ASIA UNITED INSURANCE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	Notes	**2015**		*2014*
ASSETS				
Cash and cash equivalents	*8*	**104,472,393**	P	214,680,604
Investments				
Available-for-sale	*9*	**58,951,767**		93,130,624
Held-to-maturity	*9*	**248,767,965**		86,566,366
Mortgage loans	*9*	**-**		247,890
Insurance balances receivables - net	*10*	**127,913,580**		59,688,311
Reinsurance assets	*11*	**76,090,818**		87,616,110
Property and equipment - net	*12*	**4,219,605**		5,131,213
Deferred acquisition cost	*13*	**28,349,212**		20,691,184
Defined benefit asset	*26*	**5,498,261**		5,205,648
Deferred tax asset	*27*	**3,498,744**		11,125,887
Other assets	*14*	**14,793,486**		15,789,614
TOTAL ASSETS		**672,555,831**	P	599,873,451
LIABILITIES AND EQUITY				
LIABILITIES				
Reserve for unearned premiums	*15*	**149,599,057**	P	133,160,768
Insurance claims payable	*16*	**35,983,791**		46,548,017
Short-term loans payable	*17*	**44,000,000**		40,000,000
Reinsurance liabilities	*18*	**22,336,051**		13,704,848
Accounts payable and accrued expenses	*19*	**42,512,840**		33,095,560
Deferred commission income	*13*	**9,980,997**		9,539,909
Income tax payable	*27*	**1,247,079**		279,279
Deferred tax liability	*27*	**10,485,875**		8,214,400
Total Liabilities		**316,145,690**		284,542,781
EQUITY				
Share capital	*20*	**250,000,000**		250,000,000
Contributed surplus		**1,250,000**		1,250,000
Fair value adjustment on available-for-sale investments-net of deferred tax		**(4,698,497)**		(7,430,143)
Remeasurement gain on defined benefit plan-net of deferred tax		**3,894,527**		3,596,581
Retained earnings, December 31		**105,964,111**		67,914,232
Total Equity		**356,410,141**		315,330,670
TOTAL LIABILITIES AND EQUITY		**672,555,831**	P	599,873,451

See accompanying Notes to Financial Statements

ASIA UNITED INSURANCE, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Notes		2015		2014
REVENUES					
Gross premiums earned	22	**P**	**263,275,929**	P	265,834,720
Reinsurance premiums ceded	22		**(72,453,942)**		(133,657,083)
Net insurance revenue			**190,821,987**		132,177,637
Commission earned			**18,816,325**		20,230,114
Interest income	23		**10,209,295**		12,040,063
Other investment income - net	23		**6,160,064**		3,588,890
			226,007,671		168,036,704
CLAIMS, LOSSES AND ADJUSTMENT EXPENSES					
Insurance claims, losses and adjustment expenses paid - net of salvages and recoveries	24		**109,242,030**		54,075,593
Paid insurance claims, losses and adjustment expenses recovered from reinsurers	24		**(63,917,074)**		(21,033,567)
Changes in insurance claims payable	16		**(10,564,226)**		15,766,453
Changes in reinsurers' share of claims, losses and adjustment expenses	16		**15,316,792**		(10,547,757)
Other underwriting expenses			**41,158,821**		48,069,825
			91,236,343		86,330,547
COST AND EXPENSES					
Commission expense			**47,118,994**		34,316,125
Administrative expenses	25		**34,915,508**		35,018,668
			82,034,502		69,334,793
INCOME BEFORE INCOME TAX EXPENSE			**52,736,826**		12,371,364
INCOME TAX EXPENSE (BENEFIT)	27		**14,686,947**		(1,899,011)
PROFIT FOR THE PERIOD		**P**	**38,049,879**	P	14,270,375

See accompanying Notes to Financial Statements

ASIA UNITED INSURANCE, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015		2014
PROFIT FOR THE PERIOD	**P 38,049,879**	P	14,270,375
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss in subsequent periods			
Fair value changes in AFS investments-net of deferred tax effect	**2,731,646**		2,988,038
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gain on defined benefit plan - net of deferred tax effect	**297,946**		172,861
TOTAL COMPREHENSIVE INCOME	**P 41,079,470**	P	17,431,274

See accompanying Notes to Financial Statements

ASIA UNITED INSURANCE, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Note	2015	2014
SHARE CAPITAL, ISSUED AND OUTSTANDING			
Balance, January 1		**P 250,000,000**	P 175,000,000
Issuance during the year	20	**-**	75,000,000
Balance, December 31		**250,000,000**	250,000,000
DEPOSIT FOR FUTURE CAPITAL SUBSCRIPTION			
Balance, January 1		**-**	51,250,000
Deposits made during the year	20	**-**	-
Conversion to share capital	20	**-**	(51,250,000)
Balance, December 31		**-**	-
CONTRIBUTED SURPLUS			
Balance, January 1		**1,250,000**	25,000,000
Conversion to share capital		**-**	(23,750,000)
Balance, December 31		**1,250,000**	1,250,000
FAIR VALUE ADJUSTMENTS ON AVAILABLE-FOR-SALE INVESTMENTS-NET OF DEFERRED TAX			
Balance, January 1		**(7,430,143)**	(10,418,181)
Fair value changes		**2,731,646**	2,988,038
Balance, December 31		**(4,698,497)**	(7,430,143)
REMEASUREMENT GAIN ON DEFINED BENEFIT PLAN-NET OF DEFERRED TAX			
Balance, January 1		**3,596,581**	3,423,720
Changes during the year		**297,946**	172,861
Balance, December 31		**3,894,527**	3,596,581
RETAINED EARNINGS			
Balance, January 1		**67,914,232**	53,643,857
Profit for the period		**38,049,879**	14,270,375
Balance, December 31		**105,964,111**	67,914,232
		P 356,410,141	P 315,330,670

See accompanying notes to financial statements

ASIA UNITED INSURANCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Notes	**2015**	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax expense		**P 52,736,826**	P 12,371,364
Adjustments for:			
Provision for:			
Depreciation and amortization	*12,14*	**2,031,837**	2,034,077
Impairment loss on mortgage loan receivable	*9*	**247,890**	-
Retirement benefit	*26*	**133,025**	303,021
Amortization of premium/discount of financial asset	*9*	**1,121,361**	727,709
Amortization of deferred acquisition cost-net	*13*	**(7,216,940)**	(7,047,259)
Changes in reserve for unearned premiums	*22*	**16,438,289**	(14,251,715)
Gain from sale of financial assets	*23*	**206,798**	(249,224)
Gain on sale of foreclosed property	*23*	**(1,164,289)**	-
Unrealized foreign exchange loss (gain) - net		**57,564**	87,635
Dividend income	*23*	**(4,932,756)**	(2,489,111)
Interest income	*23*	**(10,209,295)**	(12,040,063)
Operating (loss) income before working capital changes		**49,450,310**	(20,553,566)
(Increase) Decrease in operating assets:			
Insurance balances receivables		**(68,225,269)**	22,373,763
Reinsurance assets		**11,525,292**	45,832,476
Other assets		**(2,015,690)**	11,772,464
Increase (Decrease) in operating liabilities:			
Accounts payable and accrued expenses		**9,417,280**	7,275,959
Reinsurance liabilities		**8,631,203**	(43,616,448)
Insurance claims payable		**(10,564,226)**	15,766,453
Cash Provided by (Used in) Operations		**(1,781,100)**	38,851,101
Contributions to retirement fund		**-**	(300,000)
Income taxes paid		**(4,016,004)**	(11,839,882)
Net Cash Provided by (Used in) Operating Activities		**(5,797,104)**	26,711,219
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Held to maturity investments	*9*	**(163,322,960)**	-
Available-for-sale investments	*9*	**(14,028,277)**	(193,473,618)
Property and equipment	*12*	**(159,920)**	(307,054)
Proceeds from sale/maturities of:			
Available-for-sale investments	*9*	**51,006,564**	270,777,735.00
Foreclosed property	*14*	**4,600,000**	-
Interest and dividend received		**13,551,050**	13,690,881
Net Cash Provided by (Used in) Investing Activities		**(108,353,543)**	90,687,944
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment of short-term loans	*17*	**44,000,000**	50,000,000
Payment of short-term loans		**(40,000,000)**	(54,414,000)
Net Cash (Used in) Provided by Financing Activities		**4,000,000**	(4,414,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(110,150,647)**	112,985,163
Effect of exchange rate changes in cash and cash equivalents		**(57,564)**	(87,635)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**214,680,604**	101,783,076
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**P 104,472,393**	P 214,680,604

See accompanying notes to financial statements

ASIA UNITED INSURANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

1. Corporate Information

Asia United Insurance, Inc. (*the Company*) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on May 25, 2000. Its primary purpose is to engage in fire, marine, casualty insurance and surety business and other related activities as authorized by the Insurance Commission (IC).

The registered office of the Company is located on the 7th Floor, Room 777 BPI Office Condominium Plaza Cervantes, Binondo, Manila.

The financial statements of the Company for the year ended December 31, 2015 (including the comparative figures for the year ended December 31, 2014) were authorized for issue by the President on April 8, 2016.

2. Basis of Preparation and Presentation

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

Basis of Financial Statement Preparation and Presentation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets classified as available-for-sale which are carried at their fair values.

The financial statements are presented in Philippine Peso and all values represent absolute amount except as otherwise indicated.

The Company presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within twelve months after the end of the reporting period (current) is presented in the Note 30.

3. Summary of Significant Accounting Policies and Disclosures

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Cash and Cash Equivalents
Cash consists of petty cash, commission and revolving funds, and current/savings account with banks. Cash equivalents are highly liquid debt instruments purchased with original maturities of three months or less from dates of placements and are subject to insignificant risk of change in value.

Financial Instruments

Date of recognition
Financial assets and financial liabilities are recognized in the statements of financial position of the Company when it becomes a party to the contractual provisions of the instrument.

Initial recognition
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs.

Determination of fair value
The fair value for instruments traded in active market at the reporting date is based on their quoted market price. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which observable market prices exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions of the same instruments or based on a valuation technique, the Company recognizes the difference between the transaction price and fair value in the statements of income unless it qualifies for recognition as some other type of asset.

