# Charter Ping An Insurance Corporation

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

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Building a better working world

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

# INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Charter Ping An Insurance Corporation

## Report on the Financial Statements

We have audited the accompanying financial statements of Charter Ping An 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.

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*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Charter Ping An 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 5-2010 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 Charter Ping An 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.

Djole S. Garcia
Partner
CPA Certificate No. 0097907
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February 25, 2013, valid until February 24, 2016
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January 28, 2013, valid until January 27, 2016
PTR No. 4751285, January 5, 2015, Makati City

February 10, 2015

# CHARTER PING AN INSURANCE CORPORATION
# STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2014** | 2013 |
| **ASSETS** | | |
| Cash and Cash Equivalents (Notes 4, 23 and 25) | **₱599,547,259** | ₱864,795,598 |
| Short-term Investments (Note 4 and 25) | **24,360,000** | 1,300,000 |
| Insurance Receivables - net (Notes 5 and 25) | **2,025,774,614** | 1,608,861,038 |
| Financial Assets (Notes 6 and 25) | | |
| Available-for-sale | **1,374,157,339** | 1,298,283,387 |
| Loans and receivables | **39,655,874** | 38,598,094 |
| Reinsurance Assets (Notes 7 and 25) | **3,879,399,977** | 4,965,577,810 |
| Deferred Acquisition Costs (Note 8) | **308,804,931** | 216,376,278 |
| Property and Equipment - net (Note 9) | **195,655,974** | 187,096,604 |
| Assets Held for Sale (Note 10) | **18,487,212** | 15,020,000 |
| Other Assets (Note 11) | **25,527,414** | 10,314,339 |
| Deferred tax asset (Note 22) | **1,664,392** | 5,065,166 |
| **TOTAL ASSETS** | **₱8,493,034,986** | ₱9,211,288,314 |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Insurance contract liabilities (Notes 12 and 25) | **₱5,665,033,403** | ₱6,683,585,120 |
| Insurance payables (Notes 13 and 25) | **433,111,602** | 296,242,243 |
| Accounts payable and accrued expenses (Notes 14 and 25) | **737,512,296** | 736,651,545 |
| Income tax payable | **–** | 41,510,498 |
| Retirement benefit obligation (Note 21) | **111,205,662** | 102,498,788 |
| Deferred reinsurance commissions (Note 8) | **92,231,704** | 36,163,708 |
| **Total Liabilities** | **7,039,094,667** | 7,896,651,902 |
| **Equity** | | |
| Capital stock (Note 15) | **512,500,000** | 512,500,000 |
| Additional paid-in capital | **6,634,245** | 6,634,245 |
| Revaluation reserve on: | | |
| Property and equipment (Notes 2 and 9) | **78,651,866** | 78,651,866 |
| Available-for-sale financial assets (Note 6) | **117,807,221** | 75,814,774 |
| Remeasurement loss on retirement plan (Note 21) | **(61,184,465)** | (53,450,341) |
| Retained earnings (Note 15) | **799,531,452** | 694,485,868 |
| **Total Equity** | **1,453,940,319** | 1,314,636,412 |
| **TOTAL LIABILITIES AND EQUITY** | **₱8,493,034,986** | ₱9,211,288,314 |

*See accompanying Notes to Financial Statements.*

## CHARTER PING AN INSURANCE CORPORATION
## STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2014** | 2013 |
| Gross earned premiums on insurance contracts | **₱3,775,548,209** | ₱3,249,339,226 |
| Reinsurers' share of gross earned premiums on insurance contracts | **2,024,061,059** | 1,595,546,745 |
| **Net insurance earned premiums** (Notes 12 and 16) | **1,751,487,150** | 1,653,792,481 |
| Commission income (Note 8) | **133,019,788** | 96,151,852 |
| Interest income (Note 17) | **76,468,217** | 76,499,596 |
| Gain on sale of available-for-sale financial assets (Note 6) | **11,719,110** | 29,421,758 |
| Dividend income (Note 17) | **3,162,116** | 1,308,257 |
| Others (Note 17) | **44,163,121** | 42,579,231 |
| **Other income** | **268,532,352** | 245,960,694 |
| **Total Income** | **2,020,019,502** | 1,899,753,175 |
| Gross insurance contract benefits and claims paid | **2,831,722,679** | 1,268,228,242 |
| Reinsurers' share of gross insurance contract benefits and claims paid | **(1,954,467,525)** | (660,485,813) |
| Gross change in insurance contract liabilities | **(1,245,516,207)** | 2,167,066,701 |
| Reinsurers' share of gross change in insurance contract liabilities | **1,152,499,986** | (2,028,791,410) |
| **Net insurance benefits and claims** (Notes 12 and 18) | **784,238,933** | 746,017,720 |
| Commission expense (Note 8) | **551,800,341** | 474,573,232 |
| Operating expenses (Note 19) | **546,525,601** | 428,206,542 |
| Interest expense (Note 13) | **651,207** | 1,058,746 |
| **Other expenses** | **1,098,977,149** | 903,838,520 |
| **Total Benefits, Claims and Other Expenses** | **1,883,216,082** | 1,649,856,240 |
| **Income before income tax** | **136,803,420** | 249,896,935 |
| Current | **24,523,196** | 75,674,779 |
| Deferred | **7,234,640** | (15,797,684) |
| **Income tax expense** (Note 22) | **31,757,836** | 59,877,095 |
| **NET INCOME** | **105,045,584** | 190,019,840 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| *Items that will be reclassified to profit or loss in subsequent periods:* | | |
| Changes on fair value of available-for-sale financial assets (Note 6) | **41,992,447** | (47,286,354) |
| *Items that will not be reclassified to profit or loss in subsequent periods:* | | |
| Change on revaluation reserve on property and equipment, net of tax effect (Notes 2 and 9) | **–** | (7,119,063) |
| Remeasurement losses on defined benefit obligation, net of tax effect (Note 21) | **(7,734,124)** | (16,061,072) |
| Total other comprehensive income (loss) | **34,258,323** | (70,466,489) |
| **TOTAL COMPREHENSIVE INCOME** | **₱139,303,907** | ₱119,553,351 |

*See accompanying Notes to Financial Statements.*

# CHARTER PING AN INSURANCE CORPORATION

## STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | | | Revaluation Reserve | | | | |
|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 15) | Additional Paid-in Capital | Available-for-Sale Financial Assets (Note 6) | Property and Equipment | Remeasurement Loss on Retirement Plan | Retained Earnings | Total |
| As of January 1, 2014 | **₱512,500,000** | **₱6,634,245** | **₱75,814,774** | **₱78,651,866** | **(₱53,450,341)** | **₱694,485,868** | **₱1,314,636,412** |
| Net income for the year | – | – | – | – | – | **105,045,584** | **105,045,584** |
| Other comprehensive income (loss) | – | – | **41,992,447** | – | **(7,734,124)** | – | **34,258,323** |
| Total comprehensive income (loss) for the year | – | – | **41,992,447** | – | **(7,734,124)** | **105,045,584** | **139,303,907** |
| **As of December 31, 2014** | **₱512,500,000** | **₱6,634,245** | **₱117,807,221** | **₱78,651,866** | **(₱61,184,465)** | **₱799,531,452** | **₱1,453,940,319** |
| | | | | | | | |
| As of January 1, 2013 | 350,000,000 | 6,634,245 | 123,101,128 | 85,770,929 | (37,389,269) | 657,498,462 | 1,185,615,495 |
| Net income for the year | – | – | – | – | – | 190,019,840 | 190,019,840 |
| Other comprehensive income (loss) | – | – | (47,286,354) | (7,119,063) | (16,061,072) | 10,280,066 | (60,186,423) |
| Total comprehensive income (loss) for the year | – | – | (47,286,354) | (7,119,063) | (16,061,072) | 200,299,906 | 129,833,417 |
| Stock dividends issued and declared (Note 15) | 162,500,000 | – | – | – | – | (162,500,000) | – |
| Transaction costs on stock dividend issuance (Note 15) | – | – | – | – | – | (812,500) | (812,500) |
| As of December 31, 2013 | ₱512,500,000 | ₱6,634,245 | ₱75,814,774 | ₱78,651,866 | (₱53,450,341) | ₱694,485,868 | ₱1,314,636,412 |

*See accompanying Notes to Financial Statements.*

## CHARTER PING AN INSURANCE CORPORATION
## STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2014** | 2013 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before tax | **₱136,803,420** | ₱249,896,935 |
| Adjustments for: | | |
| Interest income (Note 17) | **(76,468,217)** | (76,499,596) |
| Depreciation and amortization (Notes 9, 11 and 19) | **25,745,731** | 21,156,909 |
| Gain on sale of AFS financial assets (Note 6) | **(11,719,110)** | (29,421,758) |
| Impairment loss on AFS financial assets (Notes 6 and 19) | **10,219,296** | 5,051,231 |
| Dividend income | **(3,162,116)** | (1,308,257) |
| Interest expense | **651,207** | 1,058,746 |
| Loss (gain) on sale of property and equipment (Notes 9 and 17) | **74,430** | (275,924) |
| Operating income before working capital changes | **82,144,641** | 169,658,286 |
| Decrease (increase) in: | | |
| Reinsurance assets | **1,086,177,833** | (2,123,539,381) |
| Insurance receivables | **(416,913,576)** | (362,054,995) |
| Deferred acquisition costs | **(92,428,653)** | (22,351,628) |
| Short-term investments | **(23,060,000)** | (300,000) |
| Assets held for sale | **(3,467,212)** | (5,460,000) |
| Loans and receivables | **(1,509,789)** | 785,982 |
| Other assets | **(672,335)** | (818,126) |
| Increase (decrease) in: | | |
| Insurance contract liabilities | **(1,018,551,717)** | 2,431,599,436 |
| Insurance payables | **136,869,359** | 25,317,245 |
| Deferred reinsurance commissions | **56,067,996** | 4,457,332 |
| Retirement benefit obligation | **(2,341,875)** | (804,112) |
| Accounts payable and accrued expenses | **860,751** | 252,255,949 |
| Net cash generated from (used in) operations | **(196,824,577)** | 368,745,988 |
| Interest paid (Note 13) | **(651,207)** | (1,058,746) |
| Income tax paid | **(80,642,886)** | (85,584,067) |
| Net cash from (used in )operating activities | **(278,118,670)** | 282,103,175 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of: | | |
| Available-for-sale financial assets (Note 6) | **552,931,681** | 470,212,932 |
| Property and equipment (Note 9) | **308,484** | 1,014,520 |
| Acquisition of: | | |
| Available-for-sale financial assets (Note 6) | **(591,471,866)** | (693,309,680) |
| Property and equipment (Notes 9 and 17) | **(34,619,563)** | (17,990,235) |
| Interest received | **82,604,599** | 101,443,887 |
| Dividends received | **3,116,996** | 1,308,257 |
| Net cash from (used in) investing activities | **12,870,331** | (137,320,319) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(265,248,339)** | 144,782,856 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **864,795,598** | 720,012,742 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱599,547,259** | ₱864,795,598 |

*See accompanying Notes to Financial Statements.*

# CHARTER PING AN INSURANCE CORPORATION
# NOTES TO FINANCIAL STATEMENTS

## 1. Corporate Information

Charter Ping An Insurance Corporation (the Company) was incorporated in the Philippines on June 21, 1960. On September 14, 2009, the Philippine Securities and Exchange Commission (SEC) granted the Company's extension of its corporate life for another 50 years.

In October 2013, GT Capital Holdings, Inc. (GT Capital) acquired 66.67% ownership in the Company from First Metro Investment Corporation (FMIC), and accordingly, became the Company's parent company on the same date. GT Capital is primarily established as a holding company. The ultimate parent of GT Capital is Grand Titan Capital Holdings, Inc. (Grand Titan). Prior to October 2013, the parent company of the Company was FMIC, a company incorporated and domiciled in the Philippines.

