

Liberty Insurance Corporation

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report



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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Liberty Insurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Liberty Insurance Corporation, which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Liberty Insurance Corporation as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Liberty Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos

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Partner

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April 15, 2013, valid until April 14, 2016

Tax Identification No. 178-486-666

BIR Accreditation No. 08-001998-081-2012,

June 19, 2012, valid until June 18, 2015

PTR No. 4751347, January 6, 2015, Makati City

March 25, 2015



LIBERTY INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Cash and Cash Equivalents (Notes 4 and 23)	₱59,848,915	₱48,493,279
Insurance Receivables - net (Notes 5 and 23)	94,483,561	74,809,295
Assets Held-For-Sale (Note 6)	–	37,519,200
Financial Assets (Notes 7 and 23)		
Held-to-maturity investments	81,273,448	68,141,534
Available-for-sale financial assets	54,081,528	37,956,031
Loans and receivables	10,113,583	7,808,069
Reinsurance Assets (Notes 8 and 13)	19,772,915	46,092,681
Deferred Acquisition Costs (Note 9)	19,927,964	17,260,397
Investment Properties (Note 10)	135,637,388	133,401,788
Property and Equipment - net (Note 11)	10,001,602	7,995,674
Deferred tax assets – net (Note 22)	–	349,979
Net Pension Asset (Note 21)	1,984,060	–
Other Assets (Note 12)	15,686,173	7,559,640
	₱502,811,137	₱487,387,567

LIABILITIES AND EQUITY

Liabilities		
Insurance contract liabilities (Notes 13 and 23)	₱116,830,166	₱128,500,800
Insurance payables (Notes 14 and 23)	12,403,017	8,053,631
Accounts payable and other liabilities (Notes 15 and 23)	11,908,944	22,458,130
Deferred reinsurance commissions (Note 9)	3,619,782	4,745,806
Net pension liability (Note 21)	–	1,583,442
Deferred tax liabilities - net (Note 22)	4,795,860	–
	149,557,769	165,341,809

Equity		
Capital stock (Note 16)	270,955,000	270,955,000
Additional paid-in capital	2,239	2,239
Other comprehensive income (Note 7 and 21)	(7,814,962)	(8,633,112)
Retained earnings	90,111,091	59,721,631
	353,253,368	322,045,758
	₱502,811,137	₱487,387,567

See accompanying Notes to Financial Statements.



LIBERTY INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
Gross earned premiums on insurance contracts	₱190,092,403	₱143,902,191
Reinsurers' share of gross earned premiums on insurance contracts	76,067,734	65,945,079
Net insurance earned premiums (Notes 13 and 17)	114,024,669	77,957,112
Other underwriting income (Note 18)	36,766,743	32,740,333
Investment and other income (Note 18)	21,557,705	7,394,277
Commission income (Note 9)	9,699,870	13,348,035
Other revenue	68,024,318	53,482,645
Total Revenue	182,048,987	131,439,757
Gross insurance contract benefits and claims paid	85,038,165	75,027,649
Reinsurers' share of gross insurance contract benefits and claims paid	(42,795,926)	(52,815,526)
Gross change in insurance contract liabilities	(22,092,063)	(22,130,930)
Reinsurers' share of gross change in insurance contract liabilities	17,149,636	29,286,805
Net insurance benefits and claims (Notes 13, 19 and 23)	37,299,812	29,367,998
Commission expense (Note 9)	46,753,244	34,122,742
Operating expenses (Notes 20 and 21)	59,338,810	47,728,248
Impairment loss on available-for-sale financial assets (Note 7)	1,313,457	2,746,863
Interest expense (Note 21)	66,980	108,113
Others	213,074	322,058
Other expenses	107,685,565	85,028,024
Total Benefits, Claims and Other Expenses	144,985,377	114,396,022
Income before income tax	37,063,610	17,043,735
Current	1,263,620	3,793,867
Final	778,269	609,601
Deferred	4,632,261	(547,071)
Provision for income tax (Note 22)	6,674,150	3,856,397
NET INCOME (Note 25)	30,389,460	13,187,338
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Item that will not be reclassified to profit or loss</i>		
Actuarial gain (loss) on defined benefit plan (Note 21)	1,711,926	(1,727,605)
Income tax relating to actuarial loss (gain)	(513,578)	518,281
<i>Item that will be reclassified to profit or loss</i>		
Changes in fair value of available-for-sale financial assets (Note 7)	11,015,853	(3,076,303)
Realized gain transferred to profit or loss (Note 7)	(12,709,508)	(1,617,256)
Impairment losses (Note 7)	1,313,457	1,666,063
	818,150	(4,236,820)
TOTAL COMPREHENSIVE INCOME	₱31,207,610	₱8,950,518

See accompanying Notes to Financial Statements.



LIBERTY INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

			<u>Other Comprehensive Income</u>			
	Capital Stock (Note 16)	Additional Paid-in Capital	Revaluation Reserve on Available-for- sale Financial Assets (Note 7)	Actuarial Gain on Defined Benefit Plan - Net of Tax (Note 21)	Retained Earnings	Total
As of January 1, 2014	₱270,955,000	₱2,239	(₱7,165,582)	(₱1,467,530)	₱59,721,631	₱322,045,758
Net income for the year	-	-	-	-	30,389,460	30,389,460
Net change in fair value of available-for-sale financial assets	-	-	11,015,853	-	-	11,015,853
Impairment loss on available-for-sale financial assets	-	-	1,313,457	-	-	1,313,457
Realized gain transferred to profit or loss	-	-	(12,709,508)	-	-	(12,709,508)
Actuarial gain on defined benefit plan, net of tax	-	-	-	1,198,348	-	1,198,348
Total comprehensive income	-	-	(380,198)	1,198,348	30,389,460	31,207,610
As of December 31, 2014	₱270,955,000	₱2,239	(₱7,545,780)	(₱269,182)	₱90,111,091	₱353,253,368
As of January 1, 2013	₱175,000,000	₱2,239	(₱4,138,086)	(₱258,206)	₱46,534,293	₱217,140,240
Net income for the year	-	-	-	-	13,187,338	13,187,338
Net change in fair value of available-for-sale financial assets	-	-	(3,076,303)	-	-	(3,076,303)
Impairment loss on available-for-sale financial assets	-	-	1,666,063	-	-	1,666,063
Realized gain transferred to profit or loss	-	-	(1,617,256)	-	-	(1,617,256)
Actuarial gain on defined benefit plan, net of tax	-	-	-	(1,209,324)	-	(1,209,324)
Total comprehensive income	-	-	(3,027,496)	(1,209,324)	13,187,338	8,950,518
Issuance of capital stock (Note 16)	95,955,000	-	-	-	-	95,955,000
As of December 31, 2013	₱270,955,000	₱2,239	(₱7,165,582)	(₱1,467,530)	₱59,721,631	₱322,045,758

See accompanying Notes to Financial Statements.



