PERLA COMPAÑIA DE SEGUROS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

1. Corporate Information

Perla Compañia De Seguros, Inc. was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1963. An extension of corporate life for another 50 years was approved by SEC on October 17, 2011. Its primary purpose is to engage in the business and operation of all kinds of insurance at sea, on land, of properties, goods and merchandise, and all forms of transportation and conveyance against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company's registered and head office address is located on the 2nd Floor, Perla Compañia de Seguros Mansion, 117 Carlos Palanca, Jr. Street, Legaspi Village, Makati City. Its operation is complemented by 16 branches located at major cities across the country.

The financial statements of the Company for the year ended December 31, 2013 (including the comparative figures for the year ended December 31, 2012) were authorized for issue by the Board of Directors on February 21, 2014.

2. Basis of Preparation and Presentation

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

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

The Company presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within twelve months after the end of the reporting period (current) is presented in the Note 31.

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

3. Summary of Significant Accounting Policies

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

Cash and Cash Equivalents
Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash with original maturities of three months or less that are subject to insignificant risk of changes in value.

Short-term Investments
These are short-term cash investment with original maturities of more than three months but less than one year.

Financial Instruments

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

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

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

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

Classification of Financial Instruments
The Company classifies financial assets into the following categories, (i) At fair value through profit or loss (FVPL), (ii) Available-for-sale, (iii) Held-to-maturity and (iv) Loans and receivable. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

(i) Financial Assets and Financial Liabilities at FVPL

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

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

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

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

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

As of December 31, 2013 and 2012, there are no financial assets under this category.

(ii) Available-for-sale (AFS)

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

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

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate.

Included under this category are the company's cash and cash equivalents, insurance and reinsurance receivables, security deposits and other receivables.

(iv) Held-to-maturity (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. After initial measurement, HTM assets are carried at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Any changes to the carrying amount of the investment are recognized in statements of comprehensive income.

Included under this category are investments in debt instruments.

(v) Other Financial Liabilities

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral parts of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of comprehensive income.

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

Reclassification of Financial Assets

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

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

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

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

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

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

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

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

Derecognition of Financial Instruments

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

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

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

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition 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.

Accounting Policies for Insurance and Reinsurance Contracts

Insurance Contract
Insurance contract is an agreement under which one party (the insurer), accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured events) adversely affects the policyholder.

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

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

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

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

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

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

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

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

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

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

Reserve for Unearned Premiums and Reinsurance Premiums
Reserve for unearned premiums is calculated on the following basis:

(i) Reserve for unearned premium, other than marine cargo and inward treaties, are calculated using the 24th method based on gross premiums written. Under the 24th method, it is assumed that the average date of issue of all policies written during any one month is the middle of that month.

(ii) Reserve for unearned premiums on marine cargo direct business represents the premium production for the last two months of the current year.

(iii) Reserve for unearned premiums on inward treaties is taken up based on the dates the statement is received.

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

The changes in reserve for unearned premiums and reinsurance premiums is reported in the statements of income.

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

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

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

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

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

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in profit or loss and expenses in the period the recoveries are determined. Recoverable amounts are presented as part of Reinsurance assets.

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

Investment Properties
The initial cost of investment properties comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Subsequently, investment property is restated at cost less accumulated depreciation and any impairment in value.

Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense when incurred.

Depreciation of investment properties is computed using the straight-line method over the estimated useful life of 50 years.

Transfers are made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of the change in use.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the statement of income in the year of retirement or disposal.

Property and Equipment

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

Building & condominium units	50 years
Furniture, fixtures and office equipment	5-10 years
Transportation equipment	5 years

Land is carried at revalued amounts. Any revaluation increase arising on the revaluation of such property and equipment is recognized in other comprehensive income and is credited to "*Revaluation Surplus on Land*" account. Upon disposal, any revaluation increment relating to the particular property and equipment being sold is transferred to retained earnings.

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

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

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

Impairment of Non-financial Assets

The Company's investment properties and property and equipment are subject to impairment testing. All other individual asset or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

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

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

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

Contributed surplus represent additional contribution of stockholders to the Company in compliance with the requirement of the Insurance Commission.

Retained earnings include all current and prior period results of operations as disclosed in the statements of income.

Revaluation surplus comprise gains or losses due to revaluation of AFS and land, net of deferred income tax.

