvements to PFRSs (2010-2012 cycle)

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.

This amendment does not apply to the Company as it has no share-based payments.

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 (FVPL) whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*. This amendment did not significantly impact the financial statements of the Company.

PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendments affect disclosures only and had no impact on the Company's financial position or performance.

PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization

The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The amendments had no impact on the Company's financial position or performance.

PAS 24, Related Party Disclosures - Key Management Personnel

The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the



expenses incurred for management services. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

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.

The amendment had no impact on the Company's financial position or performance.

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. The amendment had no significant impact on the Company's financial position or performance.

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). The amendment had no significant impact on the Company's financial position or performance.

Future Changes in Accounting Policies

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 SEC and the Financial Reporting Standard Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the 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.

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 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. In December 2015, the IASB deferred indefinitely the effective date of these amendments pending the final outcome of the IASB's research project on International Accounting Standards 28. Adoption of these amendments when they become effective will not have any impact on the financial statements.



Effective 2016

PFRS 10, Consolidated Financial Statements, and PAS 28, Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (Amendments)

These amendments clarify that the exemption in PFRS 10 from presenting financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments are not applicable to the Company.

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. 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 11, Joint Arrangements - Accounting for Acquisitions of Interests (Amendments)

The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to 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 not expected to have any impact to the Company.

PAS 1, Presentation of Financial Statements - Disclosure Initiative (Amendments)

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

- 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
- That specific line items in the statement of income 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.



Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. The Company is currently assessing the impact of these amendments on its financial statements.

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 income 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.

PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture - Bearer Plants

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.

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 given that the Company has not used a revenue-based method to depreciate its non-current assets.

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. They include:

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 on continuing involvement 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 (i.e., in the management commentary or risk report).

Effective 2018

PFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015.

The Company did not early adopt PFRS 9. The adoption of PFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but will have no impact on the classification and measurement of the Company’s financial liabilities.

The following new standards have been issued by the IASB but have not yet been adopted locally.

International Financial Reporting Standard (IFRS) 15, Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 by the International Accounting Standards Board (IASB) 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 January 1, 2018. Early adoption is permitted. The Company is currently assessing the impact of the standard.

IFRS 16, *Leases*

On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

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

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

The new standard is effective for annual periods beginning on or after January 1, 2019.

Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of the standard.

Product Classification

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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.

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



Fair Value Measurement

The Company measures financial instrument at fair value at each reporting period.

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.

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

Cash and Cash Equivalents

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

Insurance Receivables

Premium 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. 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 statement of income.



Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it 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

All financial assets and liabilities are recognized initially at fair value. Except for financial assets and liabilities measured at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: Available-for-sale (AFS) financial assets and loans and receivables. The Company classifies its financial liabilities 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 reporting date.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions on 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 or liability. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

AFS financial assets

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

After initial measurement, AFS 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 the statement of income. 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 profit or loss when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as 'Revaluation reserve on available-for-sale financial assets' in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized in the statement of income. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as realized gains or losses in the statement of income. Where the Company holds more than one investment in the same security, the cost is determined using the weighted average method.

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.

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) "Insurance Receivables", (c) "Loans and receivables" and (d) "Accrued Income".

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

Other financial liabilities

Issued financial instruments or their components, which are not designated as 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 a whole 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 method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

This accounting policy applies primarily to insurance payables, accounts payable and accrued expenses and other liabilities that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit liability and income tax payable).

Offsetting Financial Instruments

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

Impairment of Financial Assets

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

Financial Assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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 past-due status and term.



AFS financial assets carried at fair value

In case of equity investments, 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 equity 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 equity.

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

AFS financial assets carried at cost

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

Offsetting Financial Instruments

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

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

Where the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form



of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

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

Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies for its share on the unpaid losses incurred by the Company. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Reinsurance recoverable on paid losses are included as part of “Insurance receivables”.

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

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

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

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

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

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 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 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 expense when incurred.

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

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

Property and Equipment

All property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

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

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the individually significant components of property and equipment as follows:

| | <u>Years</u> |
|--|--------------|
| Office furniture, fixtures and equipment | 5 |
| Transportation equipment | 5 |

Leasehold improvements are amortized over the estimated useful lives of the improvements or the terms of the lease, whichever is shorter.

The estimated useful life and depreciation and amortization method are reviewed periodically to ensure that the period and 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 from its use or disposal. Any gain or loss arising on derecognition of the assets, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statement of income in the year the asset is derecognized.

Value-added Tax (VAT)

The input value added tax pertains to the 12% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the sale of insurance policies and other goods or services by the Company.



If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under “Accounts payable and accrued expenses” account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under “Other assets” account.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that property and equipment and intangible assets 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 (CGU’s) fair value less costs to sell and its value in use and is determined for an individual asset 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 reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in 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 useful life.

Insurance Contract Liabilities

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums as part of Insurance contract liabilities and presented in the liabilities section of the statement of financial position. 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 change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and Incurred but not reported (IBNR) losses

Provision for claims reported and claims IBNR losses are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries.



Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of reporting period. The liability is not discounted for the time value of money. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract is discharged, cancelled or has expired.

Liability adequacy test

At each end of reporting period, 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.

Capital Stock

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.

Capital in Excess of Par Value

Capital in excess of par value includes any premiums received in excess of par value on the issuance of capital stock.

Retained earnings

Retained earnings include all the accumulated earnings of the Company, net of dividends declared.

Revenue

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

Premiums revenue

Gross insurance premiums written 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 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 the end of 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 related reinsurance premiums ceded that pertains to the unexpired periods at the end of reporting period are accounted for as Deferred reinsurance premiums and shown as part of Reinsurance assets in the statement of financial position. The net changes in these accounts between the ends of reporting periods are recognized in the statement of income.

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 the end of reporting period are accounted for as Deferred reinsurance commission and presented in the liabilities section of the statement of financial position.



Dividend income

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

Interest income

Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest rate method.

Benefits and Claims

Gross benefits and claims consist of benefits and claims paid to policyholders and changes in the provision for claims reported and incurred but not reported losses. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Expenses

General expenses and other underwriting expenses, except for lease agreements, are recognized as expense when incurred.

Foreign Currency-Denominated Transactions and Translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of reporting period. Differences arising from translation of monetary assets and liabilities are taken to the statement of income.

Provisions and Contingencies

Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Income Tax

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted at the end of reporting period.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of the excess of



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

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of 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 directly in equity is also recognized in equity and not in the statement of income.

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

Events after the End of the Reporting Period

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

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Company to make judgments and estimates that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results would differ from such estimates.

Judgments

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

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 have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

Management's Use of Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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 are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time. While significant components of fair value were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value of these financial assets would affect the statement of other comprehensive income.

Valuation of insurance contract liabilities

Estimates have to be made for both the expected ultimate cost of claims reported at the end of reporting period and the expected ultimate cost of IBNR claims at the end of reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty.

The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each end of reporting period, prior year claims estimates are reassessed for adequacy and changes made are charged to provision. Claims provision is not discounted for the time value of money.

The carrying value of provisions for claims reported and loss adjustments expenses amounted to ₱133.33 million and ₱134.89 million as of December 31, 2015 and 2014, respectively (Note 12).

Estimation of allowance for impairment losses

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates.

The carrying value of insurance receivables, net of impairment losses amounted to ₱57.20 million and ₱57.14 million as of December 31, 2015 and 2014, respectively. Allowance for impairment losses amounted to ₱9.71 million and ₱6.56 million as of December 31, 2015 and 2014, respectively (Note 5).

The carrying value of loans and receivables amounted to ₱94.72 million and ₱95.71 million as of December 31, 2015 and 2014, respectively. Allowance for impairment losses amounted to ₱0.60 million as of December 31, 2015 and 2014 (Note 6).



Impairment of AFS equity financial assets

The Company determines that AFS equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price for quoted securities and the future cash flows and the discount factors for unquoted securities. The Company treats “significant” generally as 20% or more and “prolonged” as greater than six (6) months. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As of December 31, 2015 and 2014, the carrying value of the Company’s AFS financial assets amounted to ₱603.28 million and ₱770.39 million, respectively (Note 6).

Estimation of useful lives of property and equipment

The Company reviews annually the estimated useful lives of property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization and decrease the related asset accounts.