LIBERTY INSURANCE COPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱37,063,610	₱17,043,735
Adjustments for:		
Depreciation and amortization (Note 11)	2,317,834	2,092,539
Impairment loss on available-for-sale financial assets (Note 7)	1,313,457	2,746,863
Interest expense (Note 21)	66,980	108,113
Current service cost (Note 21)	2,577,444	1,941,458
Gain on sale of:		
Available-for-sale financial assets (Note 18)	(12,709,508)	(1,617,256)
Asset held for sale (Note 18)	(3,081,200)	-
Dividend income (Note 18)	(1,343,966)	(947,887)
Interest income (Note 18)	(4,423,031)	(4,829,134)
Operating income before working capital changes	21,781,620	16,538,431
Decrease (increase) in:		
Insurance receivables	(19,674,266)	9,927,266
Reinsurance assets	26,319,766	34,782,442
Loans and receivables	(1,179,684)	593,551
Deferred acquisition costs	(2,667,567)	(3,545,793)
Other assets	(8,126,533)	1,817,238
Increase (decrease) in:		
Insurance contract liabilities	(11,670,634)	(11,910,463)
Insurance payables	4,349,386	1,041,524
Accounts payable and other liabilities	(10,549,186)	9,967,250
Deferred reinsurance commissions	(1,126,024)	(1,218,256)
Net cash generated from (used in) operations	(2,543,122)	57,993,190
Contribution to retirement fund (Note 21)	(4,500,000)	(4,334,592)
Income tax paid	(2,041,889)	(3,776,545)
Net cash provided by (used in) operating activities	(9,085,013)	49,882,053
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,613,608	4,799,037
Dividends received	1,027,560	947,887
Acquisitions of:		
Held-to-maturity investments (Note 7)	(26,563,686)	(27,931,772)
Available-for-sale financial assets (Note 7)	(65,085,983)	(57,897,053)
Property and equipment (Note 11)	(5,334,833)	(3,396,428)
Proceeds from sale/maturities of:		
Held-to-maturity investments (Note 7)	13,431,772	13,149,420
Available-for-sale financial assets (Note 7)	59,976,339	43,565,295
Asset held for sale (Note 6)	38,364,800	
Property and equipment (Note 11)	1,011,072	497,486
Net cash provided by (used in) investing activities	₱20,440,649	(₱26,266,128)
CASH FLOW FROM FINANCING ACTIVITY		
Proceeds from issuance of shares (Note 16)	-	455,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,355,636	24,070,925
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	48,493,279	24,422,354
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱59,848,915	₱48,493,279

See accompanying Notes to Financial Statements.



LIBERTY INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on March 25, 2015.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended PFRS, which became effective on January 1, 2014.

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments did not have any impact on the Company's financial position or performance since it does not offset its financial instruments.



- *PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. These amendments have no impact on the Company's financial statements since the Company has no impaired non-financial assets.
- *Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at FVPL. The amendment must be applied retrospectively, subject to certain transition relief. This amendment did not have an impact to the Company's financial statements since the Company did not qualify as an investment entity under PFRS 10 and that it has no investment in subsidiaries.
- *Philippine Interpretation IFRIC 21, Levies*
This Philippine Interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This interpretation did not have an impact on the Company's financial statements as it has applied the recognition principles under PAS 37, Provisions, Contingent Liabilities and Contingent Assets, consistent with the requirements of IFRIC 21 in prior years.
- *PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment did not have any impact in the financial statements as the Company does not have any derivatives or enter into hedging transactions.

Annual improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- *Amendment to PFRS 13, Fair Value Measurement - Short-term Receivables and Payables*
The amendment is effective immediately and clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment did not have an impact on the Company's financial position or performance since the Company's policy is already consistent with the amendment.



Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*

The amendment is effective immediately and clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

Future Change in Accounting Policies

The Company will adopt the following new and amended standards and interpretations enumerated below when these becomes effective.

Effective in 2015

- PAS 19, *Employee Benefits- Defined Benefit Plans: Employee Contributions (Amendment)*
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. It is not expected that this amendment would be relevant to the Company since the Company's employees or a third party do not contribute to the defined benefit plan.

Annual Improvements to PFRSs (2010 - 2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Company as it has no share-based payments.
- Amendment to PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. 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 PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.



- *Amendment to 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 require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments have no impact on the Company's financial position or performance since it is not required to disclose operating segments.

- *Amendment to PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Company's financial position or performance since the Company's property and equipment is carried at cost less any accumulated depreciation or impairment.

- *Amendment to PAS 24, Related Party Disclosures - Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments have no impact on the Company's financial position or performance since the Company's accounting policy is already consistent with the amendments.



Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no impact on the Company's financial statements since the Company has not entered into any joint arrangements.
- PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no impact on the Company's financial position or performance since the Company's accounting policy is already consistent with the amendment.
- PAS 40, *Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The Company shall consider this amendment for future acquisition of investment property.

Effective in 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have an impact to the Company since it does not use revenue-based method to depreciate its property and equipment.
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants (Amendments)*
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 and is 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 will not have an impact to the Company since the Company is not involved in any agricultural activities.

- *PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendment will not have an impact to the Company's financial statements since it has no investment on a subsidiary or associate.
- *PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. These amendments will not have an impact on the Company's financial statements since the Company has no investment in associate or joint venture.
- *PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (Amendments)*
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

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

- *PFRS 14, Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the



statement of profit or loss and OCI. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. The amendment will not have an impact on the Company's financial statements since the Company is an existing PFRS preparer and has no activities subject to rate regulation.

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 5, Noncurrent 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 will not have an impact on the Company's financial statements since the Company's Asset Held-for-Sale as of December 31, 2014 were reverted back to Investment Properties.
- *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. The amendment will not have an impact on the Company's financial statements since the Company does not offer servicing contracts that involves continuing involvement in a derecognized financial asset.
- *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. The amendments will not have any impact on the Company's financial statements since it is not required to prepare condensed interim financial statements.
- *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. The amendments will not have an impact on the Company's financial statements since the Company's policy is already consistent with the amendment.
- *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). The amendments will not have an impact on the Company's financial statements since the Company is not required to prepare interim financial statements.

Effective in 2018

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

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

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



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

The amendments will not have an impact on the Company's financial statements since the Company is not involved in any hedging transactions.

- PFRS 9, *Financial Instruments* (2014 or final version)
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 adoption of the first phase of PFRS 9 will have an impact on the classification and measurement of the Company's equity and debt securities classified as available-for-sale (AFS) financial assets but will have no impact on the Company's financial liabilities.

No effective date yet

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This interpretation is not relevant to the Company since it does not engage in the construction of real estate directly or indirectly through subcontractors.
- IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.



Fair Value

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

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

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

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

Fair value hierarchy

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

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

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

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

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

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial assets

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



Non-financial assets

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

Cash and Cash Equivalents

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

Insurance Receivables

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

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

Day 1 difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an unobservable data is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading,



designated as AFS or FVPL. This accounting policy relates to the statement of financial position captions “Cash and cash equivalents”, “Insurance receivables” and “Loans and receivables”.

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

HTM investments

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

AFS financial assets

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

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

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

Other financial liabilities

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

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.



Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

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

Offsetting

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

Impairment of Financial Assets

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

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

Financial assets carried at amortized cost

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

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



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

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

AFS financial assets carried at fair value

For equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of an investment below its cost or where other objective evidence of impairment exists. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from OCI and recognized in the profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized in OCI.