Classification of financial instruments
The Company classifies financial assets into the following categories, (i) At fair value through profit or loss (FVPL), (ii) Available-for-sale, (iii) Held-to-maturity and (iv) Loans and receivable. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred 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.

(i) Financial Assets and Financial Liabilities at FVPL

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

A financial assets and financial liabilities are classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is part of an identified portfolio of financial instruments that the Company manages together and has recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistently that would otherwise arise; or
- The financial asset forms part of a group of financial assets which is managed and its performance is evaluated on a fair value basis.
- It forms part of a contract containing one or more embedded derivatives.

Financial assets at FVPL are stated at fair value, any resulting gain or loss is recognized in profit or loss. Fair value is determined in the manner described in Note 5.

As of December 31, 2015 and 2014, there are no financial instruments under this category.

(ii) Available-for-sale (AFS)

AFS are non-derivative financial assets that are either designated on this category or not classified in any of the other categories. Subsequent to initial recognition, AFS assets are carried at fair value in the statement of financial position. Changes in the fair value are recognized directly in equity account as "*Fair value adjustment on available-for-sale investments – net of tax*". Where the investment is disposed or is determined to be impaired, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period.

Included under this category are investments in debt and equity securities.

(iii) Loans and receivables

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

Included under this category are cash and cash equivalents, mortgage loans, insurance balances receivables, deposits and other receivables.

(iv) Held-to-maturity (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold the investment until its maturity. HTM assets are carried at cost or amortized cost determined using the effective interest method. Any changes to the carrying amount of the investment are recognized in profit or loss.

Included under this category are investments in government securities and investment in corporate securities.

(v) Other financial liabilities

Financial liabilities are recognized when the Company becomes a party to contractual agreements of an instrument. All interest related charges are recognized as expense in the statement of comprehensive income.

Included under this category are accounts payable and accrued expenses, insurance claims payable, reinsurance liabilities and short-term loans payable.

Reclassification of financial assets
A financial asset is reclassified out of the FVPL category when the following conditions are met (i) the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and (ii) there is a rare situation.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Impairment of financial assets
The Company assesses at each end of the reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

(i) Assets carried at amortized cost
If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows discounted at the financial assets’ original effective interest rate. The amount of the loss is recognized in the profit and loss accounts.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

Any subsequent reversal of an impairment loss is recognized in the profit and loss accounts, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(ii) Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an 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. Such impairment losses are not reversed in subsequent periods.

(iii) Available-for-sale financial assets
Available-for-sale financial assets are subject to impairment review at each end of the reporting period. Impairment loss is recognized when there is objective evidence such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of an asset is below its carrying amount.

Derecognition of financial instruments

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

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

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

<u>Accounting Policies for Insurance and Reinsurance Contracts</u>
Insurance contract
Insurance contract is an agreement under which one party (the insurer), accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the

policyholder if a specified uncertain future event (the insured events) adversely affects the policyholder.

Contract classification
The Company issues short-term insurance contracts categorized as (i) Casualty, (ii) Property, (iii) Guaranty and (iv) Short-duration accident insurance.

Casualty insurance contracts protect the assured against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. Property insurance contracts mainly compensate the Company's assured for damages suffered to their properties or for the value of property lost. Short-duration accident insurance protects the assured from the consequences of events such as death or disability.

An insurance contract remains in force at the inception date of policy until its maturity regardless of number of claims reported and for as long as the coverage is sufficient.

Insurance receivables
These include amounts due to and from agents, brokers and insurance contract holders which comprise the balance of uncollected policy premiums and reinsurance premiums from reinsurers arising from reinsurance contracts measured at amortized cost, using the effective interest method.

Reinsurance
The Company assumes and cedes (treaty and facultative) insurance risk in the normal course of business. Reinsurance assets primarily included balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered as direct business, taking into account the product classification of the reinsured business.

Amounts recoverable from reinsurers that relate to paid and unpaid claims and claim adjustment expenses are classified as assets. Reinsurance receivables and the related liabilities are reported separately.

Reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive the amounts due to it under the terms of the contract and that it can be measured reliably.

Reinsurance assets and liabilities are derecognized when the contractual rights is extinguished or expired.

Deferred acquisition cost
Commissions and other expenses directly attributable to the production and renewal of insurance contracts are deferred in proportion to premium revenue recognized. Deferred acquisition costs are amortized over the life of the policy in which it was incurred.

Deferred acquisition costs are reviewed at each reporting date and the carrying value is written down to its recoverable amount.

Reserve for unearned premiums
Reserve for unearned premiums is calculated on the following basis:

(i) Reserve for unearned premiums are calculated using the 24th method based on gross premiums written. Under the 24^{th} method, it is assumed that the average date of issue of all policies written during any one month is the middle of that month.

(ii) Inward treaties are taken of based on statements as of reporting date and amortized using the 24th method.

Reserve for reinsurance premium represents the portion of reinsurance premiums ceded computed in the same manner as the reserve for unearned premiums.

The changes in reserves for unearned premiums and reinsurance premiums are reported in the statements of income.

Claim cost recognition
Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur.

The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim cost resulting from continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim. The Company may also have the right to pursue third parties for payment of some or all costs.

Estimates of salvage recoveries are included as a reduction in the measurement of the insurance liability for claims, and salvage property is recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as deduction in the measurement of the insurance liability for claims and are recognized in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in the statement of comprehensive income in the period the recoveries are determined. Recoverable amounts are presented as part of reinsurance assets.

Options and guarantees
Options and guarantees within insurance are treated as derivative financial instruments which are closely related to the host insurance contracts and are therefore not separated subsequently.

Property and Equipment
Property and equipment are initially recognized at cost including the costs to get the property ready for its intended use. Subsequent to initial recognition, property and equipment, except land, are carried at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed on a straight-line method over the estimated useful lives of the depreciable assets as follows:

Office equipment	5 years
Office furniture and fixtures	5-10 years
Electronic and data processing (EDP) equipment	5 years
Transportation equipment	5 years
Office condominium and improvements	10 years

An asset's residual value, useful life and depreciation method are reviewed periodically to ensure that the period, residual value and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Expenditures for additions, major improvements and renewals are capitalized while minor repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in the statement of income for the period.

When the carrying amount of an asset is greater than its estimated recoverable amount, the cost is written down immediately to its recoverable amount. Fully depreciated assets are retained in the accounts until they are no longer in use.

Foreclosed assets
Foreclosed assets are real properties acquired by the Company in settlement of loans from defaulting borrowers. The amount represents unpaid obligation of borrowers who defaulted on their mortgage agreement.

Company classifies these assets as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use.

In general, the following conditions must be met for an asset to be classified as held for sale:

- management is committed to a plan to sell
- the asset is available for immediate sale
- an active program to locate a buyer is initiated
- the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn

After its recognition as held for sale, the asset is measured at the lower of its carrying amount or fair value less cost to sell.

Software
Software which are not specifically identifiable and integral part to a specific hardware are presented separately in statement of financial position as part of *Other asset*. These are carried at cost, less accumulated amortization and any impairment in value. Amortization is computed on straight-line method over their estimated useful life of 5 years.

Impairment of Non-financial Assets
The Company's property and equipment, foreclosed assets and software are subject to impairment testing. All other individual asset or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its carrying amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indication that an impairment loss previously recognized may no longer exists and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Accounts Payable and Accrued Expenses
Accounts payables are liabilities to pay for supplies or services that have been received or provided and have been invoiced or formally agreed with the supplier. Accounts payables are non-interest bearing and are stated at their original invoice amount since the effect of discounting is immaterial.

Accruals are liabilities to pay for goods or services that have been received or provided but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employee.

Equity
Share capital is determined using the par value of shares that have been issued.

Contributed surplus represents additional contribution of shareholders to the company in compliance with the requirements of the Insurance Commission.

Contingency surplus represents contribution of shareholders to satisfy the deficiency in the margin of solvency, determined by the office of the IC.

Fair value adjustment on available-for-sale investments represents the difference between acquisition cost of the investment and its market values at end of the reporting period, net of deferred income tax.

Remeasurement gain or loss on defined benefit plan, upon the adoption of revised PAS 19, represents all actuarial gains and losses during the year on the defined benefit obligation arising from experience adjustments, which are the differences from the previous actuarial assumptions and what has actually occurred.

Retained earnings/Deficit includes all current and prior period results of operations as disclosed in the statement of income.

In accordance with Section 201 of the Insurance Code, dividend declaration or distribution from accumulated profits remaining on hand can only be made after retaining unimpaired the following:

- The entire paid-up capital;
- The margin of solvency required;
- The legal reserve fund required; and
- A sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

Revenue Recognition
Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Premiums
Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24^{th} method. The portion of the premiums written that relate to the unexpired periods of the policies at reporting dates are accounted for as Reserve for Unearned Premiums and presented in the liability section of the statement of financial position. The reinsurance premiums ceded that pertains to the unexpired period as at reporting dates are accounted for as "*Deferred reinsurance premiums*" and shown in the asset section of the statements of financial position. The net changes in these accounts between reporting dates are credited or charged against income for the year.

Commission
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of commissions that relates to the unexpired periods of the policies at the reporting

date is accounted for as "*Deferred commission income*" as a deduction against Deferred Acquisition Cost in the asset section of the statement of financial position.

Interest income
Interest income from bank deposits, special savings account and held-to-maturity investment is recognized as interest accrues taking into account the effective yield on the related asset.

Dividend income
Dividend income is recognized when the right to receive dividends is established.

Realized gains and losses
Realized gains and losses on the sale of property and equipment are calculated as the difference between sales proceeds and the net book value. Realized gains and losses on the sale of AFS financial assets are calculated as the difference between sales proceeds and the original cost net of accumulated impairment losses. Realized gains and losses are recognized in statements of income when the sale transaction occurred.

Cost and Expense Recognition

Claims
Liabilities for claims and claims adjustments expenses relating to insurance contracts are accrued when insured events occur.

The liabilities for claims (including those incurred but not reported) are based on the estimated ultimate cost of settling these claims. The method of determining such estimates and establishing reserve are continually reviewed and updated. Changes in estimates of claims cost resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period the estimates are made.