On January 27, 2014, GT Capital reported that it has completed the 100% acquisition of the Company. GT Capital purchased 1.7 million common shares of the Company for P712 million. The acquisition represents the remaining 33.3% of the Company's outstanding capital stock, the selling shareholder of which was FMIC.

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

The Company's registered office is Ground Floor, Skyland Plaza, Sen. Gil J. Puyat Ave. corner Tindalo Street, Makati City.

The accompanying financial statements were approved and authorized for issue by the Board of Directors on February 10, 2015.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) interpretations which became effective beginning January 1, 2014. Except as otherwise stated, the adoption of these new and amended standards and Philippine Interpretations did not have any impact on the financial statements.

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements,* PFRS 12*, Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
  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 fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact to the Company.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The amendments affect presentation only and have no impact on the Company's financial position or performance.

- 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 and retrospective application is required. These amendments have no impact on the Company as the Company has no derivatives during the current or prior periods.

- 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 assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The application of these amendments has impact on the Company's financial statements.

- Philippine Interpretation IFRIC 21, *Levies*
  IFRIC 21 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. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company 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.

Annual Improvements to PFRSs (2010-2012 cycle)
In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Company.

Annual Improvements to PFRSs (2011-2013 cycle)
In the 2011 - 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Company as it is not a first time PFRS adopter.

Future Changes Accounting Policies
The Company will adopt the following new and amended standards and Philippine Interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

- 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 effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of 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 Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

*Effective January 1, 2015*

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company, since it has no defined benefit plans with contributions from employees or third parties.

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

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

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

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

PFRS 9, *Financial Instruments*, if early adopted). The Company shall consider this amendment for future business combinations.

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

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

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

- PAS 24, *Related Party Disclosures – Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

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

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

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

- PFRS 13, *Fair Value Measurement – Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (*or PFRS 9, as applicable*).

- PAS 40, *Investment Property*
  The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates

between investment property and owner-occupied property (i.e., property, plant and equipment).

*Effective January 1, 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 are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, Accounting for Government Grants and Disclosure of Government Assistance, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

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

- PFRS 10, *Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that

do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after 1 January 2016.

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

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

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

<u>Annual Improvements to PFRSs (2012-2014 cycle)</u>
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be

done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

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

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

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

*Effective January 1, 2018*

- 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 adoption of PFRS 9 is not expected to have any significant impact on the Company's financial statements.

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

  The adoption of PFRS 9 is not expected to have any significant impact on the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 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.

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

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

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

Fair Value Measurement
The Company measures financial instrument and non-financial assets such as property and equipment, at fair value at each reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 25.

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 by the Company.

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

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

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

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

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

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

Cash and Cash Equivalents
Cash includes cash on hand, cash in banks and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) 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 initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, FVPL investments and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

As of December 31, 2014 and 2013, the Company's financial instruments are in the nature of AFS financial assets, loans and receivables and other financial liabilities.

*Day 1 difference*

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an observable 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' difference 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: (a) Cash and Cash Equivalents", (b) "Short-term Investments", (c) "Insurance Receivables" and (d) "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 'Interest income' in profit or loss. The losses arising from impairment of such loans and receivables 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 debt investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS equity investments 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 investments are reported as 'Revaluation reserve on available-for-sale financial assets' in equity. 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 equity is recognized as realized gains or losses in profit or loss. When the Company holds more than one investment in the same security, the cost is determined using the weighted average method.

When the fair value of AFS 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 the statement of comprehensive income.

This accounting policy applies primarily to the Company's insurance payables and accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit obligation 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 end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

*AFS investments carried at fair value*
In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income, and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

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

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

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

Where the Company has transferred its right to receive cash flows from an asset 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.

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

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

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

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

Deferred Acquisition Costs (DAC)

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

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

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

Property and Equipment

Property and equipment, except for condominium units, are stated at cost, net of accumulated depreciation and amortization and any impairment in value.

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

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the properties as follows:

| | Years |
|---|---|
| Condominium units | 50 |
| Electronic Data Processing (EDP) equipment | 3 |
| Transportation equipment | 5 |
| Office furniture, fixtures and equipment | 5 |
| Office improvements | 5 |

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

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

Condominium units are measured at fair value less accumulated depreciation and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. A revaluation surplus is recorded in OCI and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

The revaluation reserve on property and equipment will be transferred directly to retained earnings when the asset is derecognized, i.e., the whole of the reserve will be transferred to retained earnings when the condominium units is retired or disposed of. Transfers from revaluation reserve to retained earnings are not made through profit or loss.

Computer Software

Costs associated with the acquisition of computer software are capitalized only if the asset can be reliably measured, will generate future economic benefits, and there is an ability to use or sell the asset.

Computer software is carried at cost less accumulated amortization. Computer software cost is amortized over the expected useful life of the asset, but not to exceed three (3) years. All computer software components are amortized over three (3) years. Amortization commences when the asset is available for use or when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Company.

Assets Held for Sale
The Company classifies assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset 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 completed sale within one year from the date of classification.

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

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

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 as part of "Insurance contract liabilities" and presented in the liabilities section of the statement of financial position. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums as part of Insurance contract liabilities and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is

recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

*Claims Provision and Incurred But Not Reported (IBNR) Losses*
These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR losses. The liability is derecognized when the contract is discharged, cancelled or has expired.

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

<u>Pension Cost</u>
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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

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

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

Equity

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

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

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

Revenue

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 revenue*

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums and shown as part of "Insurance contract liabilities" presented in the liabilities section of the statements of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at end of the reporting period are accounted for as Deferred reinsurance premiums and shown as part of "Reinsurance assets" in the statements of financial position. The net changes in these accounts between each end of reporting periods are recognized in profit or loss.

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

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

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

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

*Benefits and claims*
Benefits and claims consists of benefits and claims paid to policyholders, which includes changes in the valuation of Insurance contract liabilities, except for changes in the provision for unearned premiums which are recorded in 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.

*Operating expense*
Operating expenses, except for lease agreements, are recognized as expense as they are incurred.

*Interest expense*
Interest expense is charged against operations and is calculated using the effective interest method.

Leases

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

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

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

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

Foreign Exchange Transactions

The functional and presentation currency of the Company is the Philippine Peso (₱). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. Differences arising from translation of monetary assets and liabilities are taken to profit or loss while differences arising from dollar-denominated equity securities classified as AFS financial assets are included in other comprehensive income.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and 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.

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

*Current tax*

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

*Deferred income tax*
Deferred income tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income 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 income tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

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

Current tax and deferred tax relating to items recognized as other comprehensive income is also recognized in the statement of other comprehensive income.

Deferred tax assets and 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 position at the end of the reporting period (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

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

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

Judgments

*Operating lease commitments - Company as lessee*

The Company has entered into property leases. Substantially, all the risks and benefits incidental to ownership of the leased item are not transferred to the Company.

Estimates

*Claims liability arising from insurance contracts*

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claims settlement trends to predict future claims settlement trends. At each end of the reporting period, prior year claims estimates are assessed for adequacy and changes made are charged to provision.

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

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

The carrying values of provision for outstanding claims and IBNR amounted to ₱3,678,296,663 and ₱4,923,812,870 as of December 31, 2014 and 2013, respectively (see Note 12).

*Fair values of financial assets*

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The carrying value of AFS financial assets amounted to ₱1,374,157,339 and ₱1,298,283,387 as of December 31, 2014 and 2013, respectively (see Note 6).

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

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

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

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

Insurance receivables, net of allowance for doubtful accounts of ₱39,805,510 and ₱37,468,802, amounted to ₱2,025,774,614 and ₱1,608,861,038 as of December 31, 2014 and 2013, respectively (see Note 5). Loans and receivables amounted to ₱39,655,874 and ₱38,598,094 as of December 31, 2014 and 2013, respectively (see Note 6). As of December 31, 2014 and 2013, the Company has recognized impairment loss amounting to ₱10,219,296 and ₱5,051,231, respectively, on its AFS financial assets (see Note 6).

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

The carrying value of property and equipment amounted to ₱195,655,974 and ₱187,096,604 as of December 31, 2014 and 2013, respectively (see Note 9).

*Appraised value of property and equipment*
The Company carries certain property and equipment at fair value, less accumulated depreciation. Fair value is arrived at by using the market data approach. With this approach, the value of the property is based on sales and listings of comparable properties registered in the vicinity. The technique of this approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator and adjustment of the differences between the subject property and those actual sales and listings regarded as comparables. The comparison was premised on the factors of location, characteristics of the lot, time element, quality and prospective use. As of December 31, 2014 and 2013, property and equipment carried at fair value amounted to ₱137,887,306 and ₱144,282,558, respectively (see Note 9).

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

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

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

The carrying value of property and equipment amounted to ₱195,655,974 and ₱187,096,604 as of December 31, 2014 and 2013, respectively (see Note 9). The carrying value of assets held for sale amounted to ₱18,487,212 and ₱15,020,000 as of December 31, 2014 and 2013, respectively (see Note 10).

*Pension Benefits*
The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of end of the reporting period. Refer to Note 21 for the details of assumptions used in the calculation. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized as other comprehensive income in the statement of comprehensive income. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

The Company's net pension obligation amounted to ₱111,205,662 and ₱102,498,788 as of December 31, 2014 and 2013, respectively (see Note 21).

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

## 4. Cash, Cash Equivalents and Short-term Investments

Cash and Cash Equivalents
This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Cash on hand | **₱442,472** | ₱442,439 |
| Cash in banks | **109,991,691** | 201,757,059 |
| Cash equivalents | **489,113,096** | 662,596,100 |
| | **₱599,547,259** | ₱864,795,598 |

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at rates ranging from 0.75% to 2.5% in 2014 and 1.3% to 2.0% in 2013.

Interest income earned from cash equivalents and cash in banks amounted to ₱6,848,445 and ₱1,575,222, respectively, in 2014 and ₱16,103,978 and ₱770,486, respectively, in 2013 (Note 17).

Short-term Investments
Short-term investments consist of money market placements amounting to ₱24,360,000 and ₱1,300,000 as of December 31, 2014 and 2013, respectively. Short-term investments are made for periods ranging more than three (3) months and up to twelve (12) months and earn interest at the respective short-term investment rates. Interest income earned from short-term investment presented under "interest income" in the statement of the financial position amounted to ₱34,178 and ₱26,072 in 2014 and 2013, respectively (Note 17).

## 5. Insurance Receivables - net

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Premiums receivable and agents' balances | **₱1,133,326,849** | ₱935,074,609 |
| Reinsurance recoverable on paid losses | **852,193,366** | 626,656,422 |
| Due from ceding companies | **40,783,619** | 51,004,663 |
| Bonds recoverable on paid losses | **33,617,614** | 30,702,317 |
| Funds held by ceding companies | **5,658,676** | 2,891,829 |
| | **2,065,580,124** | 1,646,329,840 |
| Less allowance for doubtful accounts | **39,805,510** | 37,468,802 |
| | **₱2,025,774,614** | ₱1,608,861,038 |

Premiums receivable and agents balances arise from unpaid premiums from policy holders and intermediaries, due from ceding companies are premiums receivable for assumed business from other insurance and reinsurance companies, while reinsurance recoverable on paid losses are the share of insurance or reinsurance companies for the claims paid to the insured by the Company. The amount of funds held by ceding companies is a percentage of the premiums, as required by the Insurance Commission. The Company's insurance receivables are all due within one year.