AFS investments carried at cost

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

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

When the Company has transferred its right to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Company could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability



and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Reinsurance

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

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

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

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

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

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

Deferred Acquisition Costs (DAC)

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

Asset Held-for-Sale

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



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

The resulting profit or loss after tax is reported separately in profit or loss.

Investment Properties

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

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

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

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

Property and Equipment

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

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

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

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



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

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

Other Current Assets

Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount paid in cash. Subsequently, these are charged to profit or loss as they are consumed in the operations or expire with the passage of time. These typically comprise prepayments for management and marketing fees.

Creditable withholding taxes

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

Value-added tax (VAT)

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

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

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

Impairment of Nonfinancial Assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of



the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Product Classification

Insurance contracts

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

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

Insurance contract liabilities

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

Provision for unearned premiums

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

Claims provision and incurred but not reported (IBNR) losses

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

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

Equity

Capital stock

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



Deposits for future stock subscription

Deposits for future stock subscriptions (DFSS) represent the amounts paid by the stockholders for future stock issuances of the Company. DFSS is measured at par value. DFSS is transferred to the respective capital stock account upon approval of the Securities and Exchange Commissions (SEC) of the Company's application for increase in its authorized capital stock.

Retained earnings

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

Other Comprehensive Income

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

Pension Cost

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

Retirement cost comprises the following:

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

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

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



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

Termination benefit

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

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

Employee leave entitlement

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

Short-term Employee Benefits

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

Revenue Recognition

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

Premiums

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



Commission income

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

Investment and other income

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

Other underwriting income

Other underwriting income from other sources is recognized when earned.

Costs and Expenses

Benefits and claims

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

Commission expense

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

Operating and other expenses

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

Leases

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

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

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



Company as a lessee

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Income Tax

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.



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

Deferred tax assets and liabilities are measured at the tax rate that is applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted as at the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to operations for the period.

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

Events After the Reporting Period

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

3. Significant Accounting Judgments and Estimates

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

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

Judgments

Operating leases

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

Financial assets not quoted in an active market

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



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

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

Presentation of noncurrent asset held for sale

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

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

Estimates

Claims liabilities arising from insurance contracts

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

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

The carrying value of total provision for outstanding claims and IBNR amounted to ₱32.60 million and ₱58.06 million as of December 31, 2014 and 2013, respectively (see Note 13).



Fair value of financial instruments

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

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

The carrying value of AFS financial assets is ₱54.08 million and ₱37.96 million as of December 31, 2014 and 2013, respectively (see Note 7).

Fair values of investment properties

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

Impairment of financial assets

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

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



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

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

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

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

	2014	2013
Insurance receivables - net (Note 5)	₱94,483,561	₱74,809,295
HTM investments (Note 7)	81,273,448	68,141,534
AFS financial assets (Note 7)	54,081,528	37,956,031
Loans and receivables (Note 7)	10,113,583	7,808,069
	₱239,952,120	₱188,714,929

As of December 31, 2014 and 2013, allowance for doubtful accounts on the Company's insurance receivables amounted to ₱0.21 million (see Note 5).

Estimated useful lives of property and equipment and investment properties

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

As of December 31, 2014 and 2013, property and equipment amounted to ₱10.00 million and ₱8.00 million, respectively, while investment properties amounted to ₱135.64 million and ₱133.40 million, respectively (see Notes 10 and 11).

Impairment of nonfinancial assets

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



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

As of December 31, 2014, the carrying value of property and equipment and investment properties amounted to ₱10.00 million and ₱135.64 million, respectively. As of December 31, 2013, the carrying value of property and equipment and investment properties amounted to ₱8.00 million and ₱133.40 million, respectively (see Notes 10 and 11).

Pension and other employee benefits

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

Recognition of deferred tax assets

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

The Company recognized deferred tax assets amounting to ₱2.27 million, and ₱5.91 million as of December 31, 2014 and 2013, respectively, since management believes that the related tax benefits will be realized in the future (see Note 22).

4. Cash and Cash Equivalents

This account consists of:

	2014	2013
Cash on hand	₱2,798,657	₱4,516,742
Cash in banks	52,751,808	18,711,965
Cash equivalents	4,298,450	25,264,572
	₱59,848,915	₱48,493,279

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods depending on the immediate cash requirements of the Company and earned interest with rates ranging from 0.25% to 1.750% in 2014 and 0.50% to 2.00% in 2013.

In 2014 and 2013, interest earned on cash in banks and cash equivalents amounted to ₱0.41 million and ₱0.33 million, respectively (see Note 18).



5. **Insurance Receivables - net**

This account consists of:

	2014	2013
Premiums receivable	₱57,026,983	₱58,611,712
Reinsurance recoverable on paid losses	30,209,337	10,051,197
Due from ceding companies	6,400,833	5,299,978
Funds held by ceding companies	1,059,191	1,059,191
	94,696,344	75,022,078
Less allowance for doubtful accounts	212,783	212,783
	₱94,483,561	₱74,809,295

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

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

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

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

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

The following tables show the aging information of insurance receivables:

December 31, 2014

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

December 31, 2013

	Less than 3 months	3-6 months	6-12 months	More than 12 months	Total
Premiums receivable	₱37,536,590	₱21,075,122	₱-	₱-	₱58,611,712
Reinsurance recoverable on paid losses	2,512,799	1,306,656	3,517,919	2,713,823	10,051,197
Due from ceding companies	1,589,993	900,996	1,854,992	953,996	5,299,977
Funds held by ceding companies	-	-	-	1,059,191	1,059,191
	₱41,639,382	₱23,282,774	₱5,372,911	₱4,727,010	₱75,022,077

As of December 31, 2014 and 2013, the Company provided allowance for doubtful accounts on its premiums receivable amounting to ₱0.21 million. The impairment assessment has been determined on an individual basis. There were no movements in the allowance for doubtful accounts in 2014 and 2013.



6. Assets Held-For-Sale

On December 12, 2014, the Company sold a parcel of land located in San Miguel, Tarlac City with a total area of 40,384 square meters for a total consideration of ₱38.6 million. Carrying value of the asset held-for-sale sold during the year amounted to ₱35.28 million. Gain on sale of land amounted to ₱3.08 million (see Note 18).

In 2013, the Company received the down payment relating to the sale amounting to ₱17.42 million (see Note 15) while the remaining balance of ₱20.94 million was received by the Company in 2014.

As of December 31, 2013, the Company's assets held-for-sale consist of two properties. Only the 40,384 square meters was sold in 2014. The Company reclassified the other property with a total area of 1,747 square meters back to investment property since the property no longer qualifies as asset held-for-sale. The carrying value of the land reverted to investment properties amounted to ₱2.24 million.

7. Financial assets

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

	2014	2013
HTM investments	₱81,273,448	₱68,141,534
AFS financial assets	54,081,528	37,956,031
Loans and receivables	10,113,583	7,808,069
	₱145,468,559	₱113,905,634

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

HTM investments

HTM investments pertain to peso-denominated government securities. Details as of and for the years ended December 31, 2014 and 2013 follow:

	2014	2013
Fair value (Note 23)	₱85,434,424	₱73,743,136
Carrying value	81,273,448	68,141,534
Coupon rate	1.625% to 7.375%	1.63% to 7.38%
Interest income earned (Note 18)	3,476,957	2,716,131

The outstanding HTM investments will mature starting April 25, 2016 to August 19, 2023.