Share in recoveries of claim are evaluated in terms of the estimated realizable values of the salvage or recoveries. Recoveries on settled claims are recognized in profit or loss in the period the recoveries are determined, recoveries on the unsettled claims are recorded as reinsurance recoverable on losses shown as part of reinsurance assets.

Acquisition cost
Cost that vary with and primarily related to the acquisition of new and renewal insurance contracts such as commissions, certain underwriting, and policy issue cost and inspection fees are deferred and charged to expense in proportion to the premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as deferred acquisition cost.

Reinsurance commission
Commissions paid to cedants are deferred and are included in deferred acquisition cost, subject to the same amortization method.

Expenses
Other cost and expenses are recognized when incurred.

Income Taxes
Current tax liabilities are measured at the amount expected to be 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 the reporting period.

Deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax liabilities are recognized for all taxable differences between the financial and tax reporting bases of liabilities. Deferred tax assets and liabilities are measured at the tax rates expected to apply to the periods when the asset is realized or the liability is settled.

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of comprehensive income. Only changes in deferred tax assets or liabilities that relate to a change in value of asset or liability is charged or credited directly to equity.

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 the deferred tax relate to the same taxable entity and the same taxation authority.

Employee Benefits
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, 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 (PUC) method.

Defined benefit costs comprise the following:

- service cost;
- net interest on the net defined benefit liability or asset; and
- 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.

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 high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

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

Foreign Currency Transactions and Translations
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (*the functional currency).* The financial statements are presented in Philippine Peso, the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at exchange rates prevailing at the time of transaction. Foreign currency gains and losses resulting from settlement of such transaction and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Leases

Leases, which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line method over the term of the lease. Associated cost, such as maintenance and insurance, are expensed as incurred.

Related Party Transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The related party transactions are recognized based on transfer of resources or obligations between related parties, regardless of whether a price is charged.

Provisions

Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example legal disputes for onerous contract.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. In addition, long term provisions are discounted at their present values, where time value of money is material.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

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

Events after End of the reporting period

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

4. Changes in Accounting Policies and Disclosures

New Accounting Standards and Amendments to Existing Standards Effective as of January 1, 2015

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to PFRS effective beginning January

1, 2015. The adoption however did not result to any material changes in the financial statements.

Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. The amendment does not have any significant impact on the Company's financial position or performance.

Annual Improvements to PFRS (2010 to 2012 cycle)

The Annual Improvements to PFRSs (2010 to 2012 cycle) contain non-urgent but necessary amendments to the following standards. These are effective for annual periods beginning on or after July 1, 2014. Except as otherwise stated, the amendments do not have a significant impact on the financial statements.

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39. This amendment is not relevant to the Company.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:

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

  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

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

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

Annual Improvements to PFRS (2011 to 2013 cycle)

The Annual Improvements to PFRSs (2011 to 2013 cycle) contain non-urgent but necessary amendments to the following standards. These are effective for annual periods beginning on or after January 1, 2015. Except as otherwise stated, the amendments have no significant impact on the financial statements.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

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

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

New Accounting Standard, Amendments to Existing Standards and Interpretations Effective Subsequent to December 31, 2015
Standards issued but not yet effective up to date of issuance of the Company's financial statements are listed below. The listing consists of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. The Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective 2016

Amendments to PAS 1, *Presentation of Financial Statements – Disclosure Initiative*
The amendments include narrow-focus improvements in five areas; namely, materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. The amendments are effective on or after January 1, 2016. The amendment will not have any significant impact on the Company's financial position or performance.

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

Amendments to 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 as the Company does not have any bearer plants.

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

Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*. The amendments address certain issues that have arisen in applying the investment entities exception under PFRS 10. 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.

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

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

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. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. The Standard will not have any significant impact on the Company's financial position or performance.

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 to the Company's financial statements. 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 in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

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

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

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

Effective 2018

PFRS 9, *Financial Instruments - Hedge Accounting and Amendments to PFRS 9, PFRS 7 and PAS 39*

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

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

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

The adoption of the third phase of the project is not expected to have any significant impact on the Company's financial statements.

PFRS 9, *Financial Instruments*

In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

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

The adoption of the other phases of the project is not expected to have any significant impact on the Company's financial statements.

The following new standard issued by the IASB has not yet been adopted by the FRSC.

- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to 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, 2017, with early adoption permitted. This mandatory adoption date was moved to January 1, 2018.

The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Deferred

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. These amendments are originally effective from annual periods beginning on or after January 1, 2016. This mandatory adoption date was later on deferred indefinitely.

5. Summary of Significant Accounting Judgments and Estimates

The Company makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Judgments
The following judgments were applied which have the most significant effect on the amounts recognized in the financial statements.

- *Determination of Functional Currency*
  The Company has determined that its functional currency is the Philippine peso, which is the currency of the primary economic environment in which the Company operates.

- *Classification of Financial Assets*
  In classifying its financial assets, the Company follows the guidance of PAS 39. In making the judgment, the Company evaluates its intention, marketability of the instrument and its ability to hold the investments until maturity.

	2015		2014
Available-for-sale	**58,951,767**	P	93,130,624
Held-to-maturity	**248,767,965**		86,566,366
Mortgage loans	**-**		247,890

  For non-derivative financial assets with fixed determinable payments and fixed maturity as held-to-maturity which requires significant judgments, the Company evaluates its intention and ability to hold its investments in bonds up to maturity as well as the requirement of the regulatory agency.

  If the Company fails to keep these investments to maturity other than for specific circumstances explained in PAS 39 it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value, not amortized cost.

- *Impairment of financial assets*
  The Company follows the guidance of PAS 39 on determining when the investment is other than temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

During 2015, the management decided to impair the full amount P247,890 of mortgage loans receivable due to non-payment of amortization by the mortgagor.

No impairment was recognized during 2014.

- *Determination of Lease Arrangements*
  The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

  Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases.

  Rent expense charged to operations amounted to P242,713 in 2015 and P242,950 in 2014.

- *Recoverability of Deferred Income Tax*
  The Company reviews the carrying amounts of deferred tax asset at each reporting date and assesses if it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income.

  Deferred tax asset amounted to P3,498,744 in 2015 and P11,125,887 in 2014.

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

- *Determination of fair value of financial instruments*
  The Company measures fair value of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

  Level 1
  Included in the Level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

  Level 2
  Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

  Level 3
  Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The table below analyzes financial instruments measured at fair value as of December 31, 2015 and 2014 by the level in the fair value hierarchy into which the fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total
AFS financial assets				
2015	**P 58,931,767**	**P 20,000**	**P -**	**P 58,951,767**
2014	93,110,624	20,000	-	93,130,624

- *Estimating Allowance for Impairment of Receivables*
  The Company maintains allowance for probable losses at a level considered adequate to provide for potential uncollectible accounts. The level of allowance for probable losses is evaluated by management based on factors affecting collectability of the receivables. In addition, a review of the accounts designed to identify accounts to be provided with allowance is made on a continuing basis.

  Allowance for probable losses on receivables as of December 31, 2015 and 2014 amounted to P1.4 million.

- *Estimated Useful Lives of Property and Equipment and Software*
  The Company reviews annually the estimated useful lives of property and equipment and software, based on the period on which the assets are expected to be available for use. It is possible that future results of operation could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment and software would increase recorded depreciation and decrease the related asset account.

  The carrying value of property and equipment as of December 31, 2015 and 2014 amounted to P4,219,605 and P5,131,213, respectively (see Note 12).

- *Estimating Retirement Benefits*
  The determination of the Company's obligation and cost for retirement and other retirement benefits is dependent on selection of certain assumptions used by actuaries in computing such amounts. The assumptions as discussed in Note 26 are believed to be reasonable and appropriate for the Company although actual experience or significant changes in assumption may affect retirement benefits and asset/obligation.

  Retirement benefits charged to operations amounted to P133,025 in 2015 and P303,021 in 2014.

- *Impairment of Non-financial Asset*
  The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Several factors are considered which could trigger that impairment has occurred. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have material adverse effect on the results of operations.

  No impairment losses were provided for property and equipment in 2015 and 2014 because management believes that the carrying values may be recovered either through continued use or sale.

- *Liability for Insurance Claims*
  Estimates have to be made both of expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of the claims incurred but not reported at the reporting date. It can take a significant period before the ultimate

claims cost can be established with certainty and for some type of policies, unreported claims significantly comprise the claims payable presented in the statement of financial position. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to statement of income at a non-discounted amount for the time value of money.

Liability for outstanding claims as of December 31, 2015 and 2014 amounted to P35,983,791 and P46,548,017, respectively (See Note 16*)*.

6. Fair Value Measurement

The table below analyzes assets and liabilities measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**P 104,472,393**	**P -**	**P -**	**P 104,472,393**
Financial assets				
AFS	**58,931,767**	**20,000**	**-**	**58,951,767**
HTM	**248,767,965**	**-**	**-**	**248,767,965**
Insurance and reinsurance receivables				
Agents, brokers and policyholders	-	**127,913,580**	**-**	**127,913,580**
Reinsurers	-	**35,353,671**	**-**	**35,353,671**
Deposits and other assets	**-**	**4,900,594**	**-**	**4,900,594**
	P 412,172,125	**P 168,187,845**	**P -**	**P 580,359,970**
Accounts payable and accrued expenses	**P -**	**P 42,512,840**	**P -**	**P 42,512,840**
Insurance claims payable	**-**	**35,983,791**	**-**	**35,983,791**
Reinsurance Liabilities	**-**	**22,336,051**	**-**	**22,336,051**
	P -	**P 100,832,682**	**P -**	**P 100,832,682**

	2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	P 214,680,604	P -	P -	P 214,680,604
Financial assets				
AFS	93,110,624	20,000	-	93,130,624
HTM	86,566,366	-	-	86,566,366
Mortgage loans	247,890	-	-	247,890
Insurance and reinsurance receivables				
Agents, brokers and policyholders	-	59,688,311	-	59,688,311
Reinsurers	-	50,406,303	-	50,406,303
Deposits and other assets	-	2,437,675	-	2,437,675
	P 394,605,484	P 112,552,289	P -	P 507,157,773
Accounts payable and accrued expenses	P -	P 33,095,560	P -	P 33,095,560
Insurance claims payable	-	46,548,017	-	46,548,017
Reinsurance liabilities	-	13,704,848	-	13,704,848
	P -	P 93,348,425	P -	P 93,348,425

Fair values were determined as follows:

- Cash and cash equivalents, mortgage loans, insurance and reinsurance receivables, deposits, accounts payable and accrued expenses, insurance claims payable and reinsurance liabilities – fair values approximates their carrying values due to their short-term nature.