In accordance with Section 195 of the Insurance Code, dividend declaration or distribution from accumulated profits remaining on hand can only be made after retaining unimpaired the following:

- The entire paid-up capital 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.

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

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

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

reporting date is accounted for as "*Deferred commission income*" in the liabilities section of the statement of financial position.

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

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

Rental Income
Rental income is recognized on a straight-line basis over the term of the lease.

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

<u>Cost and Expense Recognition</u>

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

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

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

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

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

Expenses
Other cost and expenses are recognized when incurred.

<u>Income Taxes</u>
Current tax liabilities are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted as at the end of the reporting period.

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

The carrying amount of deferred tax asset is reviewed at each 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 tax assets to be utilized.

Deferred taxes relating to items recognized directly in equity are reported in other comprehensive income and not in the statement of income.

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

Retirement Benefit Cost
The Company has a contributory type of retirement benefit plan.

It provides a benefit equal to the total amount standing to the credit of employee which shall consist of the accumulated value of contributions made by the company (5% of monthly salary) including all income thereto, net of administrative fees and expenses. Contributions to the plan are reported in the statement of income.

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

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

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

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

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

Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent asset, hence, are not recognized in the financial statements.

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

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

4. Changes in Accounting Standards

New Accounting Standards and Amendments to Existing Standards Effective as of January 1, 2013
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to PFRS effective beginning January 1, 2013. The adoption however did not result to any material changes in the financial statements.

PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

(a) The gross amounts of those recognized financial assets and recognized financial liabilities;
(b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
(c) The net amounts presented in the statement of financial position;
(d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    - amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    - amounts related to financial collateral (including cash collateral); and
(e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

PFRS 10, “Consolidated Financial Statements”
This standard replaces a portion of PAS 27, “Consolidated and Separate Financial Statements” that addresses accounting for consolidated financial statements. It also addresses issues raised in SIC-12, “Consolidation - Special Purpose Entities”.

PFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The Company assessed whether or not it has control over its subsidiaries in accordance with the new definition of control and the related guidance set out in PFRS 10 and has determined that it has control on all its current subsidiaries and that all its controlled entities have been included in consolidation. The adoption of the standard did not affect the financial position and performance of the Company.

PFRS 11, “Joint Arrangements”
PFRS 11 replaces PAS 31, “Interests in Joint Ventures”, and SIC 13, “Jointly Controlled Entities - Non-Monetary Contributions by Venturers”. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. This standard did not significantly affect the Company’s financial statements.

PFRS 12, “Disclosure of Interest in Other Entities”
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, “Investments in Associates”. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of the standard affected disclosures only and did not affect the financial position and performance of the Company.

PFRS 13, Fair Value Measurement
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013. This standard did not significantly affect the Company’s financial statements.

Amendments to PAS 1, “Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon de-recognition or settlement) will be presented separately from the items that will never be recycled. The amendments affected the presentation of items of OCI and have no impact on the Company’s financial position and performance.

The amendments affect presentation only and have no impact on the Company’s financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Amendments to PAS 19, “Employee Benefits”
The revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized in the statement of income when incurred. The Amendment also include the non-recognition of corridor approach and the replacement of interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset, which is calculated by multiplying the net defined liability or asset at the beginning of the year by the discount rate used to measure the defined benefit obligation.

Amendment to PAS 27, “Separate Financial Statements”
As a consequence of the issuance of PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in the separate financial statements. The adoption of the amended standard did not affect the financial position and performance of the Company.

Amendment to PAS 28, “Investments in Associates and Joint Ventures”
As a consequence of the issuance of PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, “Investments in Associates and Joint Ventures”, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of the amended standard did not affect the financial position and performance of the Company.

Annual Improvements to PFRS (2009 to 2011 cycle)
The Annual Improvements to PFRS (2009 to 2011 cycle) contain non-urgent but necessary amendments to PFRS. These amendments are effective for annual periods beginning January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, “First-time Adoption of PFRS - Borrowing Costs”
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, “Borrowing Costs”. The amendment does not apply to the Company as it is not a first time adopter of PFRS.

PAS 1, “Presentation of Financial Statements - Clarification of the Requirements for Comparative Presentation”
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements.
An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (which are mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company’s financial position or performance.

PAS 16, “Property, Plant and Equipment - Classification of Servicing Equipment”
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment has no any impact on the Company’s financial position or performance.