The following table shows aging information of insurance receivables:

**December 31, 2014**

| | 1 to 90 days | 91 to 120 days | 121 to 150 days | 151 to 180 days | over 180 days | Total |
|---|---|---|---|---|---|---|
| Premiums receivable and agents' balances | **₱800,751,215** | **₱75,950,102** | **₱58,423,015** | **₱35,129,250** | **₱163,073,267** | **₱1,133,326,849** |
| Reinsurance recoverable on paid losses | **725,123,364** | **5,582,560** | **12,728,554** | **6,336,988** | **102,421,900** | **852,193,366** |
| Bonds recoverable on paid losses | **828,502** | **1,166,540** | **–** | **–** | **31,622,572** | **33,617,614** |
| Due from ceding companies | **22,637,370** | **3,487,193** | **1,488,868** | **861,056** | **12,309,132** | **40,783,619** |
| Funds held by ceding companies | **5,658,676** | **–** | **–** | **–** | **–** | **5,658,676** |
| | **₱1,554,999,127** | **₱86,186,395** | **₱72,640,437** | **₱42,327,294** | **₱309,426,871** | **₱2,065,580,124** |

**December 31, 2013**

| | 1 to 90 days | 91 to 120 days | 121 to 150 days | 151 to 180 days | over 180 days | Total |
|---|---|---|---|---|---|---|
| Premiums receivable and agents' balances | ₱556,753,730 | ₱85,259,699 | ₱37,120,086 | ₱31,812,401 | ₱224,128,693 | ₱935,074,609 |
| Reinsurance recoverable on paid losses | 486,555,062 | 4,352,609 | 174,526 | 8,253,389 | 127,320,836 | 626,656,422 |
| Bonds recoverable on paid losses | 125,626 | – | – | 209,633 | 30,367,058 | 30,702,317 |
| Due from ceding companies | 28,677,972 | 3,293,898 | 2,207,895 | 1,307,053 | 15,517,845 | 51,004,663 |
| Funds held by ceding companies | 2,891,829 | – | – | – | – | 2,891,829 |
| | ₱1,075,004,219 | ₱92,906,206 | ₱39,502,507 | ₱41,582,476 | ₱397,334,432 | ₱1,646,329,840 |

The following is a reconciliation of the changes in allowance for doubtful accounts for insurance receivables:

**December 31, 2014**

| | Premiums receivable and agents' balances | Due from ceding companies | Reinsurance recoverable on paid losses | Total |
|---|---|---|---|---|
| At January 1, 2014 | **₱31,468,802** | **₱3,000,000** | **₱3,000,000** | **₱37,468,802** |
| Impairment during the year (Note 19) | **2,336,708** | **–** | **–** | **2,336,708** |
| At December 31, 2014 | **₱33,805,510** | **₱3,000,000** | **₱3,000,000** | **₱39,805,510** |
| Collectively impaired | **₱33,805,510** | **₱3,000,000** | **₱3,000,000** | **₱39,805,510** |

**December 31, 2013**

| | Premiums receivable and agents' balances | Due from ceding companies | Reinsurance recoverable on paid losses | Total |
|---|---|---|---|---|
| At January 1, 2013 | ₱16,000,000 | ₱3,000,000 | ₱– | ₱19,000,000 |
| Impairment during the year (Note 19) | 15,468,802 | – | 3,000,000 | 18,468,802 |
| At December 31, 2013 | ₱31,468,802 | ₱3,000,000 | ₱3,000,000 | ₱37,468,802 |
| Collectively impaired | ₱31,468,802 | ₱3,000,000 | ₱3,000,000 | ₱37,468,802 |

## 6. Financial Assets

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

| | **2014** | 2013 |
|---|---|---|
| AFS financial assets | **₱1,374,157,339** | ₱1,298,283,387 |
| Loans and receivables | **39,655,874** | 38,598,094 |
| | **₱1,413,813,213** | ₱1,336,881,481 |

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

*a) AFS financial assets*

| | **2014** | 2013 |
|---|---|---|
| **Equity securities - at fair value** | | |
| Quoted: | | |
| Common shares | **₱177,378,152** | ₱88,908,716 |
| Preferred shares | **25,330,000** | 10,420,000 |
| Club shares | **54,890,000** | 45,830,000 |
| **Unquoted securities - at cost** | | |
| Common shares | **56,650** | 56,650 |
| Total equity securities | **257,654,802** | 145,215,366 |
| **Debt securities - at fair value** | | |
| Government securities: | | |
| Local currency | **702,190,716** | 755,385,137 |
| Foreign currency | **78,375,078** | 94,713,756 |
| Private debt securities | **335,936,743** | 302,969,128 |
| Total debt securities | **1,116,502,537** | 1,153,068,021 |
| **Total AFS financial assets recognized in the statements of financial position** | **₱1,374,157,339** | ₱1,298,283,387 |

| | 2014 | 2013 |
|---|---|---|
| **Equity securities - at cost** | | |
| Quoted: | | |
| Common shares - net of impairment loss amounting to ₱10,219,296 and ₱1,906,231 in 2014 and 2013, respectively. | **₱151,375,588** | ₱69,025,013 |
| Preferred shares | **25,000,000** | 10,000,000 |
| Club shares - net of impairment loss amounting to nil and ₱3,145,000 in 2014 and 2013, respectively. | **3,917,500** | 3,917,500 |
| **Unquoted securities - at cost** | | |
| Common shares | **56,650** | 56,650 |
| Total equity securities | **180,349,738** | 82,999,163 |
| **Debt securities - at cost or amortized cost** | | |
| Quoted: | | |
| Government debt securities: | | |
| Local currency | **668,418,808** | 741,632,713 |
| Foreign currency | **75,507,133** | 107,070,402 |
| Private debt securities | **332,593,680** | 294,186,565 |
| Total debt securities | **1,076,519,621** | 1,142,889,680 |
| **Total AFS financial assets at cost or amortized cost** | **₱1,256,869,359** | ₱1,225,888,843 |

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

| | 2014 | 2013 |
|---|---|---|
| At January 1 | **₱1,298,283,387** | ₱1,125,390,293 |
| Additions | **591,471,866** | 693,309,680 |
| Maturities and disposals | **(552,931,681)** | (470,212,932) |
| Amortization of premium | **(5,639,253)** | (23,867,597) |
| Fair value gains (losses) credited to (charged against) other comprehensive income | **42,973,020** | (26,336,057) |
| At December 31 | **₱1,374,157,339** | ₱1,298,283,387 |

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

| | 2014 | 2013 |
|---|---|---|
| At January 1 | **₱75,814,774** | ₱123,101,128 |
| Fair value gains (losses) credited to (charged against) other comprehensive income | **42,973,020** | (26,336,057) |
| Fair value gain credited to profit or loss | **(11,719,110)** | (29,421,758) |
| Fair value loss charged against profit or loss due to impairment (Note 19) | **10,219,296** | 5,051,231 |
| Tax effect | **519,241** | 3,420,230 |
| At December 31 | **₱117,807,221** | ₱75,814,774 |

*b) Loans and receivables*

This account consists of the following:

| | **2014** | 2013 |
|---|---|---|
| Accounts receivable | **₱27,254,949** | ₱25,745,160 |
| Less: Allowance for doubtful accounts | **(13,593)** | (13,593) |
| Accounts receivable net | **27,241,356** | 25,731,567 |
| Accrued income | **12,414,518** | 12,866,527 |
| | **₱39,655,874** | ₱38,598,094 |

Accounts receivable pertains to advances granted to insurance agents and salary loans granted to employees. Advances granted to insurance agents are to be settled through regular deductions from commissions while salary loans granted to employees are non-interest bearing and payable to the Company within one year through payroll deduction.

Accrued income pertains to interest and dividend income accrued arising from cash and cash equivalents and AFS securities.

## 7. Reinsurance Assets

This account consists of the following:

| | **2014** | 2013 |
|---|---|---|
| Reinsurance recoverable on unpaid losses (Note 12) | **₱3,069,881,873** | ₱4,222,381,859 |
| Deferred reinsurance premiums (Note 12) | **809,518,104** | 743,195,951 |
| | **₱3,879,399,977** | ₱4,965,577,810 |

## 8. Deferred Acquisition Costs and Deferred Reinsurance Commissions

*Deferred Acquisition Costs*

The rollforward analysis of this account follows:

| | **2014** | 2013 |
|---|---|---|
| At January 1 | **₱216,376,278** | ₱194,024,650 |
| Costs deferred during the year | **644,228,994** | 496,924,860 |
| Amortization during the year | **(551,800,341)** | (474,573,232) |
| At December 31 | **₱308,804,931** | ₱216,376,278 |

*Deferred Reinsurance Commissions*

The rollforward analysis of this account follows:

| | **2014** | 2013 |
|---|---|---|
| At January 1 | **₱36,163,708** | ₱31,706,376 |
| Income deferred during the year | **189,087,784** | 100,609,184 |
| Amortization during the year | **(133,019,788)** | (96,151,852) |
| At December 31 | **₱92,231,704** | ₱36,163,708 |

## 9. Property and Equipment

The rollforward analysis of this account follows:

**December 31, 2014**

| | Condominium Units | EDP Equipment | Transportation Equipment | Office Furniture, Fixtures and Equipment | Office Improvements | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At January 1, 2014 | **₱302,993,269** | **₱81,531,540** | **₱53,538,453** | **₱31,469,413** | **₱38,536,963** | **₱508,069,638** |
| Additions | **–** | **4,085,147`** | **5,308,334** | **1,833,216** | **23,392,866** | **34,619,563** |
| Disposals | **–** | **(26,785)** | **(1,035,001)** | **(11,079)** | **–** | **(1,072,865)** |
| At December 31, 2014 | **302,993,269** | **85,589,902** | **57,811,786** | **33,291,550** | **61,929,829** | **541,616,336** |
| **Accumulated depreciation and amortization** | | | | | | |
| At January 1, 2014 | **158,710,711** | **77,980,348** | **33,835,408** | **25,063,438** | **25,383,129** | **320,973,034** |
| Depreciation and amortization (Note 19) | **6,395,252** | **3,027,195** | **6,330,922** | **2,713,216** | **7,210,694** | **25,677,279** |
| Disposals | **–** | **(26,785)** | **(662,499)** | **(667)** | **–** | **(689,951)** |
| At December 31, 2014 | **165,105,963** | **80,980,758** | **39,503,831** | **27,775,987** | **32,593,823** | **345,960,362** |
| **Net book value as of December 31, 2014** | **₱137,887,306** | **₱4,609,144** | **₱18,307,955** | **₱5,515,563** | **₱29,336,006** | **₱195,655,974** |

December 31, 2013

| | Condominium Units | EDP Equipment | Transportation Equipment | Office Furniture, Fixtures and Equipment | Office Improvements | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At January 1, 2013 | ₱207,418,939 | ₱82,834,957 | ₱46,010,634 | ₱29,739,927 | ₱35,178,419 | ₱401,182,876 |
| Additions | – | 2,169,254 | 10,703,571 | 1,758,866 | 3,358,544 | 17,990,235 |
| Revaluation | 95,574,330 | – | – | – | – | 95,574,330 |
| Disposals | – | (3,472,671) | (3,175,752) | (29,380) | – | (6,677,803) |
| At December 31, 2013 | 302,993,269 | 81,531,540 | 53,538,453 | 31,469,413 | 38,536,963 | 508,069,638 |
| Accumulated depreciation and amortization | | | | | | |
| At January 1, 2013 | 94,977,943 | 77,148,987 | 30,698,273 | 22,707,605 | 21,579,887 | 247,112,695 |
| Depreciation and amortization (Note 19) | 5,027,383 | 4,304,035 | 5,579,397 | 2,380,104 | 3,803,242 | 21,094,161 |
| Revaluation | 58,705,385 | – | – | – | – | 58,705,385 |
| Disposals | – | (3,472,674) | (2,442,262) | (24,271) | – | (5,939,207) |
| At December 31, 2013 | 158,710,711 | 77,980,348 | 33,835,408 | 25,063,438 | 25,383,129 | 320,973,034 |
| Net book value as of December 31, 2013 | ₱144,282,558 | ₱3,551,192 | ₱19,703,045 | ₱6,405,975 | ₱13,153,834 | ₱187,096,604 |

If condominium units were carried at the cost model, the carrying amount would be as follows:

| | **2014** | 2013 |
|---|---|---|
| Cost | **₱60,933,959** | ₱60,933,959 |
| Less accumulated depreciation | **30,310,833** | 29,011,210 |
| Net carrying amount | **₱30,623,126** | ₱31,922,749 |

Fair value of the real estate properties was determined using the *Market Data Approach*. This means that the valuation performed by the appraiser are based on sales, listings and other market data of comparable properties registered within the vicinity of subject property. The technique requires reducing reasonably comparative sales and listings to a common denominator in order to conform to the subject property. The comparison among the subject property and the comparable units was premised on the factors of location, size and shape of the lot, highest and best use and the time element. As of October 1, 2013, the date of revaluation, the real estate properties' fair values are based on the valuations performed by Philippine Appraisal Company, Inc., an accredited independent appraiser.