- Equity investments classified as AFS – Fair values were determined through the Philippine Stock Exchange
- Government securities (AFS and HTM) – Fair values were determined through third party/custodian information.

7. Management of Insurance Risk, Financial Risk and Capital

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated.

Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Apart from the Company's risk management function, regulators also play a vital role in the insurance industry in ensuring that policy holders and creditors are assured of any claims that may arise within the term of the policy. The Insurance Commission (IC) imposes (i) Risk-based capital framework that will effectively manage the equity requirement of the Company (ii) Margin of solvency which requires an appropriate ratio of admitted assets over admitted liabilities (iii) A mandatory reserve of highly-liquid debt instruments to answer for the claims of policyholders and creditors (iv) and minimum statutory net worth to streamline the operation of insurance industry. Internally, the Company manages its risks through its underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured events. The Company has a fire-related retention limit of P5 million and P0.75 million on motor car losses on any single policy insured. Other reinsurance facility entered includes surplus treaties, catastrophe cover and facultative reinsurance.

The concentration of insurance claims as of December 31, 2015 and 2014 is shown below:

	2015				2014			
(in thousands of Pesos)	**Gross**	**Share of Reinsurer**	**Net Liability**	**%**	Gross	Share of Reinsurer	Net Liability	%
Fire	**P 19,900**	**P 13,885**	**P 6,015**	**31.33%**	P 33,796	P 27,692	P 6,104	42.25%
Engineering	**1,927**	**-**	**1,927**	**10.04%**	3,951	2,375	1,576	10.91%
Motor car	**11,133**	**370**	**10,763**	**56.06%**	4,798	-	4,798	33.21%
Personal accident	**1,571**	**1,134**	**437**	**2.28%**	925	111	814	5.63%
Other lines	**1,452**	**1,395**	**57**	**0.31%**	3,078	1,923	1,155	7.99%
	P 35,983	**P 16,784**	**P19,199**	**100%**	P 46,548	P 32,101	P 14,447	100%

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. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

Credit Risk

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

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

Key areas where the Company is exposed to credit risk are:

- Reinsurers' share of insurance liabilities,
- Amounts due from reinsurers in respect of claims already paid,
- Amounts due from insurance contract holders, and
- Amounts due from insurance intermediaries.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

The following table shows the gross maximum exposure to credit risk of the Company as of December 31, 2015 and 2014. Net maximum exposure is the effect after considering the collaterals and other credit enhancements.

	Gross maximum exposure		Net maximum exposure	
	2015	2014	**2015**	2014
Cash and cash equivalents*	**P 104,269,620**	P 214,428,722	**104,269,620**	212,928,722
Financial assets				
AFS	**58,951,767**	93,130,624	**58,951,767**	93,130,624
HTM	**248,767,965**	86,566,366	**248,767,965**	86,566,366
Mortgage loans	**247,890**	247,890	**-**	247,890
Insurance balances receivable				
Direct and assumed accounts	**129,347,175**	61,121,906	**127,913,580**	59,688,311
Reinsurance accounts	**35,353,671**	50,406,303	**35,353,671**	50,406,303
Deposits and others	**4,900,594**	2,437,675	**4,900,594**	2,437,675
	P 581,838,682	P 508,339,486	**P 580,157,197**	P 505,405,891

**excludes cash on hand*

Credit quality of the Company's financial assets as of December 31, 2015 and 2014 is as follows:

2015	**Neither past due nor impaired – High grade**	**Neither past due nor impaired – Standard grade**	**Past due but not impaired**	**Past due and impaired**	**Total**
Cash and cash equivalents*	**P 104,269,620**	**P -**	**P -**	**P -**	**P 104,269,620**
Financial assets					
AFS	**8,230,567**	**50,721,200**	**-**	**-**	**58,951,767**
HTM	**248,767,965**	**-**	**-**	**-**	**248,767,965**
Mortgage loans	**-**	**-**	**-**	**247,890**	**247,890**
Insurance balances receivable					
Direct and assumed accounts	**-**	**72,164,741**	**55,748,839**	**1,433,595**	**129,347,175**
Reinsurance accounts	**-**	**15,877,375**	**19,476,296**	**-**	**35,353,671**
Deposits and others	**-**	**4,900,592**	**-**	**-**	**4,900,592**
	P 361,268,152	**P 143,663,908**	**P 75,225,135**	**P 1,681,485**	**P 581,838,680**

**excludes cash on hand*

2014	Neither past due nor impaired – High grade	Neither past due nor impaired – Standard grade	Past due but not impaired	Past due and impaired	Total
Cash and cash equivalents*	P 214,428,722	P -	P -	P -	P 214,428,722
Financial assets					
AFS	25,197,480	67,933,144	-	-	93,130,624
HTM	86,566,366	-	-	-	86,566,366
Mortgage loans	-	-	247,890	-	247,890
Insurance balances receivable					
Direct and assumed accounts	-	7,067,479	52,620,832	1,433,595	61,121,906
Reinsurance accounts	-	18,346,438	32,059,865	-	50,406,303
Deposits and others	-	2,437,675	-	-	2,437,675
	P 326,192,568	P 95,784,736	P 84,928,587	P 1,433,595	P 508,339,486

**excludes cash on hand*

Financial assets were graded as follows:

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in banks belonging to the top banks in the Philippines in terms of resources and profitability.

High grade accounts, other than cash and cash equivalents, are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

The analysis of age of financial assets that are past due but not impaired follows:

2015	**Direct and assumed accounts – Due from assured, agents & brokers**	**Due from ceding companies**	**Funds held by ceding companies**	**Total**	**Reinsurance accounts – Reinsurance loss recoverable paid**	**unpaid**	**Total**
30 days past due	**P 17,349,035**	**P 1,872,898**	**P 2,174,425**	**P 21,396,358**	**P 3,376,474**	**P 6,497,685**	**P 9,874,159**
60 days past due	**10,170,730**	**1,471,561**	**10,171,533**	**21,813,823**	**553,508**	**2,165,894**	**2,719,402**
over 60 days	**10,349,698**	**416,392**	**1,772,569**	**12,538,658**	**1,107,015**	**5,775,720**	**6,882,735**
	P 37,869,463	**P 3,760,851**	**P 14,118,526**	**P 55,748,839**	**P 5,036,997**	**P 14,439,299**	**P 19,476,296**

2014	Direct and assumed accounts: Due from assured, agents & brokers	Due from ceding companies	Funds held by ceding companies	Total	Reinsurance accounts: Reinsurance loss recoverable paid	unpaid	Total
30 days past due	P 12,147,063	P 1,070,182	P 3,694,395	P 16,911,640	P 12,164,886	P 6,260,574	P 18,425,460
60 days past due	7,135,285	840,856	17,281,656	25,257,797	1,994,198	2,086,857	4,081,055
over 60 days	7,201,834	237,928	3,011,633	10,451,395	3,988,396	5,564,954	9,553,350
	P 26,484,182	P 2,148,966	P 23,987,684	P 52,620,832	P 18,147,480	P 13,912,385	P 32,059,865

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

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

The table below summarizes the maturity profile of the Company's financial liabilities as of December 31, 2015 and 2014, based on undiscounted contractual payments:

December 31, 2015	**On demand**	**< 1 month**	**>1 month < 3 months**	**> 3 months < 1 year**	**> 1 year < 5 years**	**Total**
Accounts payable and accrued expenses	**P 15,146,348**	**P 11,907,197**	**P 9,464,024**	**P 5,273,549**	**P 721,721**	**P 42,512,840**
Insurance claims payable	**8,925,359**	**1,239,032**	**815,812**	**39,449**	**24,964,139**	**35,983,791**
Reinsurance liabilities	**3,854,067**	**8,041,537**	**6,391,537**	**3,561,495**	**487,415**	**22,336,051**
Short-term loans payable	**44,000,000**	**-**	**-**	**-**	**-**	**44,000,000**
	P 71,925,774	**P 21,187,767**	**P 16,671,373**	**P 8,874,493**	**P 26,173,276**	**P144,832,682**

December 31, 2014	On demand	< 1 month	>1 month < 3 months	> 3 months < 1 year	> 1 year < 5 years	Total
Accounts payable and accrued expenses	P 11,791,188	P 9,269,561	P 7,367,590	P 4,105,373	P 561,848	P 33,095,560
Insurance claims payable	11,545,692.00	1,602,791	1,055,320	51,030	32,293,184	46,548,017
Reinsurance liabilities	2,364,760	4,934,088	3,921,689	2,185,245	299,066	13,704,848
Short-term loans payable	-	-	40,000,000	-	-	40,000,000
	P 25,701,640	P 15,806,440	P 52,344,599	P 6,341,648	P 33,154,098	P133,348,425

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

To manage liquidity risk, the company monitors its cash and investment position on a regular basis. This is apart from the approved credit line in a local bank of P100 million and P60 million for 2015 and 2014, respectively.

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

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

The Company manages market risk by evenly distributing capital among investment instruments, sectors and geographical areas.

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

Sensitivity analysis of market risk exposures follows:

i. Currency risk

Foreign currency risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk arises from financial instruments that are denominated in United States Dollar (USD) which result primarily from movement of the Philippine Peso against the USD.

As of December 31, 2015 and 2014 foreign currency accounts pertains to cash deposits in various banks as follows:

	Amount in US Dollars				Amount in PH Pesos			
		2015		2014		**2015**		2014
Cash and cash equivalents	**$**	**43,192**	$	56,739	**P**	**2,037,201**	P	2,531,524

The following table demonstrates the sensitivity to a reasonable change in the US$ exchange rate, with all other variables held constant, of the Company's income before tax for the year ended December 31, 2015 and 2014:

	Effect on income before taxes				Effect on equity			
Changes in Peso to US Dollar Rate		**2015**		2014		**2015**		2014
+P2.00	**P**	**86,384**	P	113,478	**P**	**60,469**	P	79,435
- P2.00		**(86,384)**		(113,478)		**(60,469)**		(79,435)

ii. Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk for changes in market interest rates relates primarily to the Company's interest bearing cash equivalents with a floating interest rate.