AFS financial assets

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

	2014	2013
Quoted securities - at fair value		
Listed equity securities:		
Common shares	₱43,361,528	₱32,184,781
Preferred shares	10,690,000	5,741,250

(Forward)



	2014	2013
Unquoted securities - at cost		
Common shares	₱30,000	₱30,000
Total AFS financial assets recognized in the statements of financial position	₱54,081,528	₱37,956,031

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

	2014	2013
Quoted securities - at cost, net of impairment		
Listed equity securities:		
Common shares (net of impairment)	₱50,972,309	₱39,436,613
Preferred shares	10,625,000	5,655,000
Unquoted securities - at cost		
Common shares	30,000	30,000
Total AFS financial assets at cost	₱61,627,309	₱45,121,613

As of December 31, 2014 and 2013, the “Revaluation reserve on AFS financial assets” recorded in equity amounted to ₱7.55 million and ₱7.17 million, respectively. The movements in this account follow:

	2014	2013
Balance at beginning of the year	(₱7,165,582)	(₱4,138,086)
Revaluation reserve recognized in OCI	11,015,853	(3,076,303)
Realized gain transferred to profit or loss (Note 18)	(12,709,508)	(1,617,256)
Impairment loss	1,313,457	1,666,063
Balance at end of the year	(₱7,545,780)	(₱7,165,582)

Dividend income earned from the Company’s AFS financial assets amounted to ₱1.3 million and ₱0.95 million in 2014 and 2013, respectively (see Note 18).

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

	HTM	AFS
At December 31, 2012	₱53,359,182	₱26,700,576
Additions	27,931,772	57,897,053
Disposals/maturities	(13,149,420)	(41,996,846)
Fair value loss recognized in OCI	-	(3,027,496)
Fair value gain transferred to profit or loss (Note 18)	-	(1,617,256)
At December 31, 2013	68,141,534	37,956,031
Additions	26,563,686	65,085,983
Disposals/maturities	(13,431,772)	(47,266,839)
Fair value gain recognized in OCI	-	11,015,853
Fair value gain transferred to profit or loss (Note 18)	-	(12,709,508)
At December 31, 2014	₱81,273,448	₱54,081,528

In 2014 and 2013, impairment loss recognized pertains to investments in various listed equity shares amounting to ₱1.31 million and ₱1.67 million, respectively.



Loans and receivables

This account consists of the following:

	2014	2013
Accounts receivable	₱5,336,025	₱3,973,168
Receivables from employees (Note 24)	3,651,729	3,084,600
Accrued interest income	1,125,829	750,301
	₱10,113,583	₱7,808,069

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

As of December 31, 2014 and 2013, the Company's receivables from employees, accounts receivable and accrued interest income are all due within one year. Accrued interest income pertains mainly to interest accrued arising from cash and cash equivalents, HTM investments and short-term investments.

The Company's receivables from employees are settled through salary deduction.

Interest earned during the year 2014 and 2013 from receivables from employees amounted to ₱0.53 million and ₱1.78 million, respectively (see Note 18).

8. Reinsurance Assets

This account consists of the following:

	2014	2013
Reinsurance recoverable on unpaid losses (Note 13)	₱6,160,859	₱23,310,496
Deferred reinsurance premiums (Note 13)	13,612,056	22,782,185
	₱19,772,915	₱46,092,681

9. Deferred Acquisition Costs and Deferred Reinsurance Commissions

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

	2014	2013
Deferred acquisition costs		
At January 1	₱17,260,397	₱13,714,604
Cost deferred during the year	49,420,811	37,668,535
Amortization during the year	(46,753,244)	(34,122,742)
At December 31	₱19,927,964	₱17,260,397
Deferred reinsurance commissions		
At January 1	₱4,745,806	₱5,964,062
Income deferred during the year	8,573,846	12,129,779
Income earned during the year	(9,699,870)	(13,348,035)
At December 31	₱3,619,782	₱4,745,806



10. Investment Properties

The movements in this account follow:

	2014	2013
Balance at the beginning of the year	₱133,401,788	₱76,501,788
Additions (Note 16)	–	95,500,000
	133,401,788	172,001,788
Less transfer to assets-held-for-sale (Note 6)	–	38,600,000
Add transfer from assets held for sale (Note 6)	2,235,600	–
Balance at the end of the year	₱135,637,388	₱133,401,788

The Company's investment properties were valued by independent professionally qualified appraisers on various dates from November 29, 2006 to December 29, 2014. Management believes that the fair values of these investment properties approximate their fair values as of December 31, 2014 and 2013 since there were no major developments in the areas where the investment properties are located. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

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

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

11. Property and Equipment

The rollforward analysis of this account follows:

December 31, 2014

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



December 31, 2013

	Leasehold Improvements	Transportation Equipment	Computer Equipment	Office Furniture, Fixtures and Equipment	Total
Cost					
At January 1, 2013	₱903,508	₱6,536,364	₱11,516,713	₱3,479,629	₱22,436,214
Additions	173,040	1,015,000	1,929,731	278,657	3,396,428
Disposals	(5,340)	(500,000)	(622,393)	(49,255)	(1,176,988)
At December 31, 2013	1,071,208	7,051,364	12,824,051	3,709,031	24,655,654
Accumulated depreciation and amortization					
At January 1, 2013	385,363	4,466,172	7,961,943	2,433,464	15,246,942
Depreciation and amortization (Note 20)	92,582	436,323	1,270,016	293,618	2,092,539
Disposal	(4,066)	(8,816)	(618,242)	(48,378)	(679,502)
At December 31, 2013	473,879	4,893,679	8,613,717	2,678,704	16,659,979
Net book value	₱597,329	₱2,157,685	₱4,210,334	₱1,030,327	₱7,995,675

The total cost of the Company's fully depreciated property and equipment still in use amounted to ₱12.51 million and ₱10.11 million as of December 31, 2014 and 2013, respectively.

The Company made disposals in 2014 and 2013 at book value amounting to ₱1.01 million and ₱0.50 million, respectively, wherein no gains or loss was recognized.

12. Other Assets

This account consists of the following:

	2014	2013
Creditable withholding tax	₱6,054,840	₱668,244
Prepayments	4,844,418	3,972,663
Input VAT	4,772,342	–
Documentary stamp fund	–	2,904,160
Security fund	14,573	14,573
	₱15,686,173	₱7,559,640

Creditable withholding tax pertains to the excess of payments made against current income tax due which can be claimed against income tax in future periods.

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

Input VAT pertains to receipt of land for the subscription of 955,000 shares of stock of the Company. This will be applied against future output VAT.