As of December 31, 2015 and 2014, the carrying value of the property and equipment amounted to ₱8.34 million and ₱12.30 million, respectively (Note 9).

Impairment of property and equipment

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

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

No impairment loss was recognized in the Company’s nonfinancial assets in 2015 and 2014.

Recognition of deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized. These assets are periodically reviewed for realization.

Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized (Note 19).

Estimating pension obligation and other retirement benefits

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



Due to the long-term nature of this plan, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the end of reporting period. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized outright as other comprehensive income in the statement of comprehensive income. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations.

The carrying value of net pension obligation amounted to ₱3.11 million and ₱1.80 million as of December 31, 2015 and 2014, respectively (Note 10).

Contingencies

The Company is currently involved in various legal proceedings. The estimate of probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon analysis of potential results. The Company does not believe that these proceedings will have a material adverse effect on its financial position.

4. Cash and Cash Equivalents

This account consists of:

| | 2015 | 2014 |
|-------------------------------|--------------------|-------------|
| Cash fund | ₱41,394 | ₱46,798 |
| Cash in banks (Note 21) | 56,901,311 | 52,987,030 |
| Short-term deposits (Note 21) | 6,588,729 | 7,692,019 |
| | ₱63,531,434 | ₱60,725,847 |

Cash in banks earns interest corresponding to the banks' deposit rates.

Short-term deposits pertain to deposits made with terms varying from one day and three months depending on the immediate cash requirements of the Company. Annual interest rates are 0.50% in 2015 and 1.13% to 1.25% in 2014.

Interest income earned amounted to ₱0.48 million and ₱0.29 million in 2015 and 2014, respectively (Note 16).

5. Insurance Receivables - net

This account consists of:

| | 2015 | 2014 |
|------------------------------------|--------------------|-------------|
| Premiums receivables | ₱58,139,439 | ₱54,878,511 |
| Funds held by ceding companies | 7,232,101 | 4,629,177 |
| Due from ceding companies | 1,540,856 | 4,192,878 |
| | 66,912,396 | 63,700,566 |
| Less allowance for impairment loss | 9,712,933 | 6,556,659 |
| | ₱57,199,463 | ₱57,143,907 |



Premiums receivables represent premiums on written policies which are collectible within the Company's allowed payment period.

Funds held by ceding companies pertain to the portion of the premium withheld by the ceding companies in accordance with reinsurance contracts.

Due from ceding companies pertains to premiums collectible resulting from treaty acceptances from ceding companies.

As of December 31, 2015 and 2014, insurance receivables with a carrying value of ₱9.71 million and ₱6.56 million, respectively, which are specifically identified as impaired, were fully provided with allowance.

The following table shows aging information of insurance receivables:

| 2015 | | | | | |
|--------------------------------|---------------------|-----------------------|------------------------|---------------------|--------------------|
| | < 30 days | 30 >60 days | 60 >120 days | >120 days | Total |
| Premiums receivable | ₱2,996,146 | ₱3,174,201 | ₱4,703,412 | ₱47,265,680 | ₱58,139,439 |
| Funds held by ceding companies | - | - | 100,000 | 7,132,101 | 7,232,101 |
| Due from ceding companies | 48,678 | - | 831,283 | 660,895 | 1,540,856 |
| | ₱3,044,824 | ₱3,174,201 | ₱5,634,695 | ₱55,058,676 | ₱66,912,396 |

| 2014 | | | | | |
|--------------------------------|---------------------|-----------------------|------------------------|---------------------|--------------------|
| | < 30 days | 30 >60 days | 60 >120 days | >120 days | Total |
| Premiums receivable | ₱- | ₱4,413,647 | ₱3,385,154 | ₱47,079,710 | ₱54,878,511 |
| Funds held by ceding companies | - | 150,000 | 100,000 | 4,379,177 | 4,629,177 |
| Due from ceding companies | 171,098 | 129,517 | 1,739,340 | 2,152,923 | 4,192,878 |
| | ₱171,098 | ₱4,693,164 | ₱5,224,494 | ₱53,611,810 | ₱63,700,566 |

The allowance for impairment losses on insurance receivables as of December 31, 2015 and 2014 had been determined as follows:

| 2015 | | | | |
|--------------------------------------|----------------------------|----------------------------------|---------------------------------------|-------------------|
| | Premiums Receivable | Due from Ceding Companies | Funds held by Ceding Companies | Total |
| Balance at beginning of year | ₱4,834,880 | ₱341,002 | ₱1,380,777 | ₱6,556,659 |
| Provision for allowance for the year | 3,156,274 | - | - | 3,156,274 |
| Balance at end of year | ₱7,991,154 | ₱341,002 | ₱1,380,777 | ₱9,712,933 |
| Individually impaired | ₱7,991,154 | ₱341,002 | ₱1,380,777 | ₱9,712,933 |

| 2014 | | | | |
|--------------------------------------|----------------------------|----------------------------------|---------------------------------------|-------------------|
| | Premiums Receivable | Due from Ceding Companies | Funds held by Ceding Companies | Total |
| Balance at beginning of year | ₱2,487,428 | ₱341,002 | ₱1,380,777 | ₱4,209,207 |
| Provision for allowance for the year | 2,347,452 | - | - | 2,347,452 |
| Balance at end of year | ₱4,834,880 | ₱341,002 | ₱1,380,777 | ₱6,556,659 |
| Individually impaired | ₱4,834,880 | ₱341,002 | ₱1,380,777 | ₱6,556,659 |



6. Financial Assets

This account is summarized by measurement categories as follows:

| | 2015 | 2014 |
|-----------------------------|---------------------|--------------|
| AFS financial assets | ₱603,282,873 | ₱770,390,802 |
| Loans and receivables - net | 94,723,421 | 95,705,762 |
| | ₱698,006,294 | ₱866,096,564 |

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

a) AFS financial assets

This account consists of:

| | 2015 | 2014 |
|---|---------------------|--------------|
| Quoted securities - at fair value | | |
| Listed equity securities - common shares | ₱478,353,738 | ₱650,743,636 |
| Government debt securities - local currency | 67,380,097 | 72,146,629 |
| Private debt securities (Note 21) | 50,366,578 | 40,318,077 |
| | 596,100,413 | 763,208,342 |
| Non-quoted securities - at cost | | |
| Unlisted equity securities - common shares | 7,182,460 | 7,182,460 |
| | ₱603,282,873 | ₱770,390,802 |

In accordance with the provisions of the Insurance Code (the Code), government securities with face value totaling ₱63.92 million and ₱63.75 million as of December 31, 2015 and 2014, respectively, are deposited with the Insurance Commission (IC) as security for the benefit of policyholders and creditors of the Company.

As of December 31, 2015 and 2014, the revaluation reserve on AFS financial assets amounted to ₱337.80 million and ₱517.23 million, respectively.

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

| | 2015 | 2014 |
|-----------------------------------|----------------------|--------------|
| Balance at beginning of year | ₱770,390,802 | ₱720,392,192 |
| Acquisitions | 52,851,138 | - |
| Unrealized foreign exchange gains | 1,057,426 | 606,862 |
| Fair value gains (losses) | (179,429,350) | 51,653,708 |
| Impairment loss | (8,330,851) | - |
| Disposal and maturities | (32,921,103) | (1,561,385) |
| Premium amortization - net | (335,189) | (700,575) |
| Balance at end of year | ₱603,282,873 | ₱770,390,802 |



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

| | 2015 | 2014 |
|---|---------------------|---------------------|
| Balance at beginning of year | ₱517,231,837 | ₱465,578,129 |
| Fair value gains (losses) | (176,973,511) | 52,022,979 |
| Realized gain transferred to profit or loss (Note 16) | (2,455,839) | (369,271) |
| Balance at end of year | ₱337,802,487 | ₱517,231,837 |

The maturity profile of investments in debt securities, both government and private, follows:

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Due after one year through five years | ₱64,086,558 | ₱84,881,397 |
| Due after five years through ten years | 53,660,117 | 27,683,309 |
| | ₱117,746,675 | ₱112,564,706 |

In 2015 and 2014, dividend income earned by the Company from its investment amounted to ₱24.57 million and ₱31.21 million, respectively (Note 16).