The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration on the maturity profile of the security. Exposures to interest rate risk comprise the following:

	December 31, 2015			
	Interest	Due in		
	rate	1 year	2-5 years	beyond 5 years
Financial assets that are :				
Cash equivalents	**1%-1.375%**	**P 104,269,620**	**P -**	**P -**
Held-to-maturity	**3.625%-8%**	**35,000,017**	**28,789,647**	**184,978,301**
Funds held by ceding companies	**5%-10%**	**25,313,155**	**-**	**-**
Short-term loans payable	**2-4%**	**44,000,000**	**-**	**-**

	December 31, 2014			
	Interest	Due in		
	rate	1 year	2-5 years	beyond 5 years
Financial assets that are :				
Cash equivalents	1.25% - 3.375%	P 214,428,722	P -	P -
Held-to-maturity	5.75%-7%	-	64,201,275	22,365,091
Mortgage loans	21.6%-24%	247,890	-	-
Funds held by ceding companies	5%-10%	24,635,969	-	-
Short-term loans payable	2-4%	40,000,000	-	-

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

There is no other impact on the Company's equity other than those already affecting the profit and loss.

	Increase/ decrease in basis points	Effect on income before income tax
2015	**+200**	**P 8.45 million**
	-200	**(8.45 million)**
2014	+200	P 5.72 million
	-200	(5.72 million)

iii. 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 price, principally, AFS financial assets. Before taking into account the effect of taxes, equity as of December 31, 2015 and 2014 would either decrease or increase by P6 million and P10 million, respectively had the variable changed by 10%. The impact on the Company's equity excludes the impact of transactions affecting profit or loss since financial instrument carried at fair value are classified as Available-for-sale.

iv. Operational risk

Operational risk is the risk of loss from system failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risk but initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes. Business risk such as changes in environment, technology and industry are monitored through the Company's strategic planning and budgeting processes.

Capital management
The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities and externally imposed capital requirements.

The company regards the following as the capital it manages as at December 31, 2015 and 2014.

		2015		2014
Share Capital	**P**	**250,000,000**	P	250,000,000
Contributed surplus		**1,250,000**		1,250,000
Retained Earnings		**105,964,111**		67,914,232
	P	**357,214,111**	P	319,164,232

Networth Requirement
Externally imposed capital requirements are set and regulated by the Insurance Commission (IC). The requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximize shareholders value.

Pursuant to IC Circular No. 2015-02-A, dated January 13, 2015 issued on the basis of Republic Act 10607 known as the Revised Insurance Code, domestic insurance companies under the supervision of IC must have a networth of at least P250 million by December 31, 2013. The minimum networth of a particular company shall remain unimpaired at all times and shall increase to the amounts as follows:

Minimum networth		Compliance date
P	550,000,000	December 31, 2016
	900,000,000	December 31, 2019
	1,300,000,000	December 31, 2022

Insurance Memorandum Circular 22-2008 further clarified that the paid-up capital should remain intact and unimpaired at all times, the statements of financial position should show that the net worth is at least equal to the actual paid up capital.

As at December 31, 2015 and 2014, the Company is in compliance with the required minimum paid-up capital. The statutory net worth is based on Regulatory Accounting Policies and may be determined only after the accounts of the Company have been examined by the IC.

Risk-based Capital Requirement
Insurance Memorandum Circular (IMC) 7-2006 provides for the risk-based capital (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 risk. Every non-life insurance companies are 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 Company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio is calculated as Net worth divided by the RBC requirement. Net worth shall include the (i) paid-up capital, (ii) other capital surplus and (iii) Special surplus funds to the extent authorized by IC.

Internal calculations of RBC ratio as at December 31, 2015 and 2014 revealed the following:

	2015	2014
Networth	**356,410,139**	298,874,231
RBC requirement	**56,157,031**	50,476,292
RBC Ratio	**635%**	592%

Under IMC 10-2006, integrating the regulatory capital and RBC framework, all insurers must possess the required capitalization and shall comply with the RBC framework requirements.

The regulatory capital requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided the industry complies with the required Industry RBC Compliance Rates and RBC Hurdle Rates from 2008 to 2014. For review year 2015 which will be based on the 2014 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%. Failure to achieve one of the rates will result in the imposition of the regulatory capital requirement for the year under review.

8. Cash and Cash Equivalents

This account consists of:

	2015	2014
Cash on hand and in banks	**P 95,922,552**	P 74,037,472
Short- term bank placements	**8,549,841**	140,643,132
	P 104,472,393	P 214,680,604

Cash in bank and short-term bank placements earn interest at prevailing bank interest rates. Short-term placements have an average maturity of 1-3 months and bear effective annual interest rates ranging from 1% to 1.375% in 2015 and 1.25% to 3.375% in 2014.

9. Financial assets

The reconciliation of the carrying amounts of financial assets at the beginning and end of the year is shown in the following table:

	December 31, 2015			
	Available-for-sale	**Held-to- maturity**	**Mortgage Loans**	**Total**
Balance, January 1	**P 93,130,624**	**P 86,566,366**	**P 247,890**	**P 179,944,880**
Additions	**14,028,277**	**163,322,960**	**-**	**177,351,237**
Disposal/Maturities	**(51,006,564)**	**-**	**-**	**(51,006,564)**
Changes in:				
fair value	**2,799,430**	**-**	**-**	**2,799,430**
Impairment loss	**-**	**-**	**(247,890)**	**(247,890)**
Amortization of premium/discount	**-**	**(1,121,361)**	**-**	**(1,121,361)**
Balance, December 31	**P 58,951,767**	**P 248,767,965**	**P -**	**P 307,719,732**

	December 31, 2014							
						Mortgage		
		Available-for-sale		Held-to- maturity		Loans		Total
Balance, January 1	P	178,103,125	P	87,019,865	P	247,890	P	265,370,880
Additions		193,473,618		-		-		193,473,618
Disposal/Maturities		(270,777,735)		-		-		(270,777,735)
Changes in:								
fair value		(7,394,174)		-		-		(7,394,174)
Amortization of premium/discount		(274,210)		(453,499)		-		(727,709)
Balance, December 31	P	93,130,624	P	86,566,366	P	247,890	P	179,944,880

(i) Available-for-sale

Available-for-sale financial assets represent equity and debt instruments with quoted and unquoted market values. For securities with no active market, the carrying amounts are stated at cost. The composition of this account is as follows:

		2015		2014
Cost				
Equity securities				
Quoted in the stock exchange		**56,132,337**		100,504,798
Not quoted in the stock exchange		**20,000**		20,000
		56,152,337		100,524,798
Changes in fair values				
Quoted equity securities		**2,799,430**		(7,394,174)
		2,799,430		(7,394,174)
	P	**58,951,767**	P	93,130,624

Equity securities classified as AFS investments substantially represents common and preferred shares which are traded in the Philippine Stock Exchange. Fair values were determined via published price quotations

The unrealized appreciation of fair value is reported as separate component in the equity section of Statement of Financial Position, net of deferred income tax.

(ii) Held-to-maturity

Held-to-maturity financial assets include debt instruments issued by the Philippine government. The term of the issues range from 7 to 25 years and earns interest at a rate of 3.625%% to 8% annually in 2015 and 5.75% to 7% in 2014.

The maturity profile of this account is presented below:

		2015		2014
Due in:				
One year	**P**	**35,000,017**	P	-
Two to five years		**28,789,647**		64,201,275
beyond five years		**184,978,301**		22,365,091
	P	**248,767,965**	P	86,566,366

As required by the IC, Philippine government securities with face value of P98,000,000 in 2015 and P63,000,000 in 2014 were deposited with the Commission in accordance with the provision of the Insurance Code as security for the benefit of the policyholders and creditors of the Company.

(iii) Mortgage loan

Mortgage loan receivable have an average maturity of 3-6 months and the principal amount of the loans are discounted at a rate of 21.6% to 24%.This is secured by a parcel of land mortgaged in favor of the Company.

The mortgage loan has become past due in 2013. Accordingly, impairment loss amounting to P247,890 was provided during 2015.

10. Insurance balances receivables

The breakdown of this account is as follows:

		2015		2014
Due from brokers and agents *(net of allowance for impairment loss of P1,433,595 in 2015 and 2014)*	**P**	**48,349,947**	P	32,305,902
Due from ceding companies		**54,250,478**		2,746,440
Funds held by ceding companies		**25,313,155**		24,635,969
	P	**127,913,580**	P	59,688,311

Due from agents and brokers are usually settled in a 30-90 days term. Due from ceding companies represents balances as a result of treaty and facultative acceptances. The amounts are for a period of less than 12 months. Loss reserve and funds held by ceding companies represents portion of the premium withheld by ceding companies in accordance with reinsurance agreements.

There is no concentration of credit risk with respect to insurance balances receivables, as the Company has a diverse base of agents, brokers and reinsurers.

Management believes that the carrying values disclosed above are reasonable approximates of their fair values.

There is no additional provision for impairment loss recognized in 2015 and 2014.

11. Reinsurance assets

This account consists of:

		2015		2014
Reserve for reinsurance premium *(see Note 15)*	**P**	**40,737,147**	P	37,209,807
Reinsurance recoverable on:				
paid losses		**18,569,507**		18,305,347
unpaid losses *(see note 16)*		**16,784,164**		32,100,956
	P	**76,090,818**	P	87,616,110

As of December 31, management believes that reinsurance assets are fully recoverable and that no provision for impairment loss is necessary.