Description of valuation techniques used and key inputs to valuation on revalued property and equipment are as follows:

| Location | Valuation techniques | Significant unobservable inputs | Range (weighted average) |
|---|---|---|---|
| Sen. Gil J. Puyat Avenue, Makati City Plaza | Market Data Approach | Estimated Computed Value per sqm | ₱66,560 to ₱141,818 (₱90,000) |
| | | Net price (₱/sq.m) | ₱58,824 to ₱157,576 |
| | | Internal Factor | |
| | | Location | 15% -20% |
| | | Size | -5% to -10% |
| | | Bargaining allowance | -5% |
| Lorenzo Ruiz Corner Oriente St., Binondo, Manila | Market Data Approach | Estimated Computed Value per sqm | ₱43,000 to ₱52,632 (₱49,000) |
| | | Net price (₱/sq.m) | ₱43,000 to ₱52,632 |
| | | Internal Factor | |
| | | Location | -5% to 5% |
| | | Condition | 10% |
| | | Bargaining allowance | -5% |

## 10. Assets Held for Sale

Assets held for sale pertains to salvage recoverable which consists of amount recoverable on account of losses on direct business. These recoveries are available for immediate sale in its present condition and its sale are highly probable. In 2014 and 2013, management is committed to a plan to sell the asset and is actively locating a buyer.

No amount of gain or loss arising from the initial measurement of these assets was recognized in 2014 and 2013.

Salvage recoverable amounted to ₱18,487,212 and ₱15,020,000 as of December 31, 2014 and 2013, respectively.

## 11. Other Assets

This account consists of the following:

| | **2014** | 2013 |
|---|---|---|
| Deposits | **₱10,792,849** | ₱10,115,468 |
| Creditable withholding tax | **14,609,192** | – |
| Software costs | **74,157** | 142,609 |
| Security fund | **51,216** | 51,216 |
| Others | – | 5,046 |
| | **₱25,527,414** | ₱10,314,339 |

Deposits pertain to the rental and security deposits on rented properties, and advance payments for the electric meter and telephone. Security fund pertains to the fund set-up for payment of claims against insolvent insurance companies in compliance with Section 367 of Presidential Decree (PD) No. 612, as amended under PD No. 1640.

The rollforward of the Computer software which was acquired on February 2013 follows:

| | 2014 | 2013 |
|---|---|---|
| **Cost** | | |
| At the beginning of the year | **₱205,357** | ₱ 205,357 |
| **Accumulated Amortization** | | |
| At the beginning of the year | **62,748** | – |
| Amortization (Note 19) | **68,452** | 62,748 |
| At the end of the year | **131,200** | 62,748 |
| **Net Book Value** | **₱74,157** | ₱142,609 |

## 12. Insurance Contract Liabilities

Insurance contract liabilities may be analyzed as follows:

| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2014 | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2013 |
|---|---|---|---|---|---|---|
| Provision for claims reported and loss adjustment expenses | ₱3,638,296,663 | ₱3,069,881,873 | ₱568,414,790 | ₱4,880,806,880 | ₱4,202,944,603 | ₱677,862,277 |
| Provision for IBNR | 40,000,000 | – | 40,000,000 | 43,005,990 | 19,437,256 | 23,568,734 |
| **Total claims reported and IBNR** | 3,678,296,663 | 3,069,881,873 | 608,414,790 | 4,923,812,870 | 4,222,381,859 | 701,431,011 |
| Provision for unearned premiums (Note 16) | 1,986,736,740 | 809,518,104 | 1,177,218,636 | 1,759,772,250 | 743,195,951 | 1,016,576,299 |
| **Total insurance contract liabilities** | ₱5,665,033,403 | ₱3,879,399,977 | ₱1,785,633,426 | ₱6,683,585,120 | ₱4,965,577,810 | ₱1,718,007,310 |

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

| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2014 | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2013 |
|---|---|---|---|---|---|---|
| At January 1 | ₱4,923,812,870 | ₱4,222,381,859 | ₱701,431,011 | ₱2,756,746,169 | ₱2,193,590,449 | ₱563,155,720 |
| Claims incurred during the year | 1,589,212,462 | 821,404,795 | 767,807,667 | 3,434,886,807 | 2,670,480,017 | 764,406,790 |
| Increase (decrease) in IBNR (Note 18) | (3,005,990) | (19,437,256) | 16,431,266 | 408,136 | 18,797,206 | (18,389,070) |
| Claims paid during the year (Note 18) | (2,831,722,679) | (1,954,467,525) | (877,255,154) | (1,268,228,242) | (660,485,813) | (607,742,429) |
| **At December 31** | ₱3,678,296,663 | ₱3,069,881,873 | ₱608,414,790 | ₱4,923,812,870 | ₱4,222,381,859 | ₱701,431,011 |

Provision for unearned premiums may be analyzed as follows:

| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2014 | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2013 |
|---|---|---|---|---|---|---|
| At January 1 | ₱1,759,772,250 | ₱743,195,951 | ₱1,016,576,299 | ₱1,495,239,515 | ₱648,447,980 | ₱846,791,535 |
| New policies written during the year (Note 16) | 4,002,512,699 | 2,090,383,212 | 1,912,129,487 | 3,513,871,961 | 1,690,294,716 | 1,823,577,245 |
| Premiums earned during the year (Note 16) | (3,775,548,209) | (2,024,061,059) | (1,751,487,150) | (3,249,339,226) | (1,595,546,745) | (1,653,792,481) |
| **At December 31** | ₱1,986,736,740 | ₱809,518,104 | ₱1,177,218,636 | ₱1,759,772,250 | ₱743,195,951 | ₱1,016,576,299 |

## 13. **Insurance Payables**

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Due to reinsurers and ceding companies | **₱382,673,782** | ₱272,964,675 |
| Funds held for reinsurers | **50,437,820** | 23,277,568 |
| | **₱433,111,602** | ₱296,242,243 |

The funds held for reinsurers are interest-bearing, wherein the Company recognized an amount of ₱651,207 and ₱1,058,746 as "Interest expense" charged against the statements of comprehensive income in 2014 and 2013, respectively.

The rollforward analysis of this account follows:

| | Due to Reinsurers | Funds Held for Reinsurers | Total |
|---|---|---|---|
| At December 31, 2012 | ₱251,416,934 | ₱19,508,064 | ₱270,924,998 |
| Arising during the year | 738,308,021 | 23,736,887 | 762,044,908 |
| Utilized | (716,760,280) | (19,967,383) | (736,727,663) |
| **At December 31, 2013** | **272,964,675** | **23,277,568** | **296,242,243** |
| **Arising during the year** | **858,237,997** | **51,025,838** | **909,263,835** |
| **Utilized** | **(748,528,890)** | **(23,865,586)** | **(772,394,476)** |
| **At December 31, 2014** | **₱382,673,782** | **₱50,437,820** | **₱433,111,602** |

## 14. **Accounts Payable and Accrued Expenses**

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Commissions payable | **₱287,499,553** | ₱283,634,233 |
| Accounts payable | **219,138,490** | 254,494,501 |
| Taxes payable | **211,009,497** | 187,037,074 |
| Accrued expenses | **19,864,756** | 11,485,737 |
| | **₱737,512,296** | ₱736,651,545 |

Accounts payable and accrued expenses are expected to be settled within twelve (12) months after the end of the reporting period.

## 15. Capital Stock and Retained Earnings

The Company's capital stock consists of:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount |
| **Common stock** - ₱100 par value | | | | |
| Authorized: | | | | |
| At beginning of the year | **5,125,000** | **₱1,000,000,000** | 3,500,000 | ₱350,000,000 |
| Increase | **–** | **–** | 6,500,000 | 650,000,000 |
| At end of the year | **5,125,000** | **₱1,000,000,000** | 10,000,000 | ₱1,000,000,000 |
| Issued and outstanding: | | | | |
| At beginning of the year | **5,125,000** | **₱512,500,000** | 3,500,000 | ₱350,000,000 |
| Issuances during the year | **–** | **–** | 1,625,000 | 162,500,000 |
| At end of the year | **5,125,000** | **₱512,500,000** | 5,125,000 | ₱512,500,000 |

On October 18, 2013, the SEC approved the increase in authorized capital stock from ₱350,000,000 divided into 3,500,000 shares with par value of ₱100 per share to ₱1,000,000,000 divided into 10,000,000 shares with par value of ₱100 per share. Thus, the ₱162,500,000 stock dividends declared in 2012 has been issued in 2013.

## 16. Net Insurance Earned Premiums

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

| | **2014** | 2013 |
|---|---|---|
| Gross premiums on insurance contracts: | | |
| Direct insurance | **₱3,830,551,728** | ₱3,374,020,750 |
| Assumed reinsurance | **171,960,971** | 139,851,211 |
| Total gross premiums on insurance contracts (Note 12) | **4,002,512,699** | 3,513,871,961 |
| Gross change in provision for unearned premiums (Note 12) | **(226,964,490)** | (264,532,735) |
| **Total gross earned premiums on insurance contracts** (Note 12) | **3,775,548,209** | 3,249,339,226 |
| Reinsurers' share of insurance contracts premiums: | | |
| Direct insurance | **2,032,652,896** | 1,649,134,156 |
| Assumed reinsurance | **57,730,316** | 41,160,560 |
| Total reinsurers' share of insurance contracts premiums (Note 12) | **2,090,383,212** | 1,690,294,716 |
| Reinsurers' share of gross change in provision for unearned premiums (Note 12) | **(66,322,153)** | (94,747,971) |
| **Total reinsurers' share of gross earned premiums on insurance contracts** (Note 12) | **2,024,061,059** | 1,595,546,745 |
| **Net insurance earned premiums** | **₱1,751,487,150** | ₱1,653,792,481 |

## 17. Interest, Dividend and Other Income

Interest income consists of the following:

| | 2014 | 2013 |
|---|---|---|
| Long-term investments | **₱67,748,446** | ₱59,370,616 |
| Cash equivalent (short-term deposits) | **6,848,445** | 16,103,978 |
| Cash in banks (savings deposits) | **1,575,222** | 770,486 |
| Salary loans | **240,067** | 205,792 |
| Short-term investments | **34,178** | 26,072 |
| Car loan | **21,859** | 22,652 |
| | **₱76,468,217** | ₱76,499,596 |

Dividend income from AFS equity financial assets amounted to ₱3,162,116 and ₱1,308,257 in 2014 and 2013, respectively.