Total interest income earned by the Company from its AFS investments amounted to ₱6.77 million and ₱ 7.86 million in 2015 and 2014, respectively (Note 16).

In 2015, the Company recognized investment and other expense amounting to ₱8.33 million.

b) *Loans and receivables - net*

This account consists of:

| | 2015 | 2014 |
|--------------------------------------|--------------------|--------------------|
| Accounts receivable (Note 21) | ₱74,023,890 | ₱74,559,354 |
| Long-term commercial papers | 20,000,000 | 20,000,000 |
| Notes receivable | 1,240,997 | 1,687,874 |
| Security fund | 57,908 | 57,908 |
| | 95,322,795 | 96,305,136 |
| Less allowance for doubtful accounts | 599,374 | 599,374 |
| | ₱94,723,421 | ₱95,705,762 |

The Company disposed long-term commercial papers amounting ₱5.00 million in 2015 and 2014. Annual interest rates for long-term commercial paper range from 4.51% to 6.94% in 2015 and 5.45% to 8.88% in 2014 while fixed interest rate for notes receivables is 8% in 2015 and 2014.

Interest income earned from long-term commercial paper amounted to ₱1.19 million and ₱1.52 million, respectively (Note 16).

As of December 31, 2015 and 2014, the specifically impaired notes receivable with a carrying value of ₱0.60 million was fully provided with allowance.



7. **Deferred Acquisition Costs - net**

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

| | 2015 | 2014 |
|---------------------------------|--------------------|--------------------|
| Deferred acquisition costs | | |
| Balance at beginning of year | ₱17,877,955 | ₱8,429,387 |
| Cost deferred during the year | 26,145,038 | 32,038,535 |
| Amortization during the year | (23,887,423) | (22,589,967) |
| Balance at end of year | 20,135,570 | 17,877,955 |
| Deferred reinsurance commission | | |
| Balance at beginning of year | - | 262 |
| Income deferred during the year | 26,205 | 18,458 |
| Amortization during the year | (16,923) | (18,720) |
| Balance at end of year | 9,282 | - |
| | ₱20,126,288 | ₱17,877,955 |

8. **Reinsurance Assets**

This account consists of:

| | 2015 | 2014 |
|--|--------------------|--------------------|
| Reinsurance recoverable on unpaid losses (Note 12) | ₱57,904,686 | ₱54,791,744 |
| Deferred reinsurance premiums (Note 12) | 230,545 | - |
| | ₱58,135,231 | ₱54,791,744 |

Reinsurance recoverable on unpaid losses is the reinsurer's share on the losses or claims that are yet to be settled by the Company.

Deferred reinsurance premiums are portions of the ceded premiums that relate to the unexpired periods of the policies as of the reporting date using the 24th method.



9. **Property and Equipment - net**

The rollforward analysis of this account follows:

| | 2015 | | | |
|--|---|-----------------------------|---------------------------|-------------------|
| | Office Furniture, Fixtures and Equipment | Transportation Equipment | Leasehold Improvements | Total |
| Cost | | | | |
| Balance at beginning of year | ₱26,665,210 | ₱1,901,233 | ₱619,403 | ₱29,185,846 |
| Additions | 376,664 | - | 74,107 | 450,771 |
| | 27,041,874 | 1,901,233 | 693,510 | 29,636,617 |
| Accumulated Depreciation and Amortization | | | | |
| Balance at beginning of year | 15,209,601 | 1,074,430 | 600,661 | 16,884,692 |
| Depreciation and amortization (Note 18) | 4,205,395 | 187,447 | 15,310 | 4,408,152 |
| Balance at end of year | 19,414,996 | 1,261,877 | 615,971 | 21,292,844 |
| Net Book Value | ₱7,626,878 | ₱639,356 | ₱77,539 | ₱8,343,773 |

| | 2014 | | | |
|--|---|-----------------------------|---------------------------|--------------------|
| | Office Furniture, Fixtures and Equipment | Transportation Equipment | Leasehold Improvements | Total |
| Cost | | | | |
| Balance at beginning of year | ₱25,894,098 | ₱964,000 | ₱619,403 | ₱27,477,501 |
| Additions | 771,112 | - | - | 771,112 |
| Reclassifications (Note 11) | - | 937,233 | - | 937,233 |
| | 26,665,210 | 1,901,233 | 619,403 | 29,185,846 |
| Accumulated Depreciation and Amortization | | | | |
| Balance at beginning of year | 11,032,986 | 964,000 | 587,823 | 12,584,809 |
| Depreciation and amortization (Note 18) | 4,176,615 | 110,430 | 12,838 | 4,299,883 |
| Balance at end of year | 15,209,601 | 1,074,430 | 600,661 | 16,884,692 |
| Net Book Value | ₱11,455,609 | ₱826,803 | ₱18,742 | ₱12,301,154 |

The depreciation and amortization expense charged against operations amounted to ₱4.41 million and ₱4.30 million in 2015 and 2014, respectively (Note 18).

As of December 31, 2015 and 2014 the Company has no fully depreciated property and equipment items that are still in active use.

10. **Net Pension Obligation**

The Company has a defined benefit retirement plan covering all employees, which requires contributions to be made to a separately administered retirement fund.



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

Net pension benefit expense (Note 18)

| | 2015 | 2014 |
|----------------------|-------------------|-----------------|
| Current service cost | ₱984,927 | ₱772,483 |
| Net interest cost | 82,879 | 53,318 |
| | ₱1,067,806 | ₱825,801 |

Remeasurement effects to be recognized in OCI

| | 2015 | 2014 |
|---|-----------------|-------------------|
| Actuarial gain on defined benefit obligation | (₱452,193) | (₱127,531) |
| Return on assets (excluding amount included in net interest cost) | 695,031 | (173,044) |
| Total amount to be recognized in OCI | ₱242,838 | (₱300,575) |

Net pension obligation

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Present value of defined benefit obligation | ₱7,367,042 | ₱6,533,131 |
| Fair value of plan assets | (4,258,583) | (4,735,316) |
| | ₱3,108,459 | ₱1,797,815 |

Movements in net pension obligation recognized in the statements of financial position follow:

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Balance at beginning of year | ₱1,797,815 | ₱1,071,245 |
| Amount to be recognized in profit or loss | 1,067,806 | 825,801 |
| Amount to be recognized in OCI | 242,838 | (300,575) |
| Transfers from MICO | - | 201,344 |
| Balance at end of year | ₱3,108,459 | ₱1,797,815 |

Movements in the present value of pension benefit obligation follow:

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Balance at beginning of year | ₱6,533,131 | ₱5,437,891 |
| Present value of obligation of transferred employees | - | 201,344 |
| Current service cost | 984,927 | 772,483 |
| Interest cost | 301,177 | 248,944 |
| Actuarial gains | (452,193) | (127,531) |
| Balance at end of year | ₱7,367,042 | ₱6,533,131 |



Movements in the fair value of the plan assets follow:

| | 2015 | 2014 |
|------------------------------|------------|------------|
| Balance at beginning of year | ₱4,735,316 | ₱4,366,646 |
| Interest income | 218,298 | 195,626 |
| Actuarial gain | (695,031) | 173,044 |
| Balance at end of year | ₱4,258,583 | ₱4,735,316 |
| Actual return on plan assets | (₱476,733) | ₱368,670 |

The Company expects to contribute ₱1.26 million to its plan assets in 2016.

The distribution of the plan assets follows:

| | 2015 | 2014 |
|--|------------|------------|
| Investments in other securities and debt instruments | ₱2,869,010 | ₱- |
| Investments in common stocks | 1,369,825 | 1,899,460 |
| Receivables | 26,691 | 20,310 |
| Investments in government securities | - | 2,823,439 |
| | 4,265,526 | 4,743,209 |
| Accrued trust fees and other payables | (6,943) | (7,893) |
| | ₱4,258,583 | ₱4,735,316 |

The principal actuarial assumptions used for the Company's plan follow:

| | 2015 | 2014 |
|----------------------|-------|-------|
| Discount rate | 5.07% | 7.00% |
| Salary increase rate | 5.00% | 5.00% |

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

| | Change in variables | Impact on present value of defined benefit obligation | |
|----------------------|---------------------|---|-------------------|
| | | Increase (Decrease) | Percentage change |
| Discount rate | +0.5% | (₱192,774) | (5.57%) |
| | -0.5% | 215,906 | 4.57% |
| Salary increase rate | +1.0% | ₱750,844 | 6.00% |
| | -1.0% | (359,823) | (4.00%) |



2014

| | Change in variables | Impact on present value of defined benefit obligation Increase (Decrease) | Percentage change |
|----------------------|---------------------|---|-------------------|
| Discount rate | +0.5% | (P285,360) | (4.57%) |
| | -0.5% | 484,132 | 6.90% |
| Salary increase rate | +1.0% | P974,232 | 12.98% |
| | -1.0% | (418,269) | (6.84%) |

The average future working years of service is 22.