The reconciliation of reinsurers' share on paid losses is as follows:

	2015	2014
Balance, January 1	**P 18,305,347**	P 16,223,526
Reinsurers' share of losses	**(63,917,074)**	(21,033,567)
Settlement	**64,181,234**	23,115,388
Balance, December 31	**P 18,569,507**	P 18,305,347

12. Property and equipment

Property and equipment consists of:

As of December 31, 2015	**EDP equipment & peripherals**	**Office condominium & improvements**	**Transportation equipment**	**Office furniture & fixtures**	**Office equipment**	**Total**
Costs						
At January 1, 2015	**P 8,405,982**	**7,145,616**	**P 2,937,273**	**P 2,523,466**	**P 803,559**	**P 21,815,896**
Additions	**105,768**	**-**	**-**	**-**	**54,152**	**159,920**
At December 31, 2015	**8,511,750**	**7,145,616**	**2,937,273**	**2,523,466**	**857,711**	**21,975,816**
Accumulated depreciation						
At January 1, 2015	**7,596,958**	**3,095,281**	**2,937,269**	**2,363,825**	**691,350**	**16,684,683**
Provisions	**265,856**	**714,561**	**-**	**45,397**	**45,714**	**1,071,528**
At December 31, 2015	**7,862,814**	**3,809,842**	**2,937,269**	**2,409,222**	**737,064**	**17,756,210**
Net Book Value						
At December 31, 2015	**P 648,936**	**P 3,335,774**	**P 4**	**P 114,244**	**P 120,647**	**P 4,219,605**

As of December 31, 2014	EDP equipment & peripherals	Office condominium & improvements	Transportation equipment	Office furniture & fixtures	Office equipment	Total
Costs						
At January 1,2014	P 8,159,553	7,145,616	P 2,937,273	P 2,462,841	P 803,559	P 21,508,842
Additions	246,429	-	-	60,625	-	307,054
At December 31, 2014	8,405,982	7,145,616	2,937,273	2,523,466	803,559	21,815,896
Accumulated depreciation						
At January 1, 2014	7,318,608	2,380,718	2,937,269	2,318,934	652,743	15,608,272
Provisions	278,350	714,563	-	44,891	38,607	1,076,411
At December 31, 2014	7,596,958	3,095,281	2,937,269	2,363,825	691,350	16,684,683
Net Book Value						
At December 31, 2014	P 809,024	P 4,050,335	P 4	P 159,641	P 112,209	P 5,131,213

Depreciation of property and equipment charged to operations amounted to P1,071,528 in 2015 and P1,076,411 in 2014.

13. Deferred acquisition cost and Deferred commission income

Movements during the year of this account are as follows:

	December 31, 2015		
	Deferred acquisition cost	**Deferred commission income**	**Net DAC**
Balance, January 1	**P 20,691,184**	**P 9,539,909**	**P 11,151,275**
Net change in acquisition cost	**7,658,028**	**441,088**	**7,216,940**
Balance, December 31	**P 28,349,212**	**P 9,980,997**	**P 18,368,215**

	December 31, 2014		
	Deferred acquisition cost	Deferred commission income	Net DAC
Balance, January 1	P 13,384,151	P 9,280,135	P 4,104,016
Net change in acquisition cost	7,307,033	259,774	7,047,259
Balance, December 31	P 20,691,184	P 9,539,909	P 11,151,275

As of December 31 2015 and 2014, management believes that deferred acquisition cost is fully recoverable and that no provision for impairment loss is necessary.

14. Other assets

The breakdown of this account is as follows:

	2015	2014
Foreclosed assets - *net of allowance for impairment loss of P357,600 in 2015 and 2014*	**P 5,623,574**	P 9,059,286
Accrued investment income	**3,303,303**	1,919,100
Software - *net*	**2,569,805**	3,530,114
Input taxes	**1,699,513**	762,539
Deposits	**1,094,887**	58,887
Other receivables	**406,419**	363,703
Security fund	**95,985**	95,985
	P 14,793,486	P 15,789,614

- During 2015, the Company sold a portion of its foreclosed property with carrying value of P6,752,000. The sale resulted to a gain amounting to P1,164,289 and is reported in the Statement of Income (see Note 23).

- Accrued investment income arose from accrual of (i) interest from short-term investment and debt instruments and (ii) dividends from equity investments.

- The movement of software is as follows:

	2015	2014
Cost, beginning	**P 4,801,548**	P 4,500,000
Additions	**-**	301,548
Cost, ending	**4,801,548**	4,801,548
Accumulated amortization, beginning	**(1,271,434)**	(313,768)
Additions	**(960,309)**	(957,666)
Accumulated amortization, ending	**(2,231,743)**	(1,271,434)
Net book value	**P 2,569,805**	P 3,530,114

Amortization charged to operation amounted to P960,309 in 2015 and P957,666 in 2014.

- Input taxes represent the 12% value-added tax on purchase of goods and services. The same may be applied against output taxes.

- Deposits include security deposit that is refundable at the end of the lease term and deposit to a telephone network upon availing a telephone line.

- Other receivables are unsecured advances to third parties collectible for a period of not more than 12 months.

- Security fund which is in compliance under Section 365 of Presidential Decree (PD) No. 612 as amended under PD No. 1640, is to be used for payment of allowed claims against insolvent insurance companies. The balance of the fund amounting to P95,985, represents the Company's contribution to the fund and earns interest at rates determined by the IC annually.

The fair values of the accounts receivable and other receivables were not individually determined as the carrying amount is a reasonable approximation of fair value.

15. Reserve for unearned premiums

The analysis of this account is as follows:

	2015			2014		
	Gross Premium	**Ceded**	**Net**	Gross Premium	Ceded	Net
Balance, January 1	**P 133,160,768**	**P 37,209,807**	**P 95,950,961**	P 147,412,482	P 95,671,861	P 51,740,621
Premiums written during the year	**279,714,218**	**75,981,282**	**203,732,936**	251,583,006	75,195,029	176,387,977
Premiums earned during the year	**(263,275,929)**	**(72,453,942)**	**(190,821,987)**	(265,834,720)	(133,657,083)	(132,177,637)
Balance, December 31	**P 149,599,057**	**P 40,737,147**	**P 108,861,910**	P 133,160,768	P 37,209,807	P 95,950,961

16. Insurance claims payable

Outstanding claims will become payable and materialize into claims paid as and when the amounts of insured losses suffered by policyholders were ascertained and agreed, without any contractual maturity date. The timing of future cash outflow arising from the provision is not ascertainable but is likely to fall within six years.

The provision is sensitive to many factors such as interpretation of circumstances, judicial decisions, economic conditions, climatic changes and those that are subject to uncertainties such as:

- Uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- Uncertainty as to the extent of policy coverage and limits applicable; and
- Uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring.

Movements in outstanding claims follow:

	2015			2014		
	Gross	**Share of reinsurer**	**Net**	Gross	Share of reinsurer	Net
Balances, January 1	**P 46,548,017**	**P 32,100,956**	**P 14,447,061**	P 30,781,564	P 21,553,199	P 9,228,365
Claims and losses incurred - net of recoveries	**98,677,804**	**48,600,281**	**50,077,523**	69,842,046	31,581,324	38,260,722
Claims and loss paid - net of recoveries	**(109,242,030)**	**(63,917,074)**	**(45,324,956)**	(54,075,593)	(21,033,567)	(33,042,026)
Net changes	**(10,564,226)**	**(15,316,792)**	**4,752,567**	15,766,453	10,547,757	5,218,696
Balances, December 31	**P 35,983,791**	**P 16,784,164**	**P 19,199,627**	P 46,548,017	P 32,100,956	P 14,447,061

17. Short-term loans payable

During 2015 and 2014, the Company availed of short-term clean loan from a local bank in an effort to expand its portfolio of investments. As of December 31, 2015 and 2014, the loan has an outstanding balance of P44 million and P40 million, respectively.

The loans have terms of 60 to 90 days at 2-4% interest per annum. Total interest expense charged to operations amounted to P1,028,333 in 2015 and P1,338,013 in 2014.

18. Reinsurance liabilities

In order to minimize large exposure to losses, the Company cedes certain policies to reinsurers through treaty and facultative reinsurance. This does not however discharge the Company on its obligation for the losses incurred by the assured.

Details of this account as of December 31, 2015 and 2014 are as follows:

	December 31, 2015		
	Due to reinsurers	**Funds Held for Reinsurers**	**Total**
Balance, January 1	**P 7,904,475**	**P 5,800,373**	**P 13,704,848**
Cessions	**57,306,530**	**5,306,668**	**62,613,198**
Payments	**(48,181,622)**	**(5,800,373)**	**(53,981,995)**
Balance, December 31	**P 17,029,383**	**P 5,306,668**	**P 22,336,051**

	December 31, 2014		
	Due to reinsurers	Funds Held for Reinsurers	Total
Balance, January 1	P 51,325,272	P 5,996,024	P 57,321,296
Cessions	46,270,573	5,800,373	52,070,946
Payments	(89,691,370)	(5,996,024)	(95,687,394)
Balance, December 31	P 7,904,475	P 5,800,373	P 13,704,848

19. Accounts payable and accrued expenses

This account consists of:

		2015		2014
Accrued expenses and other liabilities	P	**27,418,604**	P	20,829,168
Commission payable		**11,700,827**		9,260,542
Other taxes payable		**3,393,409**		3,005,850
	P	**42,512,840**	P	33,095,560

Accrued expenses and other liabilities are usually settled on a 30-90 days term.

Commission payable is due upon remittance of premiums from various agents.

Other taxes payable, consisting of documentary stamp tax, output tax and premium tax are usually settled on the following month.

Management believes that the carrying amounts are the reasonable approximation of their fair values as of December 31, 2015 and 2014.

20. Share capital

The Company's capital structure as of December 31, 2015 and 2014 is as follows:

	No. of shares		Amount
Authorized - P100 par value per shar	**5,000,000**	**P**	**500,000,000**
Issued and outstanding	**2,500,000**		**250,000,000**

At the regular annual stockholders meeting of the stockholders on June 19, 2012, the stockholders unanimously vote and approved the increase in Company's authorized share capital from P200 million to P500 million both with a par value of P100 per share.

From the increase in share capital of P300 million, the amount of P75 million worth of shares has been actually subscribed and paid as follows:

- P51,250,000 via conversion of deposit for future capital subscription; and
- P23,750,000 via conversion of portion of contributed surplus

The conversion of contributed surplus was approved by Insurance Commission on September 10, 2012. The approval of SEC on increase in share capital was sought on February 5, 2014.

As of December 31, 2015 and 2014, the Company has 13 shareholders owning 100 or more shares each.