13. Insurance Contract Liabilities

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

	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net 2014	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net 2013
Provision for claims reported by policyholders	₱35,187,903	₱6,160,859	₱29,027,044	₱57,267,758	₱23,283,786	₱33,983,972
Provision for IBNR losses	776,983	–	776,983	789,191	26,710	762,481
Outstanding claims provision	35,964,886	6,160,861	29,804,025	58,056,949	23,310,496	34,746,453
Provision for unearned premiums	80,865,280	13,612,056	67,253,224	70,443,851	22,782,185	47,661,666
Total insurance contract liabilities	₱116,830,166	₱19,772,915	₱97,057,251	₱128,500,800	₱46,092,681	₱82,408,119

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

	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net 2014	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net 2013
At January 1	₱58,056,949	₱23,310,496	₱34,746,453	₱80,187,879	₱52,597,301	₱27,590,578
Claims incurred during the year	62,931,600	25,673,001	37,258,599	52,896,719	23,528,721	29,367,998
Claims paid during the year - net of salvage and subrogation (Note 19)	(85,038,165)	(42,795,926)	(42,242,239)	(75,027,649)	(52,815,526)	(22,212,123)
Increase (decrease) in IBNR	14,502	(26,710)	41,212	–	–	–
At December 31	₱35,964,886	₱6,160,861	₱29,804,025	₱58,056,949	₱23,310,496	₱34,746,453

Provision for unearned premiums may be analyzed as follows:

	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net 2014	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net 2013
At January 1	₱70,443,851	₱22,782,185	₱47,661,666	₱60,223,384	₱28,277,822	₱31,945,562
New policies written during the year (Note 17)	200,513,832	66,897,605	133,616,227	154,122,658	60,449,442	93,673,216
Premiums earned during the year (Note 17)	(190,092,403)	(76,067,734)	(114,024,669)	(143,902,191)	(65,945,079)	(77,957,112)
At December 31	₱80,865,280	₱13,612,056	₱67,253,224	₱70,443,851	₱22,782,185	₱47,661,666

14. Insurance Payables

This account consists of:

	2014	2013
Due to reinsurers and ceding companies	₱11,117,932	₱4,579,002
Funds held for reinsurers	1,285,085	3,474,629
	₱12,403,017	₱8,053,631



The rollforward analysis of insurance payables follows:

	Due to reinsurers and ceding companies	Funds held for reinsurers	Total
At December 31, 2012	₱1,683,549	₱5,328,558	₱7,012,107
Arising during the year	47,238,319	3,474,629	50,712,948
Paid/Utilized	(44,342,866)	(5,328,558)	(49,671,424)
At December 31, 2013	4,579,002	3,474,629	8,053,631
Arising during the year	26,853,859	1,285,085	28,138,944
Paid/Utilized	(20,314,929)	(3,474,629)	(23,789,558)
At December 31, 2014	₱11,117,932	₱1,285,085	₱12,403,017

15. Accounts Payable and Other Liabilities

This account consists of:

	2014	2013
Deferred output VAT	₱6,281,883	₱-
Taxes payable	2,264,439	3,399,653
Accrued expenses	2,044,520	1,142,723
Deposit from buyer (Note 6)	750,528	17,419,340
Payable to government agencies	567,574	114,450
Output VAT	-	381,964
	₱11,908,944	₱22,458,130

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

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

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

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

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

16. Equity

The Company's capital stock consists of:

	2014		2013	
	Shares	Amount	Shares	Amount
Common stock - ₱100 par value				
Authorized:				
At January 1 and December 31	3,000,000	₱300,000,000	3,000,000	₱300,000,000
<i>Issued and outstanding:</i>				
At January 1	2,709,550	₱270,955,000	1,750,000	₱175,000,000
Issuance of shares (Note 10)	-	-	959,550	95,955,000
At December 31	2,709,550	₱270,955,000	2,709,550	₱270,955,000



In 2013, the Company received a parcel of land located in Las Haciendas de Luisita, Tarlac City, with a total of 38,215 square meters for the subscription of Luisita Realty Corporation to 955,000 shares of stock of the Company.

In accordance with SRC Rule 68, as Amended (2011), Annex 68-C, after reconciling items, the Company's retained earnings available for dividend declaration amounted to ₱50.91 million and ₱46.72 million as of December 31, 2014 and 2013, respectively.

17. Net Insurance Earned Premiums

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

	2014	2013
Gross premiums on insurance contracts:		
Direct insurance	₱194,384,910	₱149,999,195
Assumed reinsurance	6,128,922	4,123,463
Total gross premiums on insurance contracts (Note 13)	200,513,832	154,122,658
Gross change in provision for unearned premiums (Note 13)	(10,421,429)	(10,220,467)
Total gross earned premiums on insurance contracts	190,092,403	143,902,191
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	66,897,605	59,676,574
Assumed reinsurance	-	772,868
Total reinsurers' share of gross premiums on insurance contracts (Note 13)	66,897,605	60,449,442
Reinsurers' share of gross change in provision for unearned premiums (Note 13)	9,170,129	5,495,637
Total reinsurers' share of gross earned premiums on insurance contracts	76,067,734	65,945,079
Total net insurance earned premiums	₱114,024,669	₱77,957,112

18. Investment and Other Income and Other Underwriting Income

Investment and Other Income

This account consists of:

	2014	2013
Interest income:		
Cash and cash equivalents (Note 4)	₱414,387	₱331,874
HTM investments (Note 7)	3,476,957	2,716,131
Loans to employees (Note 7)	531,687	1,781,129
Gain on sale of AFS financial assets (Note 7)	12,709,508	1,617,256
Gain on sale of asset held for sale (Note 6)	3,081,200	-
Dividend income (Note 7)	1,343,966	947,887
	₱21,557,705	₱7,394,277



Other Underwriting Income

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

19. Net Insurance Benefits and Claims

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

	2014	2013
Insurance contract benefits and claims paid:		
Direct insurance	₱84,827,894	₱71,183,697
Assumed reinsurance	210,271	3,843,952
Total insurance contract benefits and claims paid (Note 13)	₱85,038,165	₱75,027,649

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

	2014	2013
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	(₱42,795,926)	(41,397,097)
Assumed reinsurance	-	(11,418,429)
Total reinsurers' share of insurance contract benefits and claims paid (Note 13)	(₱42,795,926)	(₱52,815,526)

Gross change in insurance contract liabilities:

	2014	2013
Change in provision for claims reported:		
Direct insurance	(₱22,425,633)	(₱19,578,805)
Assumed reinsurance	348,072	(2,552,125)
Change in provision for IBNR	(14,502)	-
Total gross change in insurance contract liabilities (Note 13)	(₱22,092,063)	(₱22,130,930)

Reinsurers' share of gross change in insurance contract liabilities:

	2014	2013
Reinsurers' share of gross insurance contract liabilities:		
Direct insurance	₱17,113,104	₱29,286,805
Assumed reinsurance	9,822	-
Reinsurers' share of change in provision for IBNR	26,710	-
Total reinsurers' share of gross change in insurance contract liabilities (Note 13)	₱17,149,636	₱29,286,805



20. Operating Expenses

This account consists of:

	2014	2013
Salaries and employee benefits (Note 21)	₱35,416,520	₱30,021,586
Taxes, licenses and fees	5,822,756	1,096,784
Rent (Note 26)	4,929,598	4,899,857
Depreciation and amortization (Note 11)	2,317,834	2,092,539
Professional fees	2,120,116	1,993,990
Directors' fees	1,195,000	1,255,000
Entertainment, amusement and recreation	868,582	750,327
Printing and office supplies	868,455	849,045
Light and water	830,096	618,046
Transportation and travel	777,718	710,444
Communication and postage	581,435	699,536
Professional and technical development	522,028	421,205
Association dues	497,022	169,186
Repairs and maintenance	443,637	485,887
Janitorial and messengerial services	437,320	317,102
Advertising	271,768	226,951
Donation and contributions	254,246	95,350
Insurance	40,018	20,888
Miscellaneous	1,144,661	1,004,525
	₱59,338,810	₱47,728,248

21. Retirement Plan

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

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

The latest actuarial valuation date of the Company's retirement plan is December 31, 2014.