The maturity analysis of the undiscounted benefit payments as of December 31, 2015 based on normal retirements (retirement age of 60 only) is as follows:

| Date of Retirement | No. of Retirees | Total Benefit |
|--------------------------------|-----------------|---------------|
| More than 5 years to 10 year | 1 | P3,084,832 |
| More than 10 years to 15 years | 1 | 4,171,068 |
| More than 15 years to 20 years | 4 | 12,101,791 |
| More than 20 years | 17 | 103,134,341 |

11. Other Assets

This account consists of:

| | 2015 | 2014 |
|------------------------------|--------------------|-------------|
| Input value added tax (VAT) | P9,818,399 | P7,578,378 |
| Prepayments | 5,008,365 | 3,288,882 |
| Documentary stamps inventory | 332,303 | 187,896 |
| Deferred input VAT | 325,532 | 343,909 |
| Refundable deposits | 231,174 | 231,174 |
| Creditable withholding taxes | – | 44,428 |
| Supplies inventory | – | 119,819 |
| Other investments | 925,000 | 925,000 |
| | P16,640,773 | P12,719,486 |

Input value added tax pertains to the 12% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services. These are recoverable in future periods.

Prepayments include advances made by the Company on rent, repairs, taxes and others.

The other investments pertain to investments in memorial lots.



12. Insurance Contract Liabilities and Reinsurance Assets

Short-term nonlife insurance contract liabilities net of reinsurers' share of liabilities may be analyzed as follows:

| | 2015 | | | 2014 | | |
|--|--------------------------------|---|---------------------|--------------------------------|---|---------------------|
| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 8) | Net | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 8) | Net |
| Provision for claims reported and loss adjustment expenses | ₱131,422,700 | ₱57,904,686 | ₱73,518,014 | ₱132,983,484 | ₱54,791,744 | ₱78,191,740 |
| Provision for IBNR | 1,905,766 | – | 1,905,766 | 1,905,766 | – | 1,905,766 |
| | 133,328,466 | 57,904,686 | 75,423,780 | 134,889,250 | 54,791,744 | 80,097,506 |
| Provision for unearned premiums | 65,316,597 | 230,545 | 65,086,052 | 61,357,178 | – | 61,357,178 |
| Total insurance contract liabilities | ₱198,645,063 | ₱58,135,231 | ₱140,509,832 | ₱196,246,428 | ₱54,791,744 | ₱141,454,684 |

Provisions for claims reported and loss adjustment expenses may be analyzed as follows:

| | 2015 | | | 2014 | | |
|---------------------------------------|--------------------------------|---|--------------------|--------------------------------|---|--------------------|
| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 8) | Net | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 8) | Net |
| Balance at beginning of year | ₱134,889,250 | ₱54,791,744 | ₱80,097,506 | ₱285,317,380 | ₱234,932,990 | ₱50,384,390 |
| Claims incurred during the year | 21,714,122 | 8,653,697 | 13,060,425 | (65,008,456) | (104,819,979) | 39,811,523 |
| Claims paid during the year (Note 17) | (23,274,906) | (5,540,755) | (17,734,151) | (85,419,674) | (75,321,267) | (10,098,407) |
| Balance at end of year | ₱133,328,466 | ₱57,904,686 | ₱75,423,780 | ₱134,889,250 | ₱54,791,744 | ₱80,097,506 |

Provision for unearned premiums may be analyzed as follows:

| | 2015 | | | 2014 | | |
|--|--------------------------------|---|--------------------|--------------------------------|---|--------------------|
| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 8) | Net | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 8) | Net |
| Balance at beginning of year | ₱61,357,178 | ₱– | ₱61,357,178 | ₱37,515,641 | ₱1,121 | ₱37,514,520 |
| New policies written during the year (Note 15) | 83,094,906 | 4,838,772 | 78,256,134 | 107,861,903 | 22,474,760 | 85,387,143 |
| Premiums earned during the year (Note 15) | (79,135,487) | (4,608,227) | (74,527,260) | (84,020,366) | (22,475,881) | (61,544,485) |
| Balance at end of year | ₱65,316,597 | ₱230,545 | ₱65,086,052 | ₱61,357,178 | ₱– | ₱61,357,178 |

13. Insurance Payables

This account consists of:

| | 2015 | 2014 |
|---------------------------|--------------------|--------------------|
| Premium due to reinsurers | ₱52,407,660 | ₱54,268,942 |
| Funds held for reinsurers | 461,924 | 35,136 |
| | ₱52,869,584 | ₱54,304,078 |



The rollforward analysis of insurance payables follows:

| | Premium due to reinsurers | Funds held for reinsurers | Total |
|-------------------------|------------------------------|------------------------------|--------------------|
| At January 1, 2014 | ₱28,485,009 | ₱1,346,543 | ₱29,831,552 |
| Arising during the year | (50,796,909) | 48,609,476 | (2,187,433) |
| Utilized | 76,580,842 | (49,920,883) | 26,659,959 |
| At December 31, 2014 | 54,268,942 | 35,136 | 54,304,078 |
| Arising during the year | (1,131,893) | 468,136 | (663,757) |
| Utilized | (729,389) | (41,348) | (770,737) |
| At December 31, 2015 | ₱52,407,660 | ₱461,924 | ₱52,869,584 |

Insurance payable includes due to Malayan International Insurance Company, Ltd. (MIIC), an affiliate of MICO, amounting to ₱139,573 and ₱36,565 as of December 31, 2015 and 2014, respectively (Note 21).

14. Accounts Payable and Accrued Expenses

This account consists of:

| | 2015 | 2014 |
|-------------------------|--------------------|-------------|
| Commissions payable | ₱16,812,670 | ₱16,257,709 |
| Accounts payable | 11,854,662 | 18,838,265 |
| Deferred direct credits | 5,229,020 | 5,341,785 |
| Withholding taxes | 2,419,838 | 2,213,746 |
| Accrued expenses | 687,040 | 870,333 |
| Others | 2,621,766 | 1,064,110 |
| | ₱39,624,996 | ₱44,585,948 |

Commissions payable are unpaid commissions on the Company's direct business, payable to agents and brokers which are due upon collection of the related premiums receivables.

Accounts payable includes premium payments from migrant policy holders for the life insurance premiums. These are non-interest bearing and are generally due over a short-term period.

Deferred direct credits account refers to liabilities of the Company carried over from AS 400 system which will be billed and collected by the company creditors.

Withholding taxes refer to expanded withholding tax and deferred withholding taxes.

Others pertain to documentary stamps payable, notarial and policy fees, deferred income, local government taxes, survey and certification fees.