Other income consists of:

| | 2014 | 2013 |
|---|---|---|
| Other underwriting income | **₱40,132,341** | ₱30,633,055 |
| Foreign exchange gain: | | |
| Realized | **1,578,525** | 279,325 |
| Unrealized | **–** | 11,189,710 |
| Gain (loss) on sale of property and equipment | **(74,430)** | 275,924 |
| Others | **2,526,685** | 201,217 |
| | **₱44,163,121** | ₱42,579,231 |

Other underwriting income pertains to the fronting fees earned by the Company for fronting arrangements made during the year with several agencies and intermediaries.

## 18. 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 | **₱2,765,532,024** | ₱1,251,170,962 |
| Assumed reinsurance | **66,190,655** | 17,057,280 |
| **Total insurance contract benefits and claims paid** (Note 12) | **₱2,831,722,679** | ₱1,268,228,242 |

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 | **₱1,917,638,128** | ₱655,501,569 |
| Assumed insurance | **36,829,397** | 4,984,244 |
| **Total reinsurers' share of insurance contract benefits and claims paid** (see Note 12) | **₱1,954,467,525** | ₱660,485,813 |

Gross change in insurance contract liabilities:

| | **2014** | 2013 |
|---|---|---|
| Change in provision for claims reported | **(₱1,242,510,217)** | ₱2,166,658,565 |
| Change in provision for IBNR | **(3,005,990)** | 408,136 |
| **Total gross change in insurance contract liabilities** (Note 12) | **(₱1,245,516,207)** | ₱2,167,066,701 |

Reinsurers' share of gross change in insurance contract liabilities:

| | **2014** | 2013 |
|---|---|---|
| Reinsurers' share of gross change in insurance contract liabilities | **(₱1,133,062,730)** | ₱2,009,994,204 |
| Reinsurers' share of change in provision for IBNR | **(19,437,256)** | 18,797,206 |
| **Total reinsurers' share of gross change in insurance contract liabilities** (Note 12) | **(₱1,152,499,986)** | ₱2,028,791,410 |

19. **Operating Expenses**

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Salaries, allowances and employee benefits (Note 20) | **₱256,853,711** | ₱232,409,491 |
| Other underwriting expense | **68,781,043** | 12,024,261 |
| Outside services | **66,695,633** | 49,844,009 |
| Advertising and promotion | **32,869,165** | 17,139,075 |
| Depreciation and amortization of property and equipment (Note 9) | **25,677,279** | 21,094,161 |
| Transportation and travel | **13,835,876** | 12,833,347 |
| Communication and postage | **13,787,488** | 13,133,237 |
| Supplies | **12,423,934** | 9,632,754 |
| Rent (Note 24) | **11,213,336** | 10,187,236 |
| Loss on impairment of AFS financial assets (Note 6) | **10,219,296** | 5,051,231 |
| Representation and entertainment | **7,819,193** | 7,400,614 |
| Utilities | **6,965,836** | 8,114,558 |
| Unrealized foreign exchange losses | **4,155,378** | – |
| Taxes and licenses | **3,659,547** | 2,479,323 |
| Association and pool dues | **2,423,959** | 2,352,934 |
| Provision for doubtful accounts (Note 5) | **2,336,708** | 18,468,802 |
| Repairs and maintenance | **1,885,653** | 2,062,737 |
| Insurance | **909,004** | 904,570 |
| Amortization of intangible asset (Note 11) | **68,452** | 62,748 |
| Others | **3,945,110** | 3,011,454 |
| | **₱546,525,601** | ₱428,206,542 |

## 20. Salaries, Allowances and Employee Benefits

Expenses recognized for salaries, allowances and employee benefits are presented below.

| | 2014 | 2013 |
|---|---|---|
| Salaries and wages | **₱140,973,265** | ₱126,366,385 |
| Allowances and bonuses | **49,841,648** | 49,138,144 |
| Other employee benefits | **28,642,342** | 26,696,596 |
| Retirement expense (Note 21) | **24,295,899** | 19,524,849 |
| Director's fees and allowances | **6,420,000** | 4,670,000 |
| Social security costs | **5,060,482** | 4,471,729 |
| Philhealth insurance contribution | **1,177,175** | 1,108,788 |
| Pag-ibig contribution | **442,900** | 433,000 |
| | **₱256,853,711** | ₱232,409,491 |

Other employee benefits pertain to the clothing and medical allowances, leave conversion, and holiday pay of the employees during the year.

## 21. Pension Benefits

The following tables summarize the components of net benefit expense recognized in the statement of comprehensive income and the amounts recognized in the statement of financial position:

*Net Benefit Expense*

| | 2014 | 2013 |
|---|---|---|
| Current service cost | **₱19,982,500** | ₱15,480,200 |
| Net interest cost | **4,313,399** | 4,044,649 |
| Net benefit expense | **₱24,295,899** | ₱19,524,849 |
| Actual return on plan assets | **₱4,579,966** | ₱4,922,449 |

*Remeasurement Effects to be Recognized in OCI*

| | 2014 | 2013 |
|---|---|---|
| Actuarial loss | **(₱10,971,902)** | (₱23,688,254) |
| Return on assets (excluding amount included in net interest cost) | **(76,847)** | 743,866 |
| Total amount to be recognized in OCI | **(₱11,048,749)** | (₱22,944,388) |

*Net Pension Obligation*

| | 2014 | 2013 |
|---|---|---|
| Benefit obligation | **₱212,813,800** | ₱190,951,300 |
| Plan assets | **(101,608,138)** | (88,452,512) |
| Net pension obligation | **₱111,205,662** | ₱102,498,788 |

Changes in the defined benefit obligation are as follows:

| | **2014** | 2013 |
|---|---|---|
| Defined benefit obligation, beginning of year | **₱190,951,300** | ₱145,923,500 |
| Current service cost | **19,982,500** | 15,480,200 |
| Actuarial losses | **10,971,902** | 23,688,254 |
| Interest cost | **8,970,212** | 8,223,232 |
| Benefits paid | **(18,062,114)** | (2,363,886) |
| Defined benefit obligation, end of year | **₱212,813,800** | ₱190,951,300 |

Changes in fair value of plan assets are as follows:

| | **2014** | 2013 |
|---|---|---|
| Fair value of plan assets, beginning of year | **₱88,452,512** | ₱65,564,987 |
| Interest income | **4,656,813** | 4,178,583 |
| Contributions | **25,966,737** | 20,328,962 |
| Actuarial gains (losses) | **(76,847)** | 743,866 |
| Benefits paid | **(17,391,077)** | (2,363,886) |
| Fair value of plan assets, end of year | **₱101,608,138** | ₱88,452,512 |

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

| | **2014** | 2013 |
|---|---|---|
| Discount rate | **4.69%** | 4.99% |
| Rate of salary increases | **10.00%** | 10.00% |

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

| | **2014** | 2013 |
|---|---|---|
| Government securities | **₱91,688,732** | ₱56,626,155 |
| Deposit in banks | **24,023** | 24,952,827 |
| Due from BSP | **3,215,000** | – |
| Other securities and debt instruments | **5,272,866** | 5,650,951 |
| Receivables | **1,471,806** | 923,767 |
| Total assets | **101,672,427** | 88,153,700 |
| Liabilities | **64,289** | – |
| Net assets | **₱101,608,138** | ₱88,153,700 |

The Company expects to contribute ₱24,426,942 to its retirement plan in 2015.

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

**2014**

| | **Change in variables** | **Impact on present value of defined benefit obligation Increase (Decrease)** |
|---|---|---|
| **Discount rate** | **+1.00%** | **(₱20,897,600)** |
| | **–1.00%** | **24,480,800** |
| **Salary increase rate** | **+1.00%** | **22,016,500** |
| | **–1.00%** | **(19,343,900)** |
| **Turnover rate** | **+2.00%** | **(12,012,700)** |
| | **–2.00%** | **14,048,000** |

2013

| | Change in variables | Impact on present value of defined benefit obligation Increase (Decrease) |
|---|---|---|
| Discount rate | +1.00% | (₱17,757,000) |
| | –1.00% | 20,787,100 |
| Salary increase rate | +1.00% | 18,744,200 |
| | –1.00% | (16,475,600) |
| Turnover rate | +2.00% | (10,000,300) |
| | –2.00% | 11,742,500 |

The average duration of the defined benefit obligation at the end of the reporting period is 17.25 years.

The following shows the maturity profile for the undiscounted benefits payments of the Company:

| | Expected Benefit Payments | | |
|---|---|---|---|
| Plan Year | Normal Retirement | Other than Normal Retirement | Total |
| Less than one year | ₱1,016,422 | ₱2,466,680 | ₱3,483,102 |
| More than one year to five years | 76,200,999 | 15,957,832 | 92,158,831 |
| More than five years to 10 years | 95,562,030 | 22,993,816 | 118,555,846 |
| More than 10 years to 15 years | 120,579,647 | 25,178,602 | 145,758,249 |
| More than 15 years to 20 years | 327,706,398 | 20,142,027 | 347,848,425 |
| More than 20 years | 391,320,618 | 11,739,343 | 403,059,961 |

## 22. **Income Tax**

Current Tax
The provision for current income tax consists of:

| | **2014** | 2013 |
|---|---|---|
| Current | **₱9,545,920** | ₱60,181,784 |
| Final | **14,977,276** | 15,492,995 |
| | **₱24,523,196** | ₱75,674,779 |

Deferred Tax
The net deferred income tax assets (liabilities) consist of the tax effects of the following:

| | **2014** | 2013 |
|---|---|---|
| Deferred tax assets: | | |
| Excess of provision for unearned premiums per books over tax basis | **₱34,264,047** | ₱42,523,751 |
| Retirement benefit obligation | **33,361,699** | 30,749,636 |
| Deferred reinsurance commissions | **27,669,511** | 10,849,112 |
| Allowance for doubtful accounts | **11,945,731** | 11,244,719 |
| Unrealized foreign exchange loss | **1,246,613** | – |
| Provision for IBNR | **12,000,000** | 7,070,620 |
| Unamortized past service cost | **6,171,399** | 5,298,183 |
| Total deferred tax assets | **126,659,000** | 107,736,021 |
| Deferred tax liabilities: | | |
| Deferred acquisition costs | **92,641,479** | 64,912,883 |
| Reserve for revaluation of property and equipment | **32,179,254** | 33,707,943 |
| Unrealized foreign exchange gain | **–** | 3,356,913 |
| Reserve for fluctuation on AFS | **173,875** | 693,116 |
| Total deferred tax liabilities | **124,994,608** | 102,670,855 |
| | **₱1,664,392** | ₱5,065,166 |

Movements in deferred tax that were recognized in OCI and profit or loss in 2014 and 2013 follows:

| | **2014** | 2013 |
|---|---|---|
| Recognized in other comprehensive income | **₱3,833,866** | (₱23,404,397) |
| Recognized in profit or loss | **(7,234,640)** | 15,797,684 |
| | **(3,400,774)** | (7,606,713) |

A reconciliation of the statutory income tax rate to effective income tax rate in 2013 follows:

| | **2014** | 2013 |
|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% |
| Tax effects of: | | |
| Interest income already subjected to final taxes | **(5.76%)** | (2.96%) |
| Gain on sale of AFS financial assets | **(2.57%)** | (3.53%) |
| Dividend income | **(0.69%)** | (0.16%) |
| Nondeductible expenses | **2.24%** | 0.61% |
| Effective income tax rate | **23.22%** | 23.96% |

## 23. Related Party Transactions

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

The Company, in its regular conduct of business, has entered into transactions with related parties principally consisting of interest income and cash balances.