21. Insurance Contracts – Terms, Assumption and Sensitivities

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

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

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

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

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

Sensitivities
The general insurance claims provision is sensitive to the above key assumptions. The sensitivity to certain variables such as legislative change and uncertainty in the estimation process is impossible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting date.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

Since certain proportional reinsurance facilities are in place, the Company's net exposure is minimal. The Company considers that the liability recognized in the statement of financial position is adequate. However, actual experience will differ from the expected outcome. Sensitivity test are set out below, showing the impact on profit and loss and equity. The Sensitivity tests the impact of change with other assumptions unchanged.

% change in	Impact on Income		Impact on equity	
loss ratio	**2014**	2013	**2014**	2013
5%	**P2.50 million**	P1.91 million	**P1.7 million**	P1.3 million
-5%	**(2.50 million)**	(1.91 million)	**(1.7 million)**	(1.3 million)

Loss development table
Loss development table gross of reinsurer's share of losses and claims for 2015 and 2014 is as follows:

	Gross Losses and Insurance Claims Payable for 2015					
(in thousand of pesos)	2011 & prior	2012	2013	2014	2015	Total
Estimate of claim costs at the						
end of underwriting year	P 132,123	P 59,385	P 53,048	P 68,467	P118,220	P 118,220
One year after	137,632	50,999	54,465	53,797	-	53,797
Two years after	133,235	51,086	52,822	-	-	52,822
Three years after	132,697	49,735	-	-	-	49,735
Four years after	130,689	-	-	-	-	130,689
Total estimated claims	130,689	49,735	52,822	53,797	118,220	405,263
Cumulative payments made	(129,113)	(49,735)	(52,559)	(40,207)	(97,665)	(369,279)
	P 1,576	P -	P 263	P 13,590	P 20,555	P 35,984

(in thousand of pesos)	Gross Losses and Insurance Claims Payable for 2014 2010 and prior	2011	2012	2013	2014	Total
Estimate of claim costs at the						
end of underwriting year	P 98,355	P 33,768	P 59,385	P 53,048	P 68,467	P 68,467
One year after	99,926	37,706	50,999	54,465	-	54,465
Two years after	95,435	37,801	51,086	-	-	51,086
Three years after	94,896	37,801	-	-	-	37,801
Four years after	94,766	-	-	-	-	94,766
Total estimated claims	94,766	37,801	51,086	54,465	68,467	306,585
Cumulative payments made	(93,184)	(35,984)	(49,770)	(52,145)	(28,954)	(260,037)
	P 1,582	P 1,817	P 1,316	P 2,320	P 39,513	P 46,548

Loss development table net of reinsurer's share of losses and claims for 2015 and 2014 is as follows:

(in thousand of pesos)	**Net Losses and Insurance Claims Payable for 2015 2011 & prior**	**2012**	**2013**	**2014**	**2015**	**Total**
Estimate of claim costs at the						
end of underwriting year	**P 48,423**	**P 21,179**	**P 24,459**	**P 37,478**	**P 50,704**	**P 50,704**
One year after	**52,204**	**22,568**	**25,281**	**37,223**	**-**	**37,223**
Two years after	**52,314**	**22,629**	**24,965**	**-**	**-**	**24,965**
Three years after	**52,273**	**22,639**	**-**	**-**	**-**	**22,639**
Four years after	**52,106**	**-**	**-**	**-**	**-**	**52,106**
Total estimated claims	**52,106**	**22,639**	**24,965**	**37,223**	**50,704**	**187,637**
Cumulative payments made	**(50,529)**	**(22,639)**	**(24,952)**	**(33,560)**	**(36,758)**	**(168,438)**
	1,577	**-**	**13**	**3,663**	**13,946**	**19,199**

(in thousand of pesos)	Net Losses and Insurance Claims Payable for 2014 2010 & prior	2011	2012	2013	2014	Total
Estimate of claim costs at the						
end of underwriting year	P 26,201	P 22,222	P 21,179	P 24,459	P 37,478	P 37,478
One year after	27,280	24,924	22,568	25,281	-	25,281
Two years after	27,293	25,021	22,629	-	-	22,629
Three years after	27,252	25,021	-	-	-	25,021
Four years after	27,152	-	-	-	-	27,152
Total estimated claims	27,152	25,021	22,629	25,281	37,478	137,561
Cumulative payments made	(25,570)	(25,004)	(22,628)	(24,693)	(25,218)	(123,113)
	1,582	17	1	588	12,260	14,448

22. Premiums

Analysis of premiums is as follows:

	For the year ended December 31, 2015				
	Direct Business	Assumed Business	Total	Ceded Business	Net premiums Retained
Premiums written	**P 209,061,796**	**P 70,652,422**	**P 279,714,218**	**P 75,981,282**	**P 203,732,936**
Changes in unexpired risk	**(24,680,052)**	**8,241,763**	**(16,438,289)**	**(3,527,340)**	**(12,910,949)**
Net	**P 184,381,744**	**P 78,894,185**	**P 263,275,929**	**P 72,453,942**	**P 190,821,987**

	For the year ended December 31, 2014				
	Direct Business	Assumed Business	Total	Ceded Business	Net premiums Retained
Premiums written	P 175,092,833	P 76,490,173	P 251,583,006	P 75,195,029	P 176,387,977
Changes in unexpired risk	44,044,222	(29,792,508)	14,251,714	58,462,054	(44,210,340)
Net	P 219,137,055	P 46,697,665	P 265,834,720	P 133,657,083	P 132,177,637

23. Investment income

Sources of interest income are as follows:

	2015	2014
Cash and cash equivalents	**P 394,373**	P 172,781
Government securities and debt instruments		
Held-to-maturity investments	**8,930,477**	4,726,501
Available-for-sale investments	**884,445**	7,140,781
	P 10,209,295	P 12,040,063

Other investment income (loss) consists of:

	2015	2014
Dividend income	**P 4,932,756**	P 2,489,111
Gain on sale of forclosed properties	**1,164,289**	-
Gain (Loss) on foreign exchange	**39,165**	404,937
Gain (Loss) on sale of AFS financial assets	**(206,798)**	249,224
Other income	**230,652**	445,618
	P 6,160,064	P 3,588,890

24. Claims, losses and adjustment expenses paid

Analysis of this account is as follows:

	For the year ended December 31, 2015		
	Gross	**Share of Reinsurer**	**Net**
Claims and losses	**P 102,508,537**	**P 59,011,384**	**P 43,497,153**
Loss adjustment expenses	**6,733,493**	**4,905,690**	**1,827,803**
	P 109,242,030	**P 63,917,074**	**P 45,324,956**

	For the year ended December 31, 2014		
	Gross	Share of Reinsurer	Net
Claims and losses	P 52,876,987	P 20,523,313	P 32,353,674
Loss adjustment expenses	1,198,606	510,254	688,352
	P 54,075,593	P 21,033,567	P 33,042,026

25. Administrative expenses

Administrative expenses consist of:

	2015	*2014*
Salaries and other employee benefits	**P 10,481,052**	P 10,138,181
Transportation	**5,847,408**	5,543,396
Deficiency tax	**3,319,784**	-
Agency development expense	**2,353,690**	7,839,716
Depreciation and amortization *(see Note 12)*	**2,031,837**	2,034,077
Professional fees	**1,918,750**	593,200
Repairs and maintenance	**1,503,135**	1,239,622
Taxes and licenses	**1,448,359**	1,626,960
Communication and occupancy cost	**1,234,943**	1,237,398
Interest expense	**1,075,300**	1,396,332
SSS,PHIC and HDMF contributions	**703,063**	677,407
Representation and entertainment	**660,017**	624,791
Supplies	**626,339**	903,889
Association dues	**541,164**	685,839
Impairment loss	**247,890**	-
Retirement expense	**133,026**	303,021
Miscellaneous	**789,751**	174,839
	P 34,915,508	P 35,018,668

26. Retirement benefit cost

The Company maintains a wholly funded, tax qualified, noncontributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made every year or two to update the retirement benefit costs and amount of contributions.

The amounts of defined benefit asset recognized in the statement of financial position are determined as follows:

		2015		*2014*
Fair value of plan assets	**P**	**14,250,353**	P	13,704,019
Present value of the obligation		**(3,879,573)**		(6,895,471)
Excess of plan assets		**10,370,780**		6,808,548
Unrecognized actuarial gain		**(4,872,520)**		(1,602,899)
Defined benefit asset	**P**	**5,498,260**	P	5,205,649

The movements in present value of the obligation recognized in the books are as follows:

		2015		*2014*
Balance at the beginning of year	**P**	**6,895,471**	P	5,989,836
Current service cost		**305,958**		618,123
Interest cost		**330,983**		287,512
Actuarial (gain)/loss		**(3,652,839)**		-
Balance at the end end of year	**P**	**3,879,573**	P	6,895,471

The movement in fair value of plan assets is presented below:

		2015		*2014*
Balance at the beginning of year	**P**	**13,704,019**	P	12,554,459
Expected return on plan assets		**657,793**		602,614
Contributions paid into the plan		**-**		300,000
Remeasurement gain (loss)		**(111,459)**		246,946
Balance at the end end of year	**P**	**14,250,353**	P	13,704,019

As of December 31, 2015 and 2014, plan assets consist of:

	2015	2014
Debt instrument	**47%**	38%
Cash and other receivable	**5%**	39%
Equity securities	**48%**	23%

Equity securities include shares of Asia United Bank Corporation, a related party.

The amounts of retirement benefits recognized in the statements of income are as follows:

		2015		*2014*
Current service cost	**P**	**305,958**	P	618,123
Net interest cost		**(326,810)**		(315,102)
Net actuarial gain recognized in the plan year		**153,877**		-
	P	**133,025**	P	303,021

**Included in Salaries and employee benefits under the Administrative expenses*

For determination of retirement benefit obligation, the following actuarial assumptions were used:

	2015	2014
Discount rate	**5.09%**	4.80%
Expected rate of salary increase	**2.00%**	2.00%

Presented below is the 5-year historical information related to the present value of the retirement benefit obligation, fair value of plan assets and excess or deficit in the plan.