15. Net Premiums Earned

The details of gross premiums earned net of reinsurers' share follow:

| | 2015 | 2014 |
|---|--------------------|--------------|
| Gross premiums written | | |
| Direct | ₱64,086,836 | ₱84,967,874 |
| Assumed | 19,008,070 | 22,894,029 |
| Total gross premiums (Note 12) | 83,094,906 | 107,861,903 |
| Gross change in provision for unearned premiums | (3,959,419) | (23,841,537) |
| Gross premiums earned (Note 12) | 79,135,487 | 84,020,366 |
| Reinsurers' share of gross premiums written (Notes 12 and 21) | 4,838,772 | 22,474,760 |
| Reinsurers' share of change in provision for unearned premiums | (230,545) | 1,121 |
| Reinsurers' share of gross premiums (Note 12) | 4,608,227 | 22,475,881 |
| | ₱74,527,260 | ₱61,544,485 |

16. Investment and Other Income - net

Investment and other income - net consist of:

| | 2015 | 2014 |
|---|--------------------|-------------|
| Dividend income (Notes 6 and 21) | ₱24,570,384 | ₱31,206,113 |
| Interest income: | | |
| AFS financial assets (Notes 6 and 21) | 6,774,803 | 7,856,926 |
| Long-term commercial papers (Note 21) | 1,192,348 | 1,520,203 |
| Cash and cash equivalents (Notes 4 and 21) | 480,343 | 289,328 |
| Others (Note 21) | 117,884 | 74,547 |
| Gain on sale of AFS financial assets (Note 6) | 2,455,839 | 369,271 |
| Foreign exchange gain - net | 5,257,422 | 326,965 |
| Others – net | 13,639 | 1,982,903 |
| | ₱40,862,662 | ₱43,626,256 |

The unrealized foreign exchange gain for the years ended December 31, 2015 and 2014 amounted to ₱5,393,276 and ₱438,348, respectively.

17. Net Insurance Benefits and Claims Paid

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

| | 2015 | 2014 |
|--|--------------------|-------------|
| Insurance contracts benefits and claims paid: | | |
| Direct | ₱18,334,492 | ₱81,273,525 |
| Assumed | 4,940,413 | 4,146,149 |
| Total insurance contract benefits and claims paid (Note 12) | ₱23,274,905 | ₱85,419,674 |



Reinsurers' share of gross insurance contract benefits and claims paid amounted to ₱5,540,755 and ₱75,321,267 in 2015 and 2014, respectively.

Gross change in insurance contract benefits and claims liabilities consist of the following:

| | 2015 | 2014 |
|--|---------------------|-----------------------|
| Change in provision for claims reported: | | |
| Direct insurance | ₱888,915 | (₱154,364,999) |
| Assumed reinsurance | (2,449,700) | 3,936,869 |
| Total gross change in insurance contract benefit and claims liabilities | (₱1,560,785) | (₱150,428,130) |

Reinsurers' share of gross change in insurance contract benefits and claims liabilities for the years ended December 31, 2015 and 2014 amounted to ₱3.11 million and (₱180.14 million), respectively.

18. General Expenses

This account consists of:

| | 2015 | 2014 |
|---|--------------------|--------------------|
| Salaries, wages and allowances | ₱8,565,051 | ₱7,393,211 |
| Depreciation and amortization (Note 9) | 4,408,152 | 4,299,883 |
| Provision for bad debts (Note 5) | 3,156,274 | 2,347,452 |
| Repairs and maintenance | 2,732,703 | 2,825,631 |
| Employee benefits | 2,718,118 | 2,079,098 |
| Postage, telephone and cable | 1,978,959 | 2,019,432 |
| Professional fees | 1,502,418 | 1,455,169 |
| Office supplies | 1,413,333 | 1,539,531 |
| Rent, light and water | 1,366,034 | 1,049,214 |
| Transportation and travel | 1,324,325 | 1,830,151 |
| Net pension expense (Note 10) | 1,067,806 | 825,801 |
| Entertainment, amusement and recreation | 996,859 | 1,482,375 |
| Advertising and promotions | 780,139 | 709,841 |
| Taxes, licenses and fees | 659,497 | 332,820 |
| Donations and contributions | 225,221 | - |
| Others | 1,222,805 | 1,466,936 |
| | ₱34,117,694 | ₱31,656,545 |

19. Income Tax

The provision for (benefit from) income tax consists of:

| | 2015 | 2014 |
|----------|-----------------|-----------------|
| Current | ₱289,331 | ₱- |
| Final | 1,305,451 | 1,330,183 |
| Deferred | (1,227,978) | (443,723) |
| | ₱366,804 | ₱886,460 |



The components of the recognized deferred tax assets and liabilities follow:

| | 2015 | 2014 |
|--|-------------------|-------------|
| Deferred tax assets on: | | |
| Net operating loss carryover (NOLCO) | ₱6,586,589 | ₱6,703,731 |
| Minimum corporate income tax (MCIT) | 289,331 | - |
| Deferred reinsurance commission | 2,785 | - |
| Net pension obligation | 1,051,079 | 657,886 |
| Provision for bad debts | 946,882 | - |
| Excess of reserve for unearned premiums per tax over books basis | 871,294 | (1,291,322) |
| | 9,747,960 | 6,070,295 |
| Deferred tax liabilities on: | | |
| Excess of tax basis over deferred reinsurance premiums per books | 69,164 | (12,404) |
| Deferred acquisition costs | 6,040,672 | 5,363,387 |
| Net unrealized foreign exchange gain | 1,716,072 | 98,089 |
| | 7,825,908 | 5,449,072 |
| | ₱1,922,052 | ₱621,223 |

The Company did not recognize deferred tax assets on the following deductible temporary differences:

| | 2015 | 2014 |
|---------------------------------|---------------------|--------------|
| NOLCO | ₱150,899,938 | ₱160,901,972 |
| Allowance for doubtful accounts | 10,312,307 | 7,156,033 |
| MCIT | - | 2,953 |

Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The Company will reassess unrecognized deferred tax assets on the above deductible temporary differences and will recognize previously unrecognized deferred tax assets to the extent that it has become probable that future taxable income would allow the deferred tax asset to be recovered.

As of December 31, 2015, details of the NOLCO, which are available for offset against future taxable income and future income tax liability, respectively, follows:

| Inception Year | NOLCO | Application | Expired | Outstanding | Expiry Year |
|----------------|---------------------|-----------------|-------------------|---------------------|-------------|
| 2014 | ₱39,535,347 | ₱- | ₱- | ₱39,535,347 | 2017 |
| 2013 | 111,364,591 | - | - | 111,364,591 | 2016 |
| 2012 | 10,002,034 | 390,474 | 9,611,560 | - | 2015 |
| | ₱160,901,972 | ₱390,474 | ₱9,611,560 | ₱150,899,938 | |

Details of MCIT follow:

| Inception Year | MCIT | Application/Expired | Outstanding | Expiry Year |
|----------------|-----------------|---------------------|-----------------|-------------|
| 2015 | ₱289,331 | ₱- | ₱289,331 | 2018 |
| 2012 | 2,953 | 2,953 | - | 2015 |
| | ₱292,284 | ₱2,953 | ₱289,331 | |



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

| | 2015 | 2014 |
|--|-----------------|-----------------|
| Income tax at statutory income tax rate | ₱7,204,213 | (₱873,669) |
| Add (deduct) the tax effects of: | | |
| Provision for impairment loss | 2,499,255 | - |
| Nontaxable gain on sale of AFS financial assets | (736,752) | (110,781) |
| Interest income exempt or subjected to final tax | (1,228,797) | (1,592,119) |
| Dividend income | (7,371,115) | (9,361,834) |
| Change in unrecognized deferred tax assets | - | 12,564,840 |
| Nondeductible expenses | - | 260,023 |
| Provision for income tax | ₱366,804 | ₱886,460 |

20. Contingencies

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results of operations and financial position.

21. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The Company, in its regular conduct of business, engages in transactions with related parties.