PAS 32, “Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments”
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, “Income Taxes”. The Company expects that this amendment have no any impact on its financial position or performance.

PAS 34, “Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities”
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity’s previous annual financial statements for that reportable segment.

The amendment affects disclosures only and has no impact on the Company's financial position or performance.

Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. The Company assesses the impact of these amendments on its financial position or performance when they become effective.

<u>New Accounting Standard, Amendments to Existing Standards and Interpretations Effective Subsequent to December 31, 2013</u>
Standards issued but not yet effective up to date of the issuance of the Company's financial statements are listed below. The listing consists of standards and interpretations issued, which the Company reasonable expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. The Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2014
PAS 32, "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities"
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments will affect presentation only and will have no impact on the Company's financial position or performance.

PAS 36, Impairment of Assets
The amendment requires the disclosure of the level of the fair value hierarchy (from PFRS 13 *Fair Value Measurement*) within which the fair value measurement is categorized, the valuation techniques used to measure fair value less costs of disposal and the key assumptions used in the measurement of fair value measurements categorized within 'Level 2' and 'Level 3' of the fair value hierarchy if recoverable amount is fair value less costs of disposal.

Amendments to PFRS 10, PFRS 12 and PAS 27, *Investment Entities*(effective for annual periods beginning on or after January 1, 2014)
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 Company may do not expect that these amendments will have material financial impact in the consolidated financial statements.

Philippine Interpretation IFRIC 21, *Levies* (effective for annual periods beginning on or after January 1, 2014)
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that trigger 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. The Company does not expect that IFRIC 21 will have material financial impact in the consolidated financial statements.

Effective in 2015
The Annual Improvements to PFRS (2010 to 2012 cycle and 2011 to 2013) contain non-urgent but necessary amendments to PFRS. These amendments are effective for annual periods beginning on or after January 1, 2015 and are applied retrospectively. Earlier application is permitted.

Annual Improvements to PFRS (2010 to 2012 cycle)

PFRS 2, “Share-based Payments”
The amendment clarifies the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

PFRS 3, “Business Combinations”
The amendment clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

PFRS 8, “Operating Segments”
The amendment requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments. It also clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

PFRS 13, “Fair Value Measurement”
The amendment clarifies that issuing PFRS 13 and amending PFRS 9 and PAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

PAS 16, “Property, Plant and Equipment”
The amendment clarifies that when an item of property, plant and equipment is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

PAS 24, “Related Party Disclosures”
The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

PAS 38, “Intangible Assets”
The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

Annual Improvements to PFRS (2011 to 2013 cycle)

PFRS 1, “First-time Adoption of Philippine Financial Reporting Standards”
The amendment clarifies that an entity, in its first PFRS financial statements, has the choice between applying an existing and currently effective PFRS or applying early a new or revised PFRS that is not yet mandatorily effective, provided that the new or revised PFRS permits early application. An entity is required to apply the same version of the PFRS throughout the periods covered by those first PFRS financial statements.

PFRS 3, “Business Combinations”
The amendment clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

PFRS 13,”Fair Value Measurement”
The amendment clarifies that the scope of the portfolio exception defined in paragraph 52 of PFRS 13 includes all contracts accounted for within the scope of PAS 39 *Financial Instruments: Recognition and Measurement* or PFRS 9 *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32 *Financial Instruments: Presentation*.

PAS 40, “Investment Property”
The amendment clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in PFRS 3 *Business*

Combinations and investment property as defined in PAS 40 *Investment Property* requires the separate application of both standards independently of each other.

PAS 19, "Defined Benefit Plans: Employee Contributions (*Amendments to PAS 19 Employee Benefits)*
The amendment clarifies that the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in those contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered.

PFRS 9, "Financial Instruments: Classification and Measurement"
PFRS 9, as issued, 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". Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. 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 classification and measurement of financial liabilities. The Company, however, has yet to conduct a quantification of the full impact of this standard. The Company will quantify the effect of this standard in conjunction with the other phases, when issued, to present a more comprehensive picture.

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

5. Summary of Significant Accounting Judgments and Estimates

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

Judgments

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

Determination of functional currency

The Company has determined that its functional currency is the Philippine peso which is the currency of the primary economic environment in which the Company operates.