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



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

	2014		
	Present value of defined benefit obligation	Fair value of plan assets	Net pension liability
At January 1	₱24,458,108	(₱22,874,666)	₱1,583,442
<i>Benefit cost in statement of income</i>			
Current service cost (Note 20)	2,577,444	–	2,577,444
Net interest expense (Note 20)	1,034,578	(967,598)	66,980
<i>Remeasurements in OCI</i>			
Actuarial loss on plan assets	–	289,556	289,556
Actuarial gain on defined benefit obligation	(2,001,482)	–	(2,001,482)
Contributions	–	(4,500,000)	(4,500,000)
Benefits paid	(2,467,136)	2,467,136	–
At December 31	₱23,601,512	(₱25,585,572)	(₱1,984,060)

	2013		
	Present value of defined benefit obligation	Fair value of plan assets	Net pension liability
At January 1	₱20,592,314	(₱18,451,456)	₱2,140,858
<i>Benefit cost in statement of income</i>			
Current service cost (Note 20)	1,941,458	–	1,941,458
Net interest expense (Note 20)	1,039,912	(931,799)	108,113
<i>Remeasurements in OCI</i>			
Actuarial loss on plan assets	–	381,586	381,586
Actuarial loss on defined benefit obligation	1,346,019	–	1,346,019
Contributions	–	(4,334,592)	(4,334,592)
Benefits paid	(461,595)	461,595	–
At December 31	₱24,458,108	(₱22,874,666)	₱1,583,442

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

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

	December 31, 2014	December 31, 2013
Cash and cash equivalents:		
Savings deposit - BDO	₱163	₱160
Special deposit - BSP	5,303,865	4,000,711
Debt instrument:		
Government securities	10,185,183	8,365,672
Corporate bonds	1,005,753	1,005,753

(Forward)



	December 31, 2014	December 31, 2013
Equity instrument:		
Investment in UITF	₱9,129,425	₱9,537,400
	25,624,389	22,909,696
Trust fee payable	(38,817)	(35,030)
	₱25,585,572	₱22,874,666

Due to the short term nature of the financial instruments in the plan assets, their fair values approximate their carrying amounts as of December 31, 2014 and 2013.

Cash and cash equivalents and trust fees payable - due to short-term nature of the financial instruments

Debt and equity instruments - carried at fair value using quoted market prices

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

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

For the year ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The Company's plan assets have no investment in related parties.

The principal actuarial assumptions used in determining retirement benefit obligations follow:

	2014	2013
Discount rate	4.54%	4.23%
Salary increase rate	5.00%	5.00%
Average remaining working lives of employees	18 years	18 years

Below shows the sensitivity analysis determined based on reasonably possible changes of each significant assumptions stated above as of December 31, 2014 and 2013, assuming all other assumptions were held constant:

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



	2013	
	Increase (decrease) in rates	Increase (decrease) in the defined benefit obligation
Discount rate	+0.5%	(P62,254)
	-0.5%	70,545
Salary increase rate	+1.0%	170,552
	-1.0%	(115,083)

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2014 and 2013:

	2014	2013
Less than 1 year	₱-	₱1,640,274
More than 1 year to 5 years	4,400,612	2,950,589
More than 5 years to 10 years	19,930,087	19,810,476
More than 10 years to 15 years	11,776,262	11,741,395
More than 15 years to 20 years	26,479,564	21,653,467
More than 20 years	93,812,385	92,308,707
Total	₱156,398,910	₱150,104,908

The Company expects to contribute ₱2,929,242 to the plan in 2015.

22. Income Tax

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

	2014	2013
Presented in profit or loss		
Deferred tax assets on:		
Excess of provision for unearned premiums per books over tax basis	₱369,663	₱2,874,954
Deferred reinsurance commissions	1,085,935	1,423,742
Unamortized past service cost	400,573	689,353
Provision for IBNR losses	233,095	228,744
Allowance for doubtful accounts	63,835	63,835
Total deferred tax assets	2,153,101	5,280,628
Deferred tax liabilities on:		
Deferred acquisition costs	5,978,389	5,178,119
Excess of deferred reinsurance premiums per books over tax basis	1,085,935	227,563
Accrued retirement	-	153,908
Total deferred tax liabilities	7,064,324	5,559,590
	(4,911,223)	(278,962)

(Forward)



	2014	2013
Presented in other comprehensive income		
Deferred tax asset		
Accrued retirement	₱115,363	₱628,941
Net deferred tax assets (liabilities)	(₱4,795,860)	₱349,979

The movements in NOLCO are as follows:

	2014	2013
At January 1	₱-	₱1,265,055
Applied	-	(1,265,055)
	₱-	₱-

The movements in MCIT are as follows:

	2014	2013
At January 1	₱-	₱626,923
Applied	-	(626,923)
	₱-	₱-

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

	2014	2013
Statutory income tax rate	30.00%	30.00%
Add (deduct) tax effects of:		
Change in unrecognized deferred tax assets on NOLCO and MCIT	-	(5.90)
Income subjected to final taxes	(16.71)	(4.63)
Nontaxable income	(3.63)	(1.67)
Nondeductible expenses	9.75	4.83
Effective income tax rate	19.41%	22.63%

23. Management of Capital, Insurance and Financial Risks

Governance Framework

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

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



Regulatory Framework

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

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

Capital Management Framework

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

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

Fixed Capitalization Requirements

On January 13, 2015, the IC issued Circular Letter No. 2015-02-A clarifying the minimum capitalization and networth requirements of new and existing insurance companies in the Philippines. All domestic life and non-life insurance companies duly licensed by the IC must have a networth of at least ₱250.0 million by December 31, 2013. The minimum networth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

<u>Minimum Networkth</u>	<u>Compliance Date</u>
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

The Company has complied with the minimum statutory net worth requirements as at the end of each reporting period.

Risk-based Capital Requirements

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



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

The following table shows how the RBC ratio as of December 31, 2014 and 2013 was determined by the Company:

	2014	2013
Net worth	₱486,744,690	₱403,853,558
RBC requirement	104,917,580	94,730,212
RBC Ratio	464%	426%

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

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

Consolidated Compliance Framework

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

Insurance Risk

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

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

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities.

These risks vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.