		2015		2014		2013		2012		2011
Present value of obligation	P	3,879,573	P	6,895,471	P	5,989,836	P	5,958,415	P	2,823,443
Fair value of plan assets		14,250,353		13,704,019		12,554,459		11,029,030		10,027,650
Excess	P	(10,370,780)	P	(6,808,548)	P	(6,564,623)	P	(5,070,615)	P	(7,204,207)

27. Income Taxes

The components of income tax expense recognized in the statement of income are as follows:

		2015		2014
Current				
Final	P	2,084,904	P	1,069,623
Regular		2,660,222		2,321,258
Deferred		9,941,821		(5,289,892)
	P	14,686,947	P	(1,899,011)

The reconciliation of tax on pretax income computed at the applicable statutory rates to tax expense is as follows:

		2015		2014
Statutory income tax	P	15,821,048	P	3,711,409
Adjustment for:				
Income subjected to final tax		2,084,904		1,069,623
Tax effect of:				
Non-deductible expenses		996,235		(2,192,110)
Non-taxable income		(4,215,240)		(4,487,933)
Actual provision for income tax	P	14,686,947	P	(1,899,011)

The carrying value and movements of net deferred tax assets are as follows:

			2015 Charges to					
		2014		profit or loss		equity		2015
Deferred tax assets								
Excess of unearned premiums per books over tax basis	P	7,807,544	P	(7,807,544)	P	-	P	-
Unrealized foreign exchange loss		26,291		(26,291)		-		-
Deferred commission income		2,861,973		132,325		-		2,994,298
Allowance for probable losses		430,079		-		-		430,079
Allowance for impairment of mortgage receivable		-		74,367		-		74,367
Total		11,125,887		(7,627,143)		-		3,498,744
Deferred tax liability								
Deferred acquisition cost		(6,207,355)		(2,297,409)		-		(8,504,764)
Unrealized foreign exchange gain		-		(17,269)		-		(17,269)
Remeasurement gain on defined benefit plan		(1,541,392)		-		(127,691)		(1,669,083)
Reserve on investment fluctuation		(465,653)		-		170,894		(294,759)
Total		(8,214,400)		(2,314,678)		43,203		(10,485,875)
	P	2,911,487	P	(9,941,821)	P	43,203	P	(6,987,131)

		2014 Charges to		
	2013	profit or loss	equity	2014
Deferred tax assets				
Excess of unearned premiums per books over tax basis	P 1,523,623	P 6,283,921	P -	P 7,807,544
Unrealized foreign exchange loss	-	26,291	-	26,291
Deferred commision income	2,784,041	77,932	-	2,861,973
Allowance for probable losses	430,079	-	-	430,079
Impairment loss	107,280	(107,280)	-	-
Total	4,845,023	6,280,864	-	11,125,887
Deferred tax liability				
Deferred acquisition cost - net	(4,015,245)	(2,192,110)	-	(6,207,355)
Unrealized foreign exchange gain	(1,201,137)	1,201,137	-	-
Remeasurement gain on defined benefit plan	(1,467,308)	-	(74,084)	(1,541,392)
Reserve on investment fluctuation	(72,234)	-	(393,419)	(465,653)
Total	(6,755,924)	(990,973)	(467,503)	(8,214,400)
	P (1,910,901)	P 5,289,891	P (467,503)	P 2,911,487

28. Related party transactions

- The Company has deposit accounts with Asia United Bank Corporation (AUB), a related-party bank. Interest rates on these deposits are comparable with unrelated parties. Summary of transaction and balances with the related party-bank included in the accompanying financial statements is as follows:

	2015	2014
Cash and cash equivalents	**P 92,554,455**	P 69,512,597
Investment in AUB common shares	**8,230,567**	25,197,480
Investment in AUB subordinated debts	**20,000,000**	-
Interest income	**173,277**	44,394

- The Company also have transactions with Asia United Leasing and Finance Corporation (AULFC) and Asia United Fleet Management Services, Inc. (AUFMSI). Gross loan exposure made to AULFC and AUFMSI amounted to P32 million and P166.58 in 2015 and 2014, respectively. The amounts were settled during their respective years.

  Total interest income earned from these transactions amounted to P0.88 million in 2015 and P3.52 million in 2014.

- Compensation to key management personnel included in salaries and other employee benefits account under the administrative expenses in statements of income follows:

	2015	2014
Salary of key personnel	**P 2,091,157**	P 1,675,157
Retirement benefits of key personnel	**26,541**	50,069

29. Reconciliation of net income under Philippine Financial Reporting Standards (PFRS) and net income under Regulatory Accounting Policies (RAP)

PFRS varies in certain respects from RAP prescribed by the Insurance Commission particularly in the computation of reserve for unearned premiums.

The reconciliation of profit for the period under PFRS and profit for the period under RAP as of December 31 is as follows:

		2015	*2014*
PFRS profit for the period	**P**	**52,736,826**	P 12,371,364
Add (deduct):			
Difference in change in reserve for unearned premiums - net		**(26,025,147)**	13,147,074
Deferred acquisition cost - net		**(7,216,940)**	(7,047,259)
Provision for deferred income tax		**9,941,821**	(5,289,891)
RAP profit for the period	**P**	**29,436,560**	P 13,181,288

30. Other significant matters

- *Commitments and contingencies*
  Operating lease commitments. In 2015 and 2014, the Company recognized rent expense amounting to P242,713 and P242,950, respectively, which is lodge under occupancy cost of administrative expenses in the Statements of Income (*See Note 25*). The lease agreement is for a period of 5 years subject to rate adjustment each year.

  Vehicle lease agreement. The Company entered into an operating lease agreement with AUFMSI to lease one of its vehicle for 36 months, starting October 16, 2015 with monthly lease payment of P68,020 and a guaranty deposit of P1 million. Total monthly lease payment during the year amounted to P182,196, which is classified as part of transportation under administrative expense in the Statements of Income (*see Note 25*).

- *Claims.* In the normal course of business, the Company may become defendant in lawsuits involving settlement of insurance claims. The Company recognized adequate provisions in its books to cover possible losses that may be incurred on these claims. In the opinion of management, liabilities arising from these claims, if any, will not have material effect on the Company's financial position and will have no material impact in the financial statements, taken as a whole.

- *Current and non-current distinction*
  The Company's current assets and current liabilities are presented below:

	2014	2014
Current assets		
Cash and cash equivalents	**P 104,472,393**	P214,680,604
Financial assets	**35,000,017**	247,890
Insurance balances receivable - net	**127,913,580**	59,688,311
Reinsurance assets	**76,090,818**	87,616,110
Deferred acquisition cost	**28,349,212**	20,691,184
Other Assets	**5,409,235**	3,045,342
	377,235,255	385,969,441
Current liabilities		
Accounts payable and accrued expenses	**42,512,840**	33,095,560
Income tax payable	**1,247,078**	279,279
Reinsurance liabilities	**22,336,051**	13,704,848
Insurance claims payable	**35,983,791**	46,548,017
Short-term loans payable	**44,000,000**	40,000,000
Deferred commission income	**9,980,997**	9,539,909
Reserve for unearned premiums	**149,599,057**	133,160,768
	P 305,659,814	P276,328,381

31. Supplementary information required under Revenue Regulations 15-2010 and 19-2011

The Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) 15-2010 and 19-2011 which require additional tax information to be disclosed in the Notes to Financial Statements. The following information covering the calendar year ended December 31, 2015 is presented in compliance thereto.

(i) Supplementary information required under RR 15-2010

- The details of value-added tax (VAT) - output tax declared in the Company's 2014 VAT returns and their related account are as follows:

	Amount subject to VAT		Output tax	
Premiums	P	199,623,817	P	23,954,858
Commission		26,206,668		3,144,800
Other income		431,619		51,794
	P	226,262,105	P	27,151,453

The Company pays VAT output tax based on amount collected. Furthermore, premiums from reinsurance business are exempt from VAT in accordance with RR 4-2007

- The VAT - input tax claimed and the related year-end balances is broken down as follows:

Balance at the beginning of year	P	447,903
Current year's domestic purchases/payments for:		
Goods		2,121,331
Services		6,388,403
Applied against output tax		(7,897,058)
Balance at the end of year	P	1,060,578

- The percentage tax paid on personal accident insurance paid and accrued amounted to P137,922.

- The details of documentary stamp tax paid/accrued follows:

Insurance policies	P	26,200,000
Loan documents		152,329
Unused documentary stamps		1,725
	P	26,354,054

- The amounts of withholding tax payments, by category is as follows:

Tax on compensation and benefits	P	870,117
Expanded withholding tax		6,223,472
Final withholding tax		14,090

- The Company was assessed by the Bureau of Internal Revenue for deficiency tax on Documentary Stamp Tax (DST), Value Added Tax (VAT), and Expanded Withholding Tax (EWT) for taxable year 2009. On December 17, 2015, a final decision on disputed assessment was received by the Company, and was subsequently paid in the amount of P3,319,784. The Company considered the assessment for taxable year 2009 closed.

(ii) Supplementary information required under RR 19-2011

- Details of Company's revenues for income tax purposes are shown below:

Net retained premiums	P	164,796,840
Commission income		19,257,413
		184,054,253

- The breakdown of the Company's cost of sales for income tax purposes is as follows:

Claims and losses incurred - net of reinsurer's share	P	50,077,523
Commission expense		54,777,022
Other underwriting expenses		41,158,821
Salaries and other employee benefits		7,903,754
SSS, PHIC and HDMF contributions		515,761
Retirement expense		100,315
	P	154,533,196

- The non-operating and taxable other income of the Company consists of:

Interest on eurobonds		884,444
Gain on sale of investments		1,164,289
Other income		230,650
	P	2,279,383

- Details of the Company's Itemized deductions for the year are as follows:

Transportation	P	5,665,212
Salaries and other employee benefits		2,577,298
Agency development expense		2,353,690
Depreciation and amortization		2,031,837
Professional fees		1,918,750
Repairs and maintenance		1,503,135
Interests		1,075,300
Communication, light and water		992,230
Representation and entertainment		660,017
Supplies		626,339
Association dues		541,164
Taxes and licenses		439,249
Rental		424,909
SSS, PHIC and HDMF contributions		187,302
Realized loss on foreign exchange		106,034
Advertising and promotions		54,800
Retirement expese		32,711
Charitable contribution		2,000
Miscellaneous		1,741,060
	P	22,933,037

- Taxes and licenses presented as part of Administrative Expenses in the Company's statement of income is detailed below:

Documentary stamp taxes	P	154,054
Real estate tax		206,664
Local business tax		48,444
Others		30,087
	P	439,249