**December 31, 2014**

| Category | Volume/ Amount | Outstanding Balance | Terms | Condition |
|---|---|---|---|---|
| **MBTC** | | | | |
| Cash in bank | **₱–** | **₱105,350,013** | **On demand, 0.50% to 1%** | **Unsecured; no impairment** |
| Cash equivalents | **–** | **16,500,000** | **91 days, 1.25%** | **Unsecured; no impairment** |
| Interest income | **567,757** | **–** | **–** | **–** |
| AFS equity securities | **–** | **35,255,658** | **–** | **Unsecured; no impairment** |
| Dividend income | **385,023** | **–** | **–** | **–** |
| **MCC** | | | | |
| Interest income | **385,165** | **–** | **–** | **Unsecured; no impairment** |
| **FMIC** | | | | |
| AFS debt securities | **–** | **20,301,986** | **5.25 to 7 years, 5.68% to 5.75%** | **Unsecured; no impairment** |
| Interest income | **1,142,500** | **–** | **–** | **–** |
| **PS Bank** | | | | |
| Cash in bank | **–** | **15,116,367** | **On demand, 0.50% to 1%** | **Unsecured; no impairment** |
| Cash equivalents | **–** | **148,153,000** | **31 to 47 days, 0.75% to 2%** | **Unsecured; no impairment** |
| AFS debt securities | **–** | **22,074,803** | **10 to 10.25 years, 5.50% to 5.75%** | **Unsecured; no impairment** |
| AFS equity securities | **–** | **7,641,889** | **–** | **Unsecured; no impairment** |
| Interest income | **3,890,571** | **–** | **–** | **–** |
| Dividend income | **258,707** | **–** | **–** | **–** |
| **GT Capital Holdings** | | | | |
| AFS equity securities | **–** | **5,160,000** | **–** | **Unsecured; no impairment** |
| AFS debt securities | **–** | **19,918,870** | **10 years, 5.10%** | **Unsecured; no impairment** |
| Dividend income | **15,000** | **–** | **–** | **–** |
| Interest income | **1,018,740** | **–** | **–** | **–** |
| **Key Management Personnel** | | | | |
| Salaries and Wages | **38,124,311** | **–** | **–** | **–** |
| Directors' fees and allowance | **5,655,833** | **–** | **–** | **–** |
| Other employee benefits | **828,836** | **–** | **–** | **–** |

December 31, 2013

| Category | Volume/ Amount | Outstanding Balance | Terms | Condition |
|---|---|---|---|---|
| **MBTC** | | | | |
| Cash in bank | ₱– | ₱23,434,474 | On demand, 0.50% to 1% | Unsecured; no impairment |
| Cash equivalents | – | 16,500,000 | 90 days, 1.25% to 5% | Unsecured; no impairment |
| Interest income | 1,561,615 | – | – | – |
| AFS equity securities | – | 29,843,988 | – | Unsecured; no impairment |
| Dividend income | 263,107 | – | – | – |
| **FMIC** | | | | |
| AFS debt securities | | 20,148,611 | 7 years, 5.68% to 5.75% | Unsecured; no impairment |
| Interest income | 1,155,194 | | – | – |
| **PS Bank** | | | | |
| AFS debt securities | | 9,555,898 | 10 years, 7.1875% | Unsecured; no impairment |
| AFS equity securities | | | – | Unsecured; no impairment |
| Interest income | 574,122 | | – | – |
| **GT Capital Holdings** | | | | |
| AFS equity securities | – | 7,570,000 | – | Unsecured; no impairment |
| AFS debt securities | – | 20,511,381 | 10 years, 5.10% | Unsecured; no impairment |
| Dividend income | 30,000 | | | |
| **Key Management Personnel** | | | | |
| Salaries and Wages | 35,452,156 | – | – | – |
| Directors' fees and allowance | 3,470,000 | – | – | – |
| Other employee benefits | 2,785,683 | – | – | – |

## 24. Lease Commitments

The Company is a party under various leases covering certain offices which have lease terms between one to five years for its branches. In 2014 and 2013, "rent expense" amounted to ₱11,213,336 and ₱10,187,236, respectively, and is included under Operating Expenses account in the statement of comprehensive income (see Note 19).

Minimum lease payments due:

| | **2014** | 2013 |
|---|---|---|
| Within one (1) year | **₱7,008,868** | ₱7,198,900 |
| More than one (1) year but less than five (5) years | **7,278,164** | 3,506,592 |
| | **₱14,287,032** | ₱10,705,492 |

## 25. Management of Capital, Insurance and Financial Risks

Governance Framework

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

Regulatory Framework
The Insurance Commission (IC) capital requirements are the Fixed Capitalization Requirements and Risk-Based Capital (RBC).

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

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

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

Since these funds are held in fiduciary capacity, the Insurance Code (the "Code") contains investment provisions that the Company should observe to protect the interest of the policyholders and of the stockholders.

The three (3) general classifications of investment requirements are:

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

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

2. Reserve Investment - The Company must invest 100% of the Reserve for unearned premiums and Reserve funds withheld for authorized reinsurer in common or preferred stocks and government or private bonds, real estate and real estate loans, collateral loans, adequately secured obligations and other securities as may be approved by the Commissioner.

3. Surplus Investment - After complying with the capital and reserve investment requirements, the Company may invest any portion of its funds, representing earned surplus in stocks, bonds, real estate, equities of other financial institutions, engaged in the buying and selling of short term debt instruments, securities issued by registered enterprises under R.A. 5186, otherwise known as the Investment Incentives Act.

Section 195 of the Insurance Code, *Limitation on Dividend Declaration*, provides that a domestic nonlife insurance company shall declare or distribute dividends on its outstanding capital stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the margin of solvency required;
- the legal reserve fund required; and

- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

On August 5, 2013, the President of the Philippines approved the Republic Act No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements of all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

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

As of December 31, 2014 and 2013, the Company's estimated statutory net worth amounted to ₱1,338,302,565 and ₱1,293,179,371, respectively.

*Unimpaired capital requirement*
Insurance Memorandum Circular (IMC) 22-2008 provided that for purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement of financial position should show that the net worth or equity is at least equal to the actual paid-up capital. The Company has complied with the unimpaired capital requirement.

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

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the company's paid-up capital, contributed and contingency 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 | **₱1,338,302,565** | ₱1,293,179,371 |
| RBC requirement | **1,320,960,905** | 3,094,704,893 |
| RBC Ratio | **101%** | 42% |

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

Insurance Risk

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

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

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

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

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

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

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

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

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

Reinsurance

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota-share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets. Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus, a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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

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

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Gross Liabilities** | **Reinsurers' Share of Liabilities** | **Net Liabilities** | Gross Liabilities | Reinsurers' Share of Liabilities | Net Liabilities |
| Fire | **₱2,315,166,929** | **₱1,926,093,177** | **₱389,073,752** | ₱3,482,806,160 | ₱3,036,308,479 | ₱446,497,681 |
| Engineering | **554,510,279** | **552,258,157** | **2,252,122** | 537,254,128 | 535,016,328 | 2,237,800 |
| Bonds | **542,389,786** | **511,102,685** | **31,287,101** | 523,236,743 | 432,136,388 | 91,100,355 |
| Motorcar | **161,227,482** | **7,421,432** | **153,806,050** | 175,337,154 | 35,745,418 | 139,591,736 |
| Marine | **88,388,529** | **66,289,097** | **22,099,432** | 145,656,586 | 134,941,921 | 10,714,665 |
| Accident | **1,059,084** | – | **1,059,084** | 49,077,773 | 46,549,324 | 2,528,449 |
| Casualty | **15,554,574** | **6,717,325** | **8,837,249** | 10,444,326 | 1,684,001 | 8,760,325 |
| | **₱3,678,296,663** | **₱3,069,881,873** | **₱608,414,790** | ₱4,923,812,870 | ₱4,222,381,859 | ₱701,431,011 |

*Terms and Conditions*

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

For general insurance contracts, 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 end of the reporting period.

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.

<u>Assumptions</u>

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 claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example once off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions includes variation in interest rate, delays in settlement and changes in foreign currency rates.

<u>Sensitivities</u>

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 reasonable possible movement in key assumptions with all other assumptions held constant, on the statement of comprehensive income and equity.

**December 31, 2014**

| | Change in assumptions | Increase (decrease) on gross liabilities | Increase (decrease) on net liabilities | Increase (decrease) on profit before tax | Increase (decrease) on equity |
|---|---|---|---|---|---|
| Average claim cost | **-10.13%** | **(₱372,611,452)** | **(₱61,632,418)** | **(₱61,632,418)** | **(₱43,142,693)** |
| Average number of claims | **15.05%** | **553,583,648** | **91,566,426** | **91,566,426** | **64,096,498** |

December 31, 2013

| | Change in assumptions | Increase (decrease) on gross liabilities | Increase (decrease) on net liabilities | Increase (decrease) on profit before tax | Increase (decrease) on equity |
|---|---|---|---|---|---|
| Average claim cost | -15.33% | (₱754,820,513) | (₱107,529,374) | (₱107,529,374) | (₱75,270,562) |
| Average number of claims | 6.80% | 334,819,275 | 47,697,309 | 47,697,309 | 33,388,116 |

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, surety, marine and motorcar lines.

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

**Gross general insurance contract liabilities for 2014**

| Accident year | 2005 and prior | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claims costs:** | | | | | | | | | | | |
| At the end of accident year | **₱186,563,914** | **₱661,934** | **₱14,334,676** | **₱263,825,301** | **₱640,186,794** | **₱200,636,972** | **₱15,753,500** | **₱94,635,821** | **₱1,230,184,510** | **₱905,977,835** | **₱905,977,835** |
| One year later | **219,333,668** | **922,235** | **15,826,933** | **275,247,452** | **1,162,167,386** | **203,271,559** | **25,088,497** | **575,934,819** | **2,446,020,320** | **–** | **2,446,020,320** |
| Two years later | **244,538,800** | **2,498,895** | **7,875,489** | **280,532,759** | **720,991,038** | **230,955,161** | **301,216,457** | **968,137,572** | **–** | **–** | **968,137,572** |
| Three years later | **248,505,432** | **3,241,684** | **10,271,164** | **285,883,226** | **815,778,107** | **265,937,746** | **632,744,571** | **–** | **–** | **–** | **632,744,571** |
| Four years later | **65,707,542** | **3,897,947** | **12,885,426** | **467,956,716** | **1,060,632,356** | **579,308,789** | **–** | **–** | **–** | **–** | **579,308,789** |
| Five years later | **80,206,011** | **8,738,893** | **149,575,548** | **1,370,883,199** | **1,817,691,473** | **–** | **–** | **–** | **–** | **–** | **1,817,691,473** |
| Six years later | **78,131,373** | **50,209,487** | **87,940,818** | **1,349,460,526** | **–** | **–** | **–** | **–** | **–** | **–** | **1,349,460,526** |
| Seven years later | **105,527,621** | **194,083,843** | **231,389,260** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **231,389,260** |
| Eight years later | **163,427,388** | **862,329,569** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **862,329,569** |
| Nine years later | **413,972,453** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **413,972,453** |
| Current estimate of cumulative claims | **413,972,453** | **862,329,569** | **231,389,260** | **1,349,460,526** | **1,817,691,473** | **579,308,789** | **632,744,571** | **968,137,572** | **2,446,020,320** | **905,977,835** | **10,207,032,368** |
| Cumulative payments to date | **(227,408,540)** | **(861,667,635)** | **(217,054,584)** | **(1,085,635,225)** | **(1,177,504,679)** | **(378,671,817)** | **(616,991,071)** | **(873,501,751)** | **(1,215,835,810)** | **–** | **(6,654,271,112)** |
| **Total gross insurance liabilities included in the statement of financial position** | **₱186,563,913** | **₱661,934** | **₱14,334,676** | **₱263,825,301** | **₱640,186,794** | **₱200,636,972** | **₱15,753,500** | **₱94,635,821** | **₱1,230,184,510** | **₱905,977,835** | **₱3,552,761,256** |