The table below shows the summary of significant transactions with related parties:

| Category | 2015 | | 2014 | | Terms | Conditions |
|---|-----------------|----------------------------------|-----------------|----------------------------------|---------------------------------|--------------------------|
| | Amount / Volume | Outstanding Receivable (Payable) | Amount / Volume | Outstanding Receivable (Payable) | | |
| <i>Parent</i> | | | | | | |
| <i>MICO</i> | | | | | | |
| Shared expenses | ₱353,835 | ₱185,579 | ₱- | ₱- | Non-interest bearing; on demand | Unsecured; no impairment |
| <i>Other related parties - Entities under common control</i> | | | | | | |
| <i>a. MIIC</i> | | | | | | |
| Reinsurers' share of gross premiums | 106,484 | (139,573) | 46,495 | (36,565) | Non-interest bearing; on demand | Unsecured |
| Losses Recoverable | - | - | - | - | Non-interest bearing; on demand | Unsecured |
| <i>b. House of Investments (HI)</i> | | | | | | |
| AFS financial assets - equity securities | - | 17,355,955 | - | 19,371,891 | - | Unsecured; no impairment |

(Forward)



| Category | 2015 | | 2014 | | Terms | Conditions |
|--|--------------------|--|--------------------|--|---|-----------------------------|
| | Amount / Volume | Outstanding Receivable (Payable) | Amount / Volume | Outstanding Receivable (Payable) | | |
| <i>c. Rizal Commercial Banking Corporation</i> | | | | | | |
| Cash in bank | - | ₹9,809,690 | - | ₹15,528,963 | Interest at 0.25%- 4.50% p.a. 2 to 35-day term, | Unsecured |
| Short-term deposits | 31,092,978 | 40,914,552 | 18,794,136 | 26,872,183 | Interest at 1.00% - 4.50% p.a. | Unsecured; no impairment |
| AFS financial assets - equity securities | - | 146,947,253 | - | 204,641,904 | - | Unsecured; no impairment |
| Private debt securities | - | 40,672,217 | - | 40,318,077 | Maturing 2016; interest at 5.25%- 9.88% p.a. | Unsecured; no impairment |
| Interest income | | | | | | |
| Cash in bank | 10,415 | 10,415 | (138,671,267) | 16,557,375 | Interest at 0.25%- 4.50% p.a. | Unsecured |
| Private debt securities | 825,956 | 979,289 | 2,924,708 | 737,212 | Interest at 5.25% - 9.88% p.a. | Unsecured; no impairment |

The outstanding receivables and payables are to be settled in cash.

The Company is a wholly-owned subsidiary of MICO. The parent company of MICO is MICO Equities, Inc. (MEI). MIIC is a subsidiary of MEI. MEI, RCBC, HI and iPeople are subsidiaries of PMMIC, the holding company of Yuchengco Group of Companies.

Key management personnel of the Company include senior management. The total short-term employee benefits of the Company's key management personnel amounted to ₹0.148 million and ₹0.36 million in 2015 and 2014, respectively. As of December 31, 2015 and 2014, the total long-term employee benefits of the Company's key management personnel amounted to ₹3.2 million and ₹2.7 million, respectively.

Terms and Conditions of transactions with related parties

Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2015 and 2014. This assessment is undertaken each financial year through review of the financial position of the related party and the market in which the related party operates.

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

The reconciliation follows:

| | 2015 | 2014 |
|--|-------------|--------------|
| Net income (loss) under PFRS | ₹23,647,240 | (₹3,798,692) |
| Add (deduct): | | |
| Difference in change in net provision for unearned premiums | 6,936,826 | 9,339,546 |
| Deferred acquisition costs – net | (2,257,615) | (3,642,726) |
| Net pension benefit expense | - | 825,801 |
| Others | 9,282 | (262) |
| Deferred income tax | (1,227,978) | (443,723) |
| Statutory net income | ₹27,107,755 | ₹2,279,944 |



23. Equity

Capital Stock

The details of the number of shares as of December 31, 2015 and 2014 follow:

| | Shares | Amount |
|-------------------------------------|------------|--------------|
| Common stock - ₱10 par value | | |
| Authorized | 40,000,000 | ₱400,000,000 |
| Issued and outstanding | 25,000,000 | ₱250,000,000 |

24. Management of Capital, Insurance and Financial Risks

Governance Framework

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failure to exploit opportunities. The Company recognizes the importance of having efficient and effective risk management systems in place.

Regulatory Framework

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

Capital Management and Regulatory Requirements

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

The IC capital requirements are fixed capitalization requirements, RBC requirements, and unimpaired capital requirement.

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

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

On August 15, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022.



The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

| <u>Networth</u> | <u>Compliance Date</u> |
|-----------------|------------------------|
| ₱250,000,000 | June 30, 2013 |
| 550,000,000 | December 31 ,2016 |
| 900,000,000 | December 31, 2019 |
| 1,300,000,000 | December 31, 2022 |

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

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

As of December 31, 2015 and 2014, the Company's estimated statutory net worth amounted to ₱639,705,367 and ₱630,272,309, respectively.

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 nonlife insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as networth divided by the RBC requirement. Networth shall include the company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of networth only to the extent authorized by the IC. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC Hurdle Rate requirement for a given year to the total number of insurers in the industry.

Insurance Risk

The risk under insurance contract 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 and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims and actual benefits paid greater than originally estimated.

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 statements of financial position as reinsurance assets.

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

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



The table below sets out the concentration of the claims liabilities by type of contract (Note 12).

| | 2015 | | | 2014 | | |
|------------------------|--------------------------|---|------------------------|--------------------------|---|------------------------|
| | Gross Claims Liabilities | Reinsurers' Share of Claims Liabilities | Net Claims Liabilities | Gross Claims Liabilities | Reinsurers' Share of Claims Liabilities | Net Claims Liabilities |
| Bonds and others | ₱130,025,544 | ₱56,631,419 | ₱73,394,125 | ₱128,883,960 | ₱54,791,744 | ₱74,092,216 |
| Engineering | 3,275,807 | 1,273,267 | 2,002,540 | 5,808,183 | – | 5,808,183 |
| Fire | 27,115 | – | 27,115 | 27,115 | – | 27,115 |
| Miscellaneous casualty | – | – | – | 169,992 | – | 169,992 |
| | ₱133,328,466 | ₱57,904,686 | ₱75,423,780 | ₱134,889,250 | ₱54,791,744 | ₱80,097,506 |

The Company enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

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

Sensitivities

In insurance, there may be claims filed in the current year that would attach policies issued in the previous years. 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 reporting periods.

The change in the assumptions in determining the ultimate claims liabilities does not have a material effect on the Company's profit or loss as of December 31, 2015 and 2014.

Claims development

The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

The risks vary significantly in relation to the location of the risk insured by the Company, type of risks insured and in respect of commercial and business interruption insurance by industry.

The uncertainty of the Company's ultimate cost of claims is typically resolved within one year.

The bonds claims payable amounting to ₱43.40 million as of December 31, 2015 and 2014, are determined to be the Company's ultimate cost of claims.

Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets 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.

Credit risk

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

The Company manages the level of credit risk by setting up exposure limits for each counterparty or group of counterparties, and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collaterals and guarantees; reporting of credit risk exposures; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long-term ratings. Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are netted off against amounts receivable from them to reduce the risk of doubtful accounts.

The table below shows the maximum exposure to credit risk, net of impairment losses.

| | 2015 | 2014 |
|---|---------------------|--------------|
| AFS Financial Assets | | |
| Quoted securities - at fair value | | |
| Listed equity securities - common shares | ₱478,353,738 | ₱650,743,636 |
| Government debt securities - local currency | 67,380,097 | 72,146,629 |
| Private debt securities | 50,366,578 | 40,318,077 |
| Non-quoted securities - at cost | | |
| Unlisted equity securities - common shares | 7,182,460 | 7,182,460 |
| Cash and cash equivalents | 63,490,040 | 60,679,049 |
| Insurance receivables: | | |
| Premiums receivable | 50,148,285 | 50,043,631 |
| Due from ceding companies | 1,199,854 | 3,851,876 |
| Funds held by ceding companies | 5,851,324 | 3,248,400 |
| Accrued income | 2,400,338 | 2,390,718 |
| Loans and receivables | 94,723,421 | 95,705,762 |
| | ₱821,096,135 | ₱986,310,238 |