Classification of financial assets

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

The classification of financial assets as at December 31, 2013 and 2012 are as follows:

		2013		2012
Available-for-sale	**P**	**437,116,608**	P	157,176,786
Held-to-maturity		**251,029,081**		192,768,229

Distinction between investment properties and owner-occupied properties

The Company determines whether a property qualifies as investment property. If an insignificant portion is leased out under the operating lease, the property is treated as property and equipment. If the property is not occupied and is held to earn it is treated as Investment property.

Investment properties amounted to P3,775,322 in 2013 and P4,440,458 in 2012.

Determination of lease arrangements

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

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. The Company's lease arrangement is of this type.

Rent income amounted to P4,647,153 in 2013 and P4,599,306 in 2012.

Determining the appraised value of land

After recognition as an asset, an item of property and equipment whose fair value can be measured reliably can be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The appraiser valued the property through the use of *market data method*. This method of valuation involves research and investigation of market sales data of other properties comparable with the property under appraisal. These other properties are compared with the subject property as to location and physical characteristics. Adjustments of their selling price are then made with respect to the said comparative elements, as well as to compensate for the increase or decrease in value.

Revaluation is made with sufficient regularity such that the carrying amount does not differ materially from the fair value at reporting date.

Estimates

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

Determination of fair value of financial instruments

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

Level 1

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

Level 2

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

Level 3

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

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

		Level 1	Level 2	Level 3	Total
Available for sale	**2013**	**P 435,806,608**	**P -**	**P 1,310,000**	**P 437,116,608**
	2012	P 155,836,786	P -	P 1,340,000	P 157,176,786

Estimating allowance for impairment of receivable

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

No provision for impairment losses was provided in 2013 and 2012 because management believes that the reported amounts are fully collectible.

Estimating useful lives of property and equipment and investment property

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

Investment property, net of accumulated depreciation and impairment losses, amounted to P3,775,322 and P4,440,458 as at December 31, 2013 and 2012, respectively (*see Note 12*).

Property and equipment, net of accumulated depreciation and impairment losses, amounted to P99,326,907 and P102,198,670 as at December 31, 2013 and 2012, respectively (*see Note 13*).

Deferred tax asset
The Company reviews the carrying amounts of deferred tax asset at each reporting date and reduces the deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax asset as at December 31, 2013 and 2012 amounted to P6,178,015 and P5,995,855, respectively (*See Note 28)*

Impairment of non-financial asset
The Company assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Several factors are considered which could trigger that impairment has occurred. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have material adverse effect on the results of operations.
No impairment losses were provided for property and equipment and investment property in 2013 and 2012 because management believes that the carrying values approximate their fair value.

Liability for insurance claims
Estimates have to be made both of expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of the claims incurred but not yet reported at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, unreported claims significantly comprise the claims payable presented in the statement of financial position. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to statement of comprehensive income at a non-discounted amount for the time value of money.

Insurance claims payable as at December 31, 2013 and 2012 amounted to P118,002,054 and P122,724,159, respectively.

6. Fair Value Measurement

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

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

The following table presents the summary of the Company's assets and liabilities recognized in the Statements of Financial Position as of December 31, 2013.

	2013		2012	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	**P 94,637,077**	**P 94,637,077**	P 366,682,244	P 366,682,244
Short-term investment	**10,000,000**	**10,000,000**	38,682,833	38,682,833
AFS	**437,116,608**	**437,116,608**	157,176,786	157,176,786
HTM	**251,029,081**	**251,029,081**	192,768,229	192,768,229
Insurance balances receivable				
Direct and assumed accounts	**7,122,788**	**7,122,788**	6,404,319	6,404,319
Reinsurance accounts	**2,605,338**	**2,605,338**	20,378,126	20,378,126
Investment property	**3,775,322**	**3,775,322**	4,440,458	4,440,458
Property and equipment	**15,914,588**	**99,326,907**	18,786,351	102,198,670
Accrued investment income	**4,429,892**	**4,429,892**	4,718,698	4,718,698
Deposit and others	**703,689**	**703,689**	549,579	549,579
Insurance claims payable	**(118,002,054)**	**(118,002,054)**	(122,724,159)	(122,724,159)
Reinsurance liabilities	**(6,962,834)**	**(6,962,834)**	(10,391,057)	(10,391,057)
Accounts payable and accrued expenses	**(20,781,566)**	**(20,781,566)**	(14,187,633)	(14,187,633)

Fair values were determined as follows:

- *Cash and cash equivalents, short-term investments, FVPL financial assets, receivables, deposits and other financial liabilities* – the fair values are approximately the carrying amounts at initial recognition due to short-term nature.
- *Quoted AFS financial asset (debt and equity securities)* – the fair values were determined from the published references from Philippine Stock Exchange, recommended values of IC or third party information.
- *Non-quoted AFS investment* – valuation technique using significant observable inputs. Where valuation technique is not representative of fair values, the acquisition cost is used as fair value.
- *HTM investment* – fair value was determined from third party information providing reliable information and recognized in the industry.
- *Property and equipment and investment property* – fair value was based on appraiser's report. It is estimated using Market Data Approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as locations, size and shape of the properties.

7. Management of Insurance Risk, Financial Risk and Capital

Insurance risk

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

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

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

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

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

Internally, the Company manages its risks through its underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured events. Reinsurance facilities in force include surplus treaties, catastrophe cover and facultative reinsurance.

The concentration of insurance claims as at December 31, 2013 and 2012 is as follows:

	2013				2012			
(000 omitted)	**Gross**	**Share of Reinsurer**	**Net Liability**	**%**	Gross	Share of Reinsurer	Net Liability	%
Motor car	**P 101,120**	**P -**	**P 101,120**	**88%**	P 92,750	P -	P 92,750	91%
Fire	**15,851**	**2,605**	**13,246**	**11%**	24,804	20,378	4,426	4%
Marine	**534**	**-**	**534**	**0%**	1,430	-	1,430	1%
Personal accident	**286**	**-**	**286**	**0%**	316	-	316	0%
Miscellaneous	**211**	**-**	**211**	**0%**	3,424	-	3,424	3%
	P 118,002	**P 2,605**	**P 115,397**	**100%**	P 122,724	P 20,378	P 102,346	100%

Financial Risk

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

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

Credit Risk

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

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

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

- Reinsurers' share of insurance premiums,
- Amounts due from reinsurers on claims already paid,
- Amounts due from insurance contract holders, and
- Amounts due from insurance intermediaries.

Exposure
The table below shows the gross maximum exposure to credit risk of the Company as at December 31, 2013 and 2012.

		2013		2012
Cash and cash equivalents	**P**	**94,506,577**	P	366,564,744
Short-term investments		**10,000,000**		38,682,833
Financial assets				
AFS		**437,116,608**		157,176,786
HTM		**251,029,081**		192,768,229
Loans and receivable		**644,648**		644,648
Insurance and reinsurance balances receivable		**19,134,658**		37,744,347
Accrued investment income		**4,429,892**		4,718,698
Deposits and others		**703,689**		549,579
	P	**817,565,153**	P	798,849,864

**Excludes cash on hand*

Risk Mitigation policies

- Bulk of cash in banks and short-term investments are deposited and placed with reputable commercial and universal banks in the Philippines. Moreover, all bank deposits are automatically covered up to a certain amount from Philippine Deposit Insurance Corporation.
- Financial assets that are FVPL and HTM are debt securities issued and guaranteed by the Philippine government which are considered risk free. FVPL investments are lodge under the Registry of Scriptless Securities of the Bureau of Treasury. HTM investments are lodge under Philippine Depository & Trust Corporation. Furthermore, prior approval from IC is sought before the Company can invest on these securities.
- The Company's equity investments classified as AFS are mostly stocks belonging to Philippine Stock Exchange Index (PSEi) with regular trading transaction in the Philippine Stock Exchange. Other AFS investment includes government securities in foreign currencies. These securities which are also guaranteed by the Philippine government are lodge in various clearing houses outside the Philippines, e. g. Clearstream, Cedel, and JP Morgan Chase.
- Insurance balances of brokers and agents have a maximum age of 90 days. Commissions are released only upon full remittance of premiums.
  Reinsurance arrangements are placed only with reputable reinsurers at industry acceptable terms.
- Accrued investment income is collectible in subsequent period. Interest proceeds are either rolled over to principal balance or credited to savings account.