**Net general insurance contract liabilities for 2014**

| Accident year | 2005 and prior | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claims costs:** | | | | | | | | | | | |
| At the end of accident year | **₱24,563,914** | **₱53,599** | **₱13,834,676** | **₱79,114** | **₱759,810** | **₱4,030,315** | **₱4,347,241** | **₱38,472,098** | **₱77,866,102** | **₱392,346,308** | **₱392,346,308** |
| One year later | **54,250,481** | **613,100** | **14,366,088** | **31,531,218** | **19,252,963** | **35,732,376** | **10,259,837** | **74,616,059** | **460,808,889** | **–** | **460,808,889** |
| Two years later | **49,071,829** | **929,006** | **6,401,540** | **33,458,902** | **22,917,121** | **55,485,373** | **49,935,956** | **344,955,993** | **–** | **–** | **344,955,993** |
| Three years later | **45,808,095** | **1,289,104** | **8,773,133** | **34,567,478** | **22,907,522** | **74,948,563** | **297,265,646** | **–** | **–** | **–** | **297,265,646** |
| Four years later | **34,333,467** | **1,769,415** | **10,143,696** | **72,121,761** | **92,628,453** | **236,349,738** | **–** | **–** | **–** | **–** | **236,349,738** |
| Five years later | **36,256,302** | **1,794,801** | **22,582,800** | **133,626,285** | **325,469,081** | **–** | **–** | **–** | **–** | **–** | **325,469,081** |
| Six years later | **38,019,017** | **4,382,838** | **39,954,236** | **294,147,168** | **–** | **–** | **–** | **–** | **–** | **–** | **294,147,168** |
| Seven years later | **54,886,684** | **40,949,155** | **172,312,900** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **172,312,900** |
| Eight years later | **49,504,848** | **176,876,504** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **176,876,504** |
| Nine years later | **217,413,062** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **217,413,062** |
| Current estimate of cumulative claims | **217,413,062** | **176,876,504** | **172,312,900** | **294,147,168** | **325,469,081** | **236,349,738** | **297,265,646** | **344,955,993** | **460,808,889** | **392,346,308** | **2,917,945,289** |
| Cumulative payments to date | **(192,849,156)** | **(176,822,905)** | **(158,478,224)** | **(294,068,054)** | **(324,709,271)** | **(232,319,423)** | **(292,918,405)** | **(306,483,895)** | **(382,942,787)** | **–** | **(2,361,592,120)** |
| **Total net insurance liabilities included in the statement of financial position** | **₱24,563,906** | **₱53,599** | **₱13,834,676** | **₱79,114** | **₱759,810** | **₱4,030,315** | **₱4,347,241** | **₱38,472,098** | **₱77,866,102** | **₱392,346,308** | **₱556,353,169** |

Financial Instruments
The table below presents the carrying amounts and fair values of the Company's non-derivative financial instruments as of December 31, 2014 and 2013.

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Loans and Receivables** | | | | |
| Cash and cash equivalents | **₱599,547,259** | **₱599,547,259** | ₱864,795,598 | ₱864,795,598 |
| Short-term Investments | **24,360,000** | **24,360,000** | 1,300,000 | 1,300,000 |
| Insurance receivables - net | **2,025,774,614** | **2,025,774,614** | 1,608,861,038 | 1,608,861,038 |
| Loans and receivables: | | | | |
| Accounts receivable | **27,241,356** | **27,241,356** | 25,731,567 | 25,731,567 |
| Accrued income | **12,414,518** | **12,414,518** | 12,866,527 | 12,866,527 |
| **AFS Financial Assets** | | | | |
| Equity securities | **257,654,802** | **257,654,802** | 145,215,366 | 145,215,366 |
| Government debt | **780,565,794** | **780,565,794** | 850,098,893 | 850,098,893 |
| Private debt | **335,936,743** | **335,936,743** | 302,969,128 | 302,969,128 |
| **Total Financial Assets** | **₱4,063,495,086** | **₱4,063,495,086** | ₱3,811,838,117 | ₱3,811,838,117 |
| **Other Financial Liabilities:** | | | | |
| Insurance payables: | | | | |
| Due to reinsurers and ceding companies | **₱382,673,782** | **₱382,673,782** | ₱272,964,675 | ₱272,964,675 |
| Funds held for reinsurers | **50,437,820** | **50,437,820** | 23,277,568 | 23,277,568 |
| Commissions payable | **287,499,553** | **287,499,553** | 283,634,233 | 283,634,233 |
| Accounts payable and accrued expenses | **239,003,245** | **239,003,245** | 265,980,238 | 265,980,238 |
| **Total Other Financial Liabilities** | **₱959,614,400** | **₱959,614,400** | ₱845,856,714 | ₱845,856,714 |

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

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

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

Fair Value Hierarchy
The Company classifies its financial assets and property and equipment at fair value as follows:

**December 31, 2014**

| | **Date of valuation** | **Quoted in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
|---|---|---|---|---|---|
| **Assets measured at fair value:** | | | | | |
| AFS financial assets | | | | | |
| Government debt securities | **December 31** | **₱780,565,794** | **₱–** | **₱–** | **₱780,565,794** |
| Private debt securities | **December 31** | **335,936,743** | – | – | **335,936,743** |
| Quoted equity securities | | | | | |
| Common shares | **December 31** | **177,378,152** | – | – | **177,378,152** |
| Preferred shares | **December 31** | **25,330,000** | – | – | **25,330,000** |
| Club shares | **December 31** | **54,890,000** | – | – | **54,890,000** |
| Property and equipment | | | | | |
| Real estate properties | **October 1, 2013** | – | – | **137,887,306** | **137,887,306** |
| Total | | **₱1,374,100,689** | **₱–** | **₱137,887,306** | **₱1,511,987,995** |

December 31, 2013

| | Date of valuation | Quoted in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|---|
| Assets measured at fair value: | | | | | |
| AFS financial assets | | | | | |
| Government debt securities | December 31 | ₱850,098,893 | ₱– | ₱– | ₱850,098,893 |
| Private debt securities | December 31 | 302,969,128 | – | – | 302,969,128 |
| Quoted equity securities | | | | | |
| Common shares | December 31 | 88,908,716 | – | – | 88,908,716 |
| Preferred shares | December 31 | 10,420,000 | – | – | 10,420,000 |
| Club shares | December 31 | 45,830,000 | – | – | 45,830,000 |
| Property and equipment | | | | | |
| Real estate properties | October 1 | – | – | 144,282,558 | 144,282,558 |
| Total | | ₱1,298,226,737 | ₱– | ₱144,282,558 | ₱1,442,509,295 |

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

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

As of December 31, 2014 and 2013, the Company classifies AFS financial assets under Level 1 of the fair value hierarchy.

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 measurements.

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

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

The Company's objectives in managing exposure to financial risks include providing financial security to policyholders, ensure prompt payment of its obligations and to provide owners with a satisfactory return on their investments.
To ensure that these objectives are met, the Company's policies and procedures require monitoring of financial risks by the Comptroller and regularly reviewed by the BOD.

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

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

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

The credit control policy is regularly reviewed by the management and amended as necessary.

For cash and cash equivalents and investments, the Company considers the safety of the investment, yield or income, liquidity, diversification, capital growth and appreciation. The following are the acceptable instruments set up by the Investment Committee in order of priority:

1. Government securities
2. Special savings accounts/ bank promissory notes
3. Commercial papers with credit rating of two (2) for short term and B for long term
4. Preferred and common stocks (Blue chip stocks only)

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

| | **2014** | 2013 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | **₱599,104,787** | ₱864,353,159 |
| Short-term Investments | **24,360,000** | 1,300,000 |
| Insurance receivables | **2,025,774,614** | 1,608,861,038 |
| Financial assets: | | |
| AFS financial assets | | |
| Quoted equity securities | **257,598,152** | 145,158,716 |
| Unquoted equity securities | **56,650** | 56,650 |
| Quoted debt securities | **1,116,502,537** | 1,153,068,021 |
| Loans and receivables | **39,655,874** | 38,598,094 |
| | **₱4,063,052,614** | ₱3,811,395,678 |

The Company does not hold any collateral held as security and other credit enhancements on its financial assets as of December 31, 2014 and 2013. Therefore, the Company's maximum exposure to credit risk is equal to the carrying amount of its financial assets as of December 31, 2014 and 2013.

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 | |
|---|---|---|---|---|
| | **Investment Grade** | **Satisfactory** | **or Impaired** | **Total** |
| Cash and cash equivalents | **₱599,104,787** | **₱–** | **₱–** | **₱599,104,787** |
| Short-term Investments | **24,360,000** | **–** | **–** | **24,360,000** |
| Insurance receivables: | | | | |
| Premiums receivable and agents' balances | **800,751,215** | **–** | **332,575,634** | **1,133,326,849** |
| Reinsurance recoverable on paid losses | **725,123,364** | **–** | **127,070,002** | **852,193,366** |
| Bonds recoverable on paid losses | **828,502** | **–** | **32,789,112** | **33,617,614** |
| Due from ceding companies and reinsurers | **22,637,370** | **–** | **18,146,249** | **40,783,619** |
| Funds held by ceding companies | **5,658,676** | **–** | **–** | **5,658,676** |
| Financial assets: | | | | |
| AFS financial assets: | | | | |
| Quoted equity securities: | | | | |
| Common shares | **155,280,626** | **–** | **32,316,822** | **187,597,448** |
| Preferred shares | **25,330,000** | **–** | **–** | **25,330,000** |
| Club shares | **54,890,000** | **–** | **–** | **54,890,000** |
| Unquoted equity securities: | | | | |
| Common shares | **56,650** | **–** | **–** | **56,650** |
| Government debt securities: | | | | |
| Local currency | **702,190,716** | **–** | **–** | **702,190,716** |
| Foreign currency | **78,375,078** | **–** | **–** | **78,375,078** |
| Private debt securities | **335,936,743** | **–** | **–** | **335,936,743** |
| Other receivables: | | | | |
| Accounts receivable | **27,241,356** | **–** | **13,593** | **27,254,949** |
| Accrued income | **12,414,518** | **–** | **–** | **12,414,518** |
| Total | **₱3,570,179,601** | **₱–** | **₱542,911,412** | **₱4,113,091,013** |

December 31, 2013

| | Neither Past Due nor Impaired | | Past Due | |
|---|---|---|---|---|
| | Investment Grade | Satisfactory | or Impaired | Total |
| Cash and cash equivalents | ₱864,353,159 | ₱– | ₱– | ₱864,353,159 |
| Short-term Investments | 1,300,000 | – | – | 1,300,000 |
| Insurance receivables: | | | | |
| Premiums receivable and agents' balances | 556,753,730 | – | 378,320,879 | 935,074,609 |
| Reinsurance recoverable on paid losses | 486,555,062 | – | 140,101,360 | 626,656,422 |
| Bonds recoverable on paid losses | 125,626 | – | 30,576,691 | 30,702,317 |
| Due from ceding companies and reinsurers | 28,677,972 | – | 22,326,691 | 51,004,663 |
| Funds held by ceding companies | 2,891,829 | – | – | 2,891,829 |
| Financial assets: | | | | |
| AFS financial assets: | | | | |
| Quoted equity securities: | | | | |
| Common shares | 83,857,485 | – | 8,308,466 | 92,165,951 |
| Preferred shares | 10,420,000 | – | – | 10,420,000 |
| Club shares | 45,830,000 | – | – | 45,830,000 |
| Unquoted equity securities: | | – | – | |
| Common shares | 56,650 | – | – | 56,650 |
| Government debt securities: | | | | |
| Local currency | 755,385,137 | – | – | 755,385,137 |
| Foreign currency | 94,713,756 | – | – | 94,713,756 |
| Private debt securities | 302,969,128 | – | – | 302,969,128 |
| Other receivables: | | – | – | |
| Accounts receivable | 25,731,567 | – | 13,593 | 25,745,160 |
| Accrued income | 12,866,527 | – | – | 12,866,527 |
| Total | ₱3,272,487,628 | ₱– | ₱579,647,680 | ₱3,852,135,308 |