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

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

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

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

December 31, 2014

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

December 31, 2013

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	₱28,802,651	₱19,801,605	₱9,001,046
Motor	21,679,015	3,313,820	18,365,195
Miscellaneous casualty	6,393,077	14,567	6,378,510
Personal accident	393,015	153,794	239,221
Total	₱57,267,758	₱23,283,786	₱33,983,972

Terms and conditions

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

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

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



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

Assumptions

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

Sensitivities

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

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

2014				
	Change in Assumptions	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	5.891% decrease	(₱3,162,452)	(₱2,156,625)	(2,183,522)
Average number of claims	11.106% decrease	(5,961,486)	(4,065,419)	(4,116,122)

2013				
	Change in Assumptions	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	80.77% increase	₱43,369,230	₱27,691,552	(₱27,691,552)
Average number of claims	0.15% increase	81,431	51,994	(51,994)

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

Claims Development Table

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

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

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



Gross General Insurance Contract Liabilities for 2014

Accident year	Prior Years	2010	2011	2012	2013	2014	Total
Estimate of ultimate claims costs:							
At the end of accident year	₱353,071,396	₱69,769,173	₱39,969,096	₱87,690,629	₱53,694,688	₱53,680,188	₱53,680,188
One year later	354,663,871	69,769,173	39,969,096	87,690,629	53,694,688	–	53,694,688
Two years later	354,688,078	69,769,173	39,969,096	87,690,629	–	–	87,690,629
Three years later	354,795,555	69,769,173	39,969,096	–	–	–	39,969,096
Four years later	354,795,555	69,769,173	–	–	–	–	69,769,173
Five years later	354,795,555	–	–	–	–	–	354,795,555
Current estimate of cumulative claims	354,795,555	69,769,173	39,969,096	87,690,629	53,694,688	53,680,188	659,599,329
Cumulative payments to date	(354,795,555)	(69,768,911)	(39,588,575)	(84,151,343)	(52,620,228)	(23,486,815)	(624,411,426)
Total gross insurance contract liabilities included in the statement of financial position							
	₱–	₱262	₱380,521	₱3,539,286	₱1,074,460	₱30,193,373	₱35,187,903

Net General Insurance Contract Liabilities for 2014

Accident year	Prior Years	2010	2011	2012	2013	2014	Total
Estimate of ultimate claims costs:							
At the end of accident year	₱121,860,618	₱49,789,140	₱15,040,851	₱39,092,392	₱34,284,428	₱36,607,052	₱36,607,052
One year later	122,968,576	49,789,140	15,040,851	39,092,392	34,284,428	–	34,284,428
Two years later	122,954,152	49,789,140	15,040,851	39,092,392	–	–	39,092,392
Three years later	123,026,083	49,789,140	15,040,851	–	–	–	15,040,851
Four years later	123,026,083	49,789,140	–	–	–	–	49,789,140
Five years later	123,026,083	–	–	–	–	–	123,026,083
Current estimate of cumulative claims	123,026,083	49,789,140	15,040,851	39,092,392	34,284,428	36,607,052	297,839,946
Cumulative payments to date	(123,026,083)	(49,788,878)	(14,679,733)	(37,590,336)	(33,448,223)	(10,279,649)	(268,812,902)
Total net insurance contract liabilities included in the statement of financial position							
	₱–	₱262	₱361,118	₱1,502,056	₱836,205	₱26,327,403	₱29,027,044

Fair values of Financial Instruments

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

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

Due to long term nature of the HTM investments, its carrying value differs from its fair value. The fair value of HTM investments is based on the quoted market prices at the end the reporting date. The fair value of HTM investments amounted to ₱71.87 million and ₱73.74 million as of December 31, 2014 and 2013, respectively (see Note 7).

Fair Value Hierarchy

The Company considers its quoted AFS financial assets amounting to ₱54.05 million and ₱37.92 million as of December 31, 2014 and 2013, respectively, under Level 1 classification. There are no AFS financial assets which have been classified under the Level 2 and 3 categories. During the reporting period ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement (see Note 7).



HTM investments with fair values amounting to ₱85.43 million and 73.74 million as of December 31, 2014 and 2013, respectively, are considered to fall under Level 2 classification. None fell under Levels 1 and 3 categories (see Note 7).

Financial Risk and Management

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

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

Credit risk

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

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

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

The following table provides information regarding the credit risk exposure of the Company as of December 31, 2014 and 2013:

	2014	2013
Cash and cash equivalents (excluding cash on hand)	₱57,050,258	₱43,976,537
Insurance receivables:		
Premiums receivable	56,814,200	58,398,929
Reinsurance recoverable on paid losses	30,209,337	10,051,197
Due from ceding companies	6,400,833	5,299,978
Funds held by ceding companies	1,059,191	1,059,191
HTM investments	81,273,448	68,141,534
Loans and receivables		
Receivables from employees	3,651,729	3,084,600
Accounts receivable	5,336,025	3,973,168
Accrued interest income	1,125,829	750,301
Total	₱242,920,850	₱194,735,435

As of December 31, 2014 and 2013, the carrying values of the Company's financial instruments represent maximum exposure to credit risk at reporting date. The gross maximum exposure to credit risk of the Company approximates its net maximum exposure. There were no amounts that are set-off in accordance with the criteria in PAS 32 Financial Instruments: Presentation. There were no amounts subject to an enforceable master netting arrangement or similar agreement as of December 31, 2014 and 2013.



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

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

December 31, 2014

	Neither past due nor impaired			Past due or impaired	Total
	High	Medium	Low		
Cash and cash equivalents (excluding cash on hand)	₱57,050,258	₱-	₱-	₱-	₱57,050,258
Insurance receivables:					
Premiums receivable	55,436,443	-	-	1,590,490	57,026,933
Reinsurance recoverable on paid losses	15,668,814	-	2,456,788	12,083,735	30,209,337
Due from ceding companies	1,884,845	-	1,123,547	3,392,441	6,400,833
Funds held by ceding companies	1,059,191	-	-	-	1,059,191
HTM investments	81,273,448	-	-	-	81,273,448
Loans and receivables:					
Receivables from employees	3,651,729	-	-	-	3,651,729
Accounts receivable	5,336,025	-	-	-	5,336,025
Accrued interest income	1,125,829	-	-	-	1,125,829
	₱222,486,582	₱-	₱3,580,335	₱17,066,666	₱243,133,583

December 31, 2013

	Neither past due nor impaired			Past due or impaired	Total
	High	Medium	Low		
Cash and cash equivalents (excluding cash on hand)	₱43,976,537	₱-	₱-	₱-	₱43,976,537
Insurance receivables:					
Premiums receivable	56,580,616	-	-	2,031,096	58,611,712
Reinsurance recoverable on paid losses	5,025,599	-	-	5,025,598	10,051,197
Due from ceding companies	2,913,761	1,096,410	-	1,289,807	5,299,978
Funds held by ceding companies	1,059,191	-	-	-	1,059,191
HTM investments	68,141,534	-	-	-	68,141,534
Loans and receivables:					
Receivables from employees	3,084,600	-	-	-	3,084,600
Accounts receivable	3,973,168	-	-	-	3,973,168
Accrued interest income	750,301	-	-	-	750,301
	₱185,505,307	₱1,096,410	₱-	₱8,346,501	₱194,948,218