The following table provides information regarding the credit risk exposure of the Company by classifying financial assets according to credit ratings of the counterparties:

| 2015 | | | | | |
|---|-------------------------------|---------------------|---------------------------|--------------------|---------------------|
| | Neither past due nor impaired | | Past due but not impaired | Impaired | Total |
| | High Grade | Medium Grade | | | |
| AFS financial assets | | | | | |
| Quoted securities - at fair value | | | | | |
| Listed equity securities - common shares | ₱478,353,738 | ₱- | ₱- | ₱- | ₱478,353,738 |
| Government debt securities - local currency | 67,380,097 | - | - | - | 67,380,097 |
| Private debt securities | 40,672,218 | 9,694,360 | - | - | 50,366,578 |
| Non-quoted securities - at cost | | | | | |
| Unlisted equity securities - common shares | - | 7,182,460 | - | - | 7,182,460 |
| Loans and receivables | | | | | |
| Cash and cash equivalents | 63,490,040 | - | - | - | 63,490,040 |
| Insurance receivables | | | | | |
| Premiums receivable | 8,402,977 | - | 41,745,308 | 7,991,154 | 58,139,439 |
| Due from ceding companies | 48,678 | - | 1,151,176 | 341,002 | 1,540,856 |
| Funds held by ceding companies | 50,000 | - | 5,801,324 | 1,380,777 | 7,232,101 |
| Accrued income | 2,400,338 | - | - | - | 2,400,338 |
| Loans and receivables | 57,908 | 94,066,139 | - | 599,374 | 94,723,421 |
| | ₱660,855,994 | ₱110,942,959 | ₱48,697,808 | ₱10,312,307 | ₱830,809,068 |
| 2014 | | | | | |
| | Neither past due nor impaired | | Past due but not impaired | Impaired | Total |
| | High Grade | Medium Grade | | | |
| AFS financial assets | | | | | |
| Quoted securities - at fair value | | | | | |
| Listed equity securities - common shares | ₱650,743,636 | ₱- | ₱- | ₱- | ₱650,743,636 |
| Government debt securities - local currency | 72,146,629 | - | - | - | 72,146,629 |
| Private debt securities | - | 40,318,077 | - | - | 40,318,077 |
| Non-quoted securities - at cost | | | | | |
| Unlisted equity securities - common shares | - | 7,182,460 | - | - | 7,182,460 |
| Loans and receivables | | | | | |
| Cash and cash equivalents | 60,679,049 | - | - | - | 60,679,049 |
| Insurance receivables | | | | | |
| Premiums receivable | 8,457,061 | - | 41,586,570 | 4,834,880 | 54,878,511 |
| Due from ceding companies | 171,098 | - | 3,680,777 | 341,002 | 4,192,877 |
| Funds held by ceding companies | - | - | 3,248,401 | 1,380,777 | 4,629,178 |
| Accrued income | 2,390,718 | - | - | - | 2,390,718 |
| Loans and receivables | 57,908 | 95,048,480 | - | 599,374 | 95,705,762 |
| | ₱794,646,099 | ₱142,549,017 | ₱48,515,748 | ₱7,156,033 | ₱992,866,897 |

The credit quality was determined as follows:

a) *Cash and cash equivalents*

These are classified as high grade. These are deposited, placed or invested in local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b) *Insurance receivables and loans and receivables*

The Company uses a credit rating concept based on the borrowers and counterparties' overall creditworthiness. High grade is given to borrowers and counterparties which possess strong to very strong capacity to meet its obligations. Medium grade is given to borrowers and counterparties which possess average capacity to meet its obligations. These counterparties are somewhat susceptible to adverse changes in business and economic conditions. Low grade is given to borrowers and counterparties which possess average capacity to meet its obligations. These borrowers and counterparties are more likely to have a significant deterioration of its capacity during adverse business and economic conditions relative to high grade and medium grade.



c) *Debt securities, long-term commercial papers and related accrued income*

These are based on the credit ratings by the international rating agency, S&P, and by Philippine Ratings Services Corporation (Philratings), the only domestic credit rating services in the Philippines accredited by Bangko Sentral ng Pilipinas (BSP) and SEC, in cases where an S&P rating is not available. High grade pertains to investments rated by S&P as BBB- and higher, which means that the counterparties have extremely strong to adequate capacity of paying interest and repaying principal, as well as investments in securities issued by the Philippine Government. Medium grade pertains to investments rated as Baa and higher by Philratings, as well as investments rated by S&P as BB+ to B- (except Philippine Government Securities). The Company's holdings under this category are rated either BB- by S&P (due to sovereign credit rating ceiling) or Aaa by Philratings which is defined by Philratings to mean that the obligor's capacity to meet its financial commitment on the obligation is extremely strong.

d) *Equity securities*

Listed equity securities are classified as high grade. Unlisted equity securities are classified as medium grade.

The following tables show the aging analysis of financial assets that were past due but not impaired.

| | 2015 | | | Total Past Due but not Impaired |
|--------------------------------|-------------------|-------------------|-----------------------|---------------------------------------|
| | <60 days | 61 to 120 days | More than 120 days | |
| Premiums receivable | ₱2,470,785 | ₱4,848,580 | ₱34,425,943 | 41,745,308 |
| Due from Ceding Companies | 831,283 | 319,893 | – | 1,151,176 |
| Funds held by ceding companies | 50,000 | 350,000 | 5,401,324 | 5,801,324 |
| | ₱3,352,068 | ₱5,518,473 | ₱39,827,267 | ₱48,697,808 |

| | 2014 | | | Total Past Due but not Impaired |
|--------------------------------|-------------------|--------------------|-----------------------|---------------------------------------|
| | <60 days | 61 to 120 days | More than 120 days | |
| Premiums receivable | ₱4,043,414 | ₱6,519,302 | ₱31,023,854 | ₱41,586,570 |
| Due from Ceding Companies | 129,517 | 1,739,340 | 1,811,920 | 3,680,777 |
| Funds held by ceding companies | 150,000 | 2,252,202 | 846,199 | 3,248,401 |
| | ₱4,322,931 | ₱10,510,844 | ₱33,681,973 | ₱48,515,748 |

Past due but not impaired balances have an aging of more than thirty (30) days but less than one year.

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. The major liquidity risk confronting the Company is the potential daily calls on its available cash resources in respect of claims arising from insurance contracts.



The maturity profiles of the financial assets are shown below.

| | 2015 | | | | |
|--|---------------------|--------------------|--------------------|---------------------|---------------------|
| | Up to a year | 1-3 years | Over 3 years | No term | Total |
| Cash and cash equivalents | ₱63,531,434 | ₱- | ₱- | ₱- | ₱63,531,434 |
| Insurance receivables - net | 57,199,463 | - | - | - | 57,199,463 |
| AFS financial assets | 37,827,210 | 26,652,572 | 53,266,891 | 485,536,200 | 603,282,873 |
| Loans and receivables - net | 74,723,421 | 5,000,000 | 15,000,000 | - | 94,723,421 |
| Accrued income | 2,400,338 | - | - | - | 2,400,338 |
| Reinsurance recoverable on unpaid losses | 57,904,686 | - | - | - | 57,904,686 |
| Total financial assets | ₱293,586,552 | ₱31,652,572 | ₱68,266,891 | ₱485,536,200 | ₱879,042,215 |

*Up to a year are all commitments which are either due within one year or are payable in demand

| | 2014 | | | | |
|--|---------------------|--------------------|--------------------|---------------------|-----------------------|
| | Up to a year | 1-3 years | Over 3 years | No term | Total |
| Cash and cash equivalents | ₱60,725,847 | ₱- | ₱- | ₱- | ₱60,725,847 |
| Insurance receivables - net | 57,143,907 | - | - | - | 57,143,907 |
| AFS financial assets | 5,097,193 | 79,684,204 | 27,683,309 | 657,926,096 | 770,390,802 |
| Loans and receivables - net | 80,705,762 | 5,000,000 | 10,000,000 | - | 95,705,762 |
| Accrued income | 2,390,718 | - | - | - | 2,390,718 |
| Reinsurance recoverable on unpaid losses | 54,791,744 | - | - | - | 54,791,744 |
| Total financial assets | ₱260,855,171 | ₱84,684,204 | ₱37,683,309 | ₱657,926,096 | ₱1,041,148,780 |

*Up to a year are all commitments which are either due within one year or are payable in demand

The Company manages liquidity risk by specifying minimum proportion of funds to meet emergency calls; specifying the sources of funding and the events that would trigger the plan; determining concentration of funding sources; reporting of liquidity risk exposures; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

As of December 31, 2015 and 2014, the Company's insurance contract liabilities, insurance payables and accounts payable and accrued expenses are payable within a year.

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.

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

a. Currency risk

The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar.

The Company maintains US Dollar time deposits and invests in US Dollar debt securities.