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

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

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

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

**December 31, 2014**

| | **Age analysis of financial assets past-due but not impaired** | | | | **Total past due but not impaired** | **Past-due and impaired** | **Total** |
|---|---|---|---|---|---|---|---|
| | **1 to 30 days** | **31 to 60 days** | **61 to 90 days** | **over 90 days** | | | |
| Insurance receivables: | | | | | | | |
| Premiums receivable and agents' balances | **₱75,950,102** | **₱58,423,015** | **₱35,129,250** | **₱129,267,757** | **₱298,770,124** | **₱33,805,510** | **₱332,575,634** |
| Reinsurance recoverable on paid losses | **5,582,560** | **12,728,554** | **6,336,988** | **99,421,900** | **124,070,002** | **3,000,000** | **127,070,002** |
| Bonds recoverable on paid losses | **1,166,540** | **–** | **–** | **31,622,572** | **32,789,112** | **–** | **32,789,112** |
| Due from ceding companies and reinsurers | **3,487,193** | **1,488,868** | **861,056** | **9,309,132** | **15,146,249** | **3,000,000** | **18,146,249** |
| AFS financial assets | **–** | **–** | **–** | **–** | **–** | **32,316,822** | **32,316,822** |
| Accounts receivable | **–** | **–** | **–** | **–** | **–** | **13,593** | **13,593** |
| Total | **₱86,186,395** | **₱72,640,437** | **₱42,327,294** | **₱269,621,361** | **₱470,775,487** | **₱72,135,925** | **₱542,911,412** |

December 31, 2013

| | Age analysis of financial assets past-due but not impaired | | | | Total past due but not impaired | Past-due and impaired | Total |
|---|---|---|---|---|---|---|---|
| | 1 to 30 days | 31 to 60 days | 61 to 90 days | over 90 days | | | |
| Insurance receivables: | | | | | | | |
| Premiums receivable and agents' balances | ₱85,259,699 | ₱37,120,086 | ₱31,812,401 | ₱192,659,890 | ₱346,852,076 | ₱31,468,803 | ₱378,320,879 |
| Reinsurance recoverable on paid losses | 4,352,609 | 174,526 | 8,253,389 | 124,320,836 | 137,101,360 | 3,000,000 | 140,101,360 |
| Bonds recoverable on paid losses | – | – | 209,634 | 30,367,057 | 30,576,690 | – | 30,576,691 |
| Due from ceding companies and reinsurers | 3,293,898 | 2,207,895 | 1,307,053 | 12,517,845 | 19,326,691 | 3,000,000 | 22,326,691 |
| AFS financial assets | – | – | – | – | – | 8,308,466 | 8,308,466 |
| Accounts receivable | – | – | – | – | – | 13,593 | 13,593 |
| Total | ₱92,906,206 | ₱39,502,507 | ₱41,582,476 | ₱359,865,628 | ₱533,856,817 | ₱45,790,862 | ₱579,647,680 |

*Liquidity risk*

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

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

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

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

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

**December 31, 2014**

| | No term | Up to a year | 1 to 3 years | 3 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Cash and cash equivalents** | **₱–** | **₱599,547,259** | **₱–** | **₱–** | **₱–** | **₱599,547,259** |
| **Short-term Investments** | **–** | **24,360,000** | **–** | **–** | **–** | **24,360,000** |
| **Insurance receivables** | **–** | **2,025,774,614** | **–** | **–** | **–** | **2,025,774,614** |
| **Financial assets** | | | | | | |
| **AFS financial assets** | **257,654,802** | **25,251,251** | **249,768,324** | **99,152,867** | **742,330,095** | **1,374,157,339** |
| **Loans and receivables** | **–** | **39,655,874** | **–** | **–** | **–** | **39,655,874** |
| **Reinsurance assets** | **–** | **3,069,881,873** | **–** | **–** | **–** | **3,069,881,873** |
| **Total financial assets** | **₱257,654,802** | **₱5,784,470,871** | **₱249,768,324** | **₱99,152,867** | **₱742,330,095** | **₱7,133,376,959** |
| **Insurance contract liabilities** | **₱–** | **₱3,678,296,663** | **₱–** | **₱–** | **₱–** | **₱3,678,296,663** |
| **Insurance payables** | **–** | **433,111,602** | **–** | **–** | **–** | **433,111,602** |
| **Commissions payable** | **–** | **287,499,553** | **–** | **–** | **–** | **287,499,553** |
| **Accounts payable and accrued expenses** | **–** | **239,003,246** | **–** | **–** | **–** | **239,003,246** |
| **Total financial liabilities** | **₱–** | **₱4,637,911,064** | **₱–** | **₱–** | **₱–** | **₱4,637,911,064** |

December 31, 2013

| | No term | Up to a year | 1 to 3 years | 3 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | ₱– | ₱864,795,598 | ₱– | ₱– | ₱– | ₱864,795,598 |
| Short-term Investments | – | 1,300,000 | – | – | – | 1,300,000 |
| Insurance receivables | – | 1,608,861,038 | – | – | – | 1,608,861,038 |
| Financial assets | | | | | | |
| AFS financial assets | 145,215,366 | 31,074,450 | 97,048,002 | 188,931,792 | 836,013,777 | 1,298,283,387 |
| Loans and receivables | – | 38,598,094 | – | – | – | 38,598,094 |
| Reinsurance assets | – | 4,222,381,859 | – | – | – | 4,222,381,859 |
| Total financial assets | ₱145,215,366 | ₱6,767,011,039 | ₱97,048,002 | ₱188,931,792 | ₱836,013,777 | ₱8,034,219,976 |
| Insurance contract liabilities | ₱– | ₱4,923,812,870 | ₱– | ₱– | ₱– | ₱4,923,812,870 |
| Insurance payables | – | 296,242,243 | – | – | – | 296,242,243 |
| Commissions payable | – | 283,634,233 | – | – | – | 283,634,233 |
| Accounts payable and accrued expenses | – | 265,980,240 | – | – | – | 265,980,240 |
| Total financial liabilities | ₱– | ₱5,769,669,586 | ₱– | ₱– | ₱– | ₱5,769,669,586 |

*Market risk*

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

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

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

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

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

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

The following table summarizes the Company's exposure to foreign currency exchange risk as of December 31, 2014 and 2013:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **US$** | **PHP** | US$ | PHP |
| **Assets** | | | | |
| Cash and cash equivalents | **$5,682,657** | **₱254,123,939** | $1,545,427 | ₱68,609,232 |
| AFS financial assets | **2,064,558** | **114,687,031** | 2,441,678 | 108,398,295 |
| | **$7,747,215** | **₱368,810,970** | $3,987,105 | ₱177,007,527 |

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

**December 31, 2014**

| | **Change in variables** | **Impact on profit before tax Increase (decrease)** |
|---|---|---|
| **USD** | **0.64%** | **₱2,213,471** |
| **USD** | **-0.64%** | **(2,213,471)** |

December 31, 2013

| | Change in variables | Impact on profit before tax Increase (decrease) |
|---|---|---|
| USD | +3.00% | ₱5,310,226 |
| USD | -3.00% | (5,310,226) |

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

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

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk. The Company's fixed rate investments in particular are exposed to fair value interest rate risk.

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

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

| | | Maturity | | | | |
|---|---|---|---|---|---|---|
| | **Interest Rates** | **Within 1 year** | **1-3 years** | **3-5 years** | **Over 5 years** | **Total** |
| AFS financial assets | | | | | | |
| **2014** | **2.13% - 9.13%** | **₱25,251,251** | **₱249,768,324** | **₱99,152,867** | **₱742,330,095** | **₱1,116,502,537** |
| 2013 | 2.45% - 7.81% | 31,074,450 | 97,048,002 | 188,931,792 | 836,013,777 | 1,153,068,021 |

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

**December 31, 2014**

| | **Change in variables** | **Impact on equity Increase (decrease)** |
|---|---|---|
| **AFS Debt securities** | **+150 basis points** | **(₱126,730,015)** |
| | **–150 basis points** | **154,246,470** |

December 31, 2013

| | Change in variables | Impact on equity Increase (decrease) |
|---|---|---|
| AFS Debt securities | +150 basis points | (₱146,764,190) |
| | –150 basis points | 192,985,845 |

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

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

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

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

**December 31, 2014**

| | **Change in Variable** | **Impact on equity Increase (decrease)** |
|---|---|---|
| **PSEi** | **+5.00%** | **₱11,901,023** |
| **PSEi** | **-5.00%** | **(11,901,023)** |

December 31, 2013

| | Change in Variable | Impact on equity Increase (decrease) |
|---|---|---|
| PSEi | +5.00% | ₱5,742,689 |
| PSEi | -5.00% | (5,742,689) |

## 26. Reconciliation of Net Income Under PFRS to Statutory Net Income

The reconciliation of net profit under PFRS and statutory net profit follows:

| | **2014** | 2013 |
|---|---|---|
| PFRS net income | **₱105,045,584** | ₱190,019,840 |
| Difference in change in reserve for unearned premiums | **(27,532,346)** | 10,756,753 |
| Deferred acquisition costs - net | **(36,360,657)** | (17,894,296) |
| Change in IBNR | **16,431,266** | (19,029,120) |
| Tax effect of reconciling items | **(14,238,521)** | 3,567,473 |
| Statutory net income | **₱43,345,326** | ₱167,420,650 |

## 27. Contingent Liabilities

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

## 28. Supplementary Information Required Under Revenue Regulations 15-2010

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

a. The Company is a VAT-registered company with VAT output tax declaration of ₱383,372,192 for the year based on the amount reflected in the Premium Income account of ₱3,194,768,267.

The Company has zero-rated sales amounting to ₱37,562,915.

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

| | 2014 |
|---|---|
| Balance at January 1 | ₱7,188,361 |
| Current year's purchases/payments : | |
| Goods other than for resale | 12,024,169 |
| Services paid lodged under operating expenses | 81,245,718 |
| | 100,458,248 |
| Input VAT applied against Output VAT | (91,985,946) |
| **Balance at December 31** | **₱8,472,302** |

c. The DST paid on the following transactions are:

| Transaction | Amount | DST |
|---|---|---|
| Policy issuance | ₱591,393,624,606 | ₱409,378,164 |

d. Other taxes paid are:

| Transaction | Amount | Tax |
|---|---|---|
| Premium tax | ₱651,476,027 | ₱13,028,129 |
| Fringe benefit tax | 44,118 | 14,118 |

e. Details of other taxes, local and national, including real estate taxes, license and permit fees lodged under the "Taxes and Licenses" account under operating expenses follow:

| | |
|---|---|
| Local: | |
| Real estate taxes | ₱520,465 |
| Business license | 594,156 |
| Communicate tax certificate | 19,665 |
| **Total** | **₱1,134,286** |

| | |
|---|---|
| National: | |
| Motor vehicle registration fees | ₱43,650 |
| Registration fees | 10,000 |
| Miscellaneous | 450,088 |
| Assessment fees | 2,021,523 |
| **Total** | **₱2,525,261** |

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

| | 2013 |
|---|---|
| Expanded withholding taxes | ₱73,779,627 |
| Tax on compensation and benefits | 37,923,958 |
| Final withholding taxes | 10,211,109 |
| **Total** | **₱121,914,694** |

As of December 31, 2014, the Company has no tax assessments.