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

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



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

December 31, 2014

	Neither past due nor impaired	Age analysis of financial assets past due but not impaired				Total Past due but not impaired	Past due and Impaired	Total
		< 30 days	31 to 60 days	61 to 90 days	> 90 days			
Premiums receivable	₱55,436,493	₱1,377,707	₱-	₱-	₱-	₱1,377,707	₱212,783	₱57,026,983
Reinsurance recoverable on paid losses	18,125,602	8,156,521	3,927,214	-	-	12,083,735	-	30,209,337
Due from ceding companies	3,008,392	2,240,291	1,152,150	-	-	3,392,441	-	6,400,833
Total	₱76,783,270	₱11,774,519	₱5,079,364	-	-	₱16,853,883	₱212,783	₱93,637,153

December 31, 2013

	Neither past due nor impaired	Age analysis of financial assets past due but not impaired				Total Past due but not impaired	Past due and Impaired	Total
		< 30 days	31 to 60 days	61 to 90 days	> 90 days			
Premiums receivable	₱56,580,616	₱1,818,313	₱-	₱-	₱-	₱1,818,313	₱212,783	₱58,611,712
Reinsurance recoverable on paid losses	5,025,599	1,934,855	-	2,535,494	555,249	5,025,598	-	10,051,197
Due from ceding companies	4,010,171	435,871	365,871	-	488,065	1,289,807	-	5,299,978
Funds held by ceding companies								
Total	₱65,616,386	₱4,189,039	₱365,871	₱2,535,494	₱1,043,314	₱8,133,718	₱212,783	₱73,962,887

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

Liquidity risk

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

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

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

Maturity profile

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

December 31, 2014	Within a year*	2-3 years	Over 3 years	No term	Total
Loans and Receivables					
Cash and cash equivalents	₱59,848,915	₱-	₱-	₱-	₱59,848,915
Insurance receivables	94,483,561	-	-	-	94,483,561
Loans and receivables	10,113,583	-	-	-	10,113,583
HTM investments	13,563,686	6,000,000	61,709,762	-	81,273,448
AFS financial assets	-	-	-	54,081,528	54,081,528
Total financial assets	₱178,009,746	₱6,000,000	₱61,709,762	₱54,081,528	₱299,801,036

(Forward)



December 31, 2014	Within a year*	2-3 years	Over 3 years	No term	Total
Other Financial Liabilities					
Insurance contract liabilities	₱35,964,886	₱-	₱-	₱-	₱35,964,886
Insurance payables	12,403,017	-	-	-	12,403,017
Accounts payable and other liabilities	2,044,520	-	-	-	2,044,520
Total financial liabilities	₱50,412,423	₱-	₱-	₱-	₱50,412,423

*Includes on demand accounts

December 31, 2013	Within a year*	2-3 years	Over 3 years	No term	Total
Loans and Receivables					
Cash and cash equivalents	₱48,493,279	₱-	₱-	₱-	₱48,493,279
Insurance receivables	74,809,295	-	-	-	74,809,295
Loans and receivables	7,808,069	-	-	-	7,808,069
HTM investments	16,431,772	6,000,000	45,709,762	-	68,141,534
AFS financial assets	-	-	-	37,956,031	37,956,031
Total financial assets	₱147,542,415	₱6,000,000	₱45,709,762	₱37,956,031	₱237,208,208
Other financial liabilities					
Insurance contract liabilities	₱58,056,949	₱-	₱-	₱-	₱58,056,949
Insurance payables	8,053,631	-	-	-	8,053,631
Accounts payable and other liabilities	1,257,173	-	-	-	1,257,173
Total financial liabilities	₱67,367,753	₱-	₱-	₱-	₱67,367,753

*Includes on demand accounts

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risks: interest rate risk and price risk.

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

Price risk

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

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

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

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



December 31, 2014

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

December 31, 2013

<u>Market Indices</u>	<u>Change in Variable</u>	<u>Impact on OCI</u>
PSEi	+12.78%	₱2,948,466
PSEi	-12.78%	(₱2,948,466)

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

24. Related Party Transactions

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

Compensation of key management personnel by benefit type follows:

	2014	2013
Short-term employee benefits	₱6,963,700	₱7,950,000
Post-employment benefits	840,100	523,000
	₱7,803,800	₱8,473,000

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

Salary loans to key management personnel included under the caption "Receivables from employees" amounted to ₱0.70 million and ₱1.15 million as of December 31, 2014 and 2013 (see Note 7).

Directors' fees:

In 2014 and 2013, the Company paid directors' fees to the Company's board of directors totaling ₱1.20 million and ₱1.26 million in 2014 and 2013, respectively.

2014

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



2013

Category	Amount of transaction for the whole year	Outstanding Balance	Terms	Conditions
Receivable from employees	₱1,306,771	₱3,084,600	Interest bearing; due and demandable	Unsecured, no impairment

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

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

	2014	2013
PFRS net income	₱30,389,460	₱13,187,338
Adjustments for:		
Deferred acquisition costs - net	(3,793,591)	(4,764,049)
Change in IBNR	(14,502)	-
Difference in change in provision for unearned premiums - net	3,695,293	(8,824,637)
Tax effect of PFRS adjustments	4,632,261	4,076,606
Statutory net income	₱34,908,921	₱3,675,258

26. Lease Commitments

The Company is a lessee under noncancellable operating leases covering offices and service centers. The leases have terms of only one year, with renewal options and include annual escalation rate of 10%. The future minimum rentals payable under these noncancellable operating leases as of December 31, 2014 follow:

	2014	2013
<u>Within one year</u>	₱450,113	₱353,896

Rent expense charged against operations amounted to ₱4.93 million and ₱4.90 million in 2014 and 2013, respectively (see Note 20).

27. Contingencies

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



28. Supplementary Tax Information under Revenue Regulations 15-2010

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

VAT

The Company is a VAT-registered with VAT output tax declaration of ₱21,456,475 for the year based on the amount reflected in the Net premiums earned of ₱178,803,958.

The Company has no zero-rated and VAT exempt sales of goods and services in 2014.

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

Balance at beginning of the year	
Current year's purchases:	
Services lodged under other accounts	₱22,640,560
Input VAT applied to Output VAT	(17,868,218)
Balance at end of the year	₱4,772,342

The Company has no importation in 2014. The Company has no claims for tax credit/refund in 2014.

Documentary Stamp Tax (DST)

The Company paid/accrued DST on the following transactions:

Transaction	Amount	DST
Insurance policies	₱194,384,911	₱21,372,966
Issuance of shares	95,955,000	1,279,020
	₱290,339,911	₱22,651,986

Other Taxes and License Fees for 2014

This includes all other taxes, local and national, including real estate taxes, license and permit fees lodged under the 'Operating expenses' section in the statement of comprehensive income. Details consist of the following:

Local	
Real estate tax, licenses and other fees	₱1,002,608
Business permit	934,501
Insurance commission-supervision and examination fee	304,239
National	
Capital gains tax	2,301,888
Documentary stamp tax	1,279,020
VAT renewal fee	500
	₱5,822,756

Importations

The Company did not incur any excise tax in 2014.



Withholding Taxes

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

Withholding taxes on compensation and benefits	₱4,997,626
Expanded withholding taxes	8,891,338
	<hr/> <hr/> ₱13,888,964

Tax Contingencies

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