The following table shows the details of the Company's exposure to currency risk.

| | 2015 | | 2014 | |
|-------------------------|-------------|----------------------------|-----------|----------------------------|
| | US Dollar | Philippine Peso equivalent | US Dollar | Philippine Peso equivalent |
| AFS financial assets | | | | |
| Private debt securities | \$1,070,263 | ₱50,366,577 | \$901,567 | ₱40,318,076 |
| | \$1,070,263 | ₱50,366,577 | \$901,567 | ₱40,318,076 |

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rates, with all other variables held constant, of the Company's profit before tax (due to changes in the foreign exchange rate).

| | Change in rate | Impact on income before tax Increase (decrease) | |
|-----------|----------------|--|-------------|
| | | 2015 | 2014 |
| US Dollar | +5% | ₱3,732,633 | ₱2,015,904 |
| | -5% | (3,732,633) | (2,015,904) |

There is no impact on equity other than those already affecting the profit.

b. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

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

| | Interest rate | 2015 | | | | Total |
|---|----------------|---------------|--------------|-------------|--------------|--------------|
| | | Within 1 year | 1 to 2 years | 2-5 years | Over 5 years | |
| Loans and receivables | | | | | | |
| Cash and cash equivalents | 0.50% | ₱63,490,040 | ₱- | ₱- | ₱- | ₱63,490,040 |
| Long-term commercial papers | 4.51% to 6.94% | - | - | 5,000,000 | 15,000,000 | 20,000,000 |
| AFS financial assets | | | | | | |
| Private debt securities | 5.25% to 9.55% | - | 26,652,572 | 23,714,005 | - | 50,366,577 |
| Government debt securities - local currency | 5.88% to 9.13% | 37,433,984 | - | 29,012,216 | - | 66,446,200 |
| Total interest-bearing financial assets | | ₱100,924,024 | ₱26,652,572 | ₱57,726,221 | ₱15,000,000 | ₱200,302,817 |

| | Interest rate | 2014 | | | | Total |
|---|----------------|---------------|--------------|-------------|--------------|--------------|
| | | Within 1 year | 1 to 2 years | 2-5 years | Over 5 years | |
| Loans and receivables | | | | | | |
| Cash and cash equivalents | 0.25% to 1.13% | ₱60,679,049 | ₱- | ₱- | ₱- | ₱60,679,049 |
| Long-term commercial papers | 5.75% to 8.64% | 5,000,000 | - | 5,000,000 | 10,000,000 | 20,000,000 |
| AFS financial assets | | | | | | |
| Private debt securities | 5.25% to 9.88% | - | 40,318,077 | - | - | 40,318,077 |
| Government debt securities - local currency | 4.88% to 9.13% | 4,132,411 | 39,900,476 | 28,113,742 | - | 72,146,629 |
| Total interest-bearing financial assets | | ₱69,811,460 | ₱80,218,553 | ₱33,113,742 | ₱10,000,000 | ₱193,143,755 |



The following table demonstrates the sensitivity of fair values of fixed rate AFS financial assets to a reasonably possible change in interest rates, with all other variables held constant, showing the impact on equity.

| | Change in basis points | Impact on Equity Increase (decrease) | |
|-----------------|---------------------------|---|------------|
| | | 2015 | 2014 |
| Philippine Peso | +100 | ₱2,762,589 | ₱3,368,275 |
| US Dollar | +100 | 53,745 | 710,233 |
| Philippine Peso | -100 | ₱3,018,211 | ₱3,675,755 |
| US Dollar | -100 | 2,887,073 | 730,093 |

c. *Equity price risk*

The Company's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, AFS equity financial assets. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

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

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (due to changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the equity impact of reasonably possible change of Philippine Stock Exchange Index (PSEi):

| | Change in equity prices | Impact on Equity Increase (decrease) | |
|------|----------------------------|---|--------------|
| | | 2015 | 2014 |
| PSEi | +15% | ₱57,242,613 | ₱80,652,858 |
| | -15% | (57,242,613) | (80,652,858) |

The equity impact is arrived at using the reasonably possible change of PSEi and the specific adjusted beta of each stock that the Company holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.



25. Financial Assets and Liabilities

The table below presents a comparison by category of carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2015 and 2014.

| | 2015 | | 2014 | |
|---|--------------------|--------------------|--------------------|--------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| AFS financial assets | | | | |
| Quoted securities - at fair value | | | | |
| Listed equity securities - common shares | ₱478,353,738 | ₱478,353,738 | ₱650,743,636 | ₱650,743,636 |
| Government debt securities - local currency | 67,380,097 | 67,380,097 | 72,146,629 | 72,146,629 |
| Private debt securities | 50,366,578 | 50,366,578 | 40,318,077 | 40,318,077 |
| Non-quoted securities - at cost | | | | |
| Unlisted equity securities - common shares | 7,182,460 | 7,182,460 | 7,182,460 | 7,182,460 |
| Loans and receivables | | | | |
| Cash and cash equivalents | 63,531,434 | 63,531,434 | 60,725,847 | 60,725,847 |
| Insurance receivables | | | | |
| Premiums receivable | 50,148,285 | 50,148,285 | 50,043,631 | 50,043,631 |
| Due from ceding companies | 1,199,854 | 1,199,854 | 3,851,875 | 3,851,875 |
| Funds held by ceding companies | 5,851,324 | 5,851,324 | 3,248,401 | 3,248,401 |
| Accrued income | 2,400,338 | 2,400,338 | 2,390,718 | 2,390,718 |
| Loans and receivables - net | 94,723,421 | 94,723,421 | 95,705,762 | 95,705,762 |
| Total financial assets | 821,137,529 | 821,137,529 | 986,357,036 | 986,357,036 |
| Other financial liabilities | | | | |
| Accounts payable and accrued expenses | 39,624,995 | 39,624,995 | 35,966,307 | 35,966,307 |
| Insurance payables | | | | |
| Premium due to reinsurers | 52,407,660 | 52,407,660 | 54,268,942 | 54,268,942 |
| Funds held for reinsurers | 461,924 | 461,924 | 35,136 | 35,136 |
| Total financial liabilities | ₱92,494,579 | ₱92,494,579 | ₱90,270,385 | ₱90,270,385 |

Fair values of financial assets and liabilities are estimated as follows:

Cash and cash equivalents, insurance receivables, short-term loans and receivables, accrued income, insurance payables, accounts payable and accrued expenses - the fair value approximates the carrying amounts due to short term nature of the transactions.

Debt securities - the fair values are generally based on quoted market prices.

Equity securities - the fair values are generally based on quoted market prices. For the unquoted equity securities, these are carried at cost less allowance for impairment losses due to unpredictable nature of future cash flows and the lack of other suitable methods of arriving at a reliable fair value.

Long-term loans and receivables - the fair value long-term loans and receivables is estimated using discounted cash flow technique that makes use of PDEX rates in 2015 and 2014.



Fair Value Hierarchy

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

| | 2015 | | | |
|--|--|--|---|---------------------|
| | Quoted prices in active markets Level 1 | Significant observable inputs Level 2 | Significant unobservable input Level 3 | Total |
| Assets measured at fair value: | | | | |
| AFS financial assets | | | | |
| Listed equity securities - common shares | ₱478,353,738 | ₱- | ₱- | ₱478,353,738 |
| Government debt securities - local currency | 67,380,097 | - | - | 67,380,097 |
| Private debt securities | 50,366,578 | - | - | 50,366,578 |
| | 596,100,413 | - | - | 596,100,413 |
| Assets for which fair values are disclosed: | | | | |
| Long-term commercial papers | - | ₱20,000,000 | - | 20,000,000 |
| Total financial assets | ₱596,100,413 | ₱20,000,000 | ₱- | ₱616,100,413 |

| | 2014 | | | |
|--|--|--|---|---------------------|
| | Quoted prices in active markets Level 1 | Significant observable inputs Level 2 | Significant unobservable input Level 3 | Total |
| Assets measured at fair value: | | | | |
| AFS financial assets | | | | |
| Listed equity securities - common shares | ₱650,743,636 | ₱- | ₱- | ₱650,743,636 |
| Government debt securities - local currency | 72,146,629 | - | - | 72,146,629 |
| Private debt securities | 40,318,077 | - | - | 40,318,077 |
| | 763,208,342 | - | - | 763,208,342 |
| Assets for which fair values are disclosed: | | | | |
| Long-term commercial papers | - | 25,000,000 | - | 25,000,000 |
| Total financial assets | ₱763,208,342 | ₱25,000,000 | ₱- | ₱788,208,342 |

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which uses inputs which have a significant effect on the recorded fair value that are not based on observable market data

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