Credit quality

The credit quality of financial assets is as follows:

	As of December 31, 2013				
	Neither past due nor impaired		Past due		
	High grade	Standard grade	but not impaired	Past due & impaired	Total
Cash and cash equivalents*	**P 66,622,194**	**P 27,884,383**	**P -**	**P -**	**P 94,506,577**
Short-term Investment	**4,000,000**	**6,000,000**			**10,000,000**
Financial assets					
AFS	**435,806,608**	**1,310,000**	**-**	**-**	**437,116,608**
HTM	**251,029,081**	**-**	**-**	**-**	**251,029,081**
Loans and receivables	**-**	**-**	**-**	**644,648**	**644,648**
Insurance and reinsurances balances receivables	**-**	**13,043,689**	**6,090,969**	**-**	**19,134,658**
Accrued investment income	**4,429,892**	**-**	**-**	**-**	**4,429,892**
Deposits and others	**421,550**	**282,139**	**-**	**-**	**703,689**
	P 762,309,325	**P 48,520,211**	**P 6,090,969**	**P 644,648**	**P 817,565,153**

**Excludes cash on hand*

	As of December 31, 2012				
	Neither past due nor impaired		Past due		
	High grade	Standard grade	but not impaired	Past due & impaired	Total
Cash and cash equivalents*	P 350,727,822	P 15,836,922	P -	P -	P 366,564,744
Short-term Investment	38,432,833	250,000			38,682,833
Financial assets					
AFS	155,836,786	1,340,000	-	-	157,176,786
HTM	192,768,229	-	-	-	192,768,229
Loans and receivables	-	-	-	644,648	644,648
Insurance and reinsurances balances receivables	-	33,220,246	4,524,101	-	37,744,347
Accrued investment income	4,718,698	-	-	-	4,718,698
Deposits and others	287,440	262,139	-	-	549,579
	P 742,771,808	P 50,909,307	P 4,524,101	P 644,648	P 798,849,864

**Excludes cash on hand*

The following table discusses the methodologies that the Company used to grade financial assets:

Financial asset	Investment grade	Measurement basis
Cash and cash equivalents	High grade	Cash deposits with universal and commercial banks in the Philippines
	Standard grade	Cash deposits that are not classified as high grade accounts.
Debt securities	High grade	Debt securities issued by the Philippine government which are considered risk free. Debt securities that are issued by private corporations that possesses the capacity to meet financial obligation.
	Standard grade	Debt securities that are not classified as High grade securities.
Equity securities	High grade	Listed equity securities belonging to PSEi
	Standard grade	Equity securities not belonging to PSEi
Insurance and reinsurance accounts and deposits	High grade	The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits
	Standard grade	Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

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

		2013		2012
30 days past due	**P**	**6,090,969**	P	4,524,101
60 days past due		**-**		-
90 days past due		**-**		-
	P	**6,090,969**	P	4,524,101

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.

Contractual maturities of financial assets and liabilities as at December 31, 2013 and 2012 are presented below:

	Contractual maturities						
2013 (In thousand)	1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years	Total
Financial assets that are :							
Cash equivalents	P 94,507	P -	P -	P -	P -	P -	P 94,507
Short-term investment	10,000	-	-	-	-	-	10,000
AFS (excluding equity securities)	13,435	-	64,052	-	2,908	7,631	88,026
HTM	5,000	7,000	15,750	34,250	8,371	180,658	251,029
Insurance receivables	7,123	-	-	-	-	-	7,123
Reinsurance assets	12,012	-	-	-	-	-	12,012
Other financial liabilities:							
Accounts payable							
and accrued expense	20,782	-	-	-	-	-	20,782
Insurance claims payable	118,002	-	-	-	-	-	118,002
Reinsurance liabilities	6,963	-	-	-	-	-	6,963

	Contractual maturities						
2012 (In thousand)	1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years	Total
Financial assets that are :							
Cash equivalents	P 366,565	P -	P -	P -	P -	P -	P 366,565
Short-term investment	38,683	-	-	-	-	-	38,683
AFS (excluding equity securities)	-	13,142	-	62,466	-	5,695	81,303
HTM	17,324	5,000	7,000	11,750	43,000	108,694	192,768
Insurance receivables	6,404	-	-	-	-	-	6,404
Reinsurance assets	31,340	-	-	-	-	-	31,340
Other financial liabilities:							
Accounts payable							
and accrued expense	14,188	-	-	-	-	-	14,188
Insurance claims payable	122,724	-	-	-	-	-	122,724
Reinsurance liabilities	10,391	-	-	-	-	-	10,391

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

Market Risk

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

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

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

The Company structures levels of market risk it accepts through a sound market risk policy based on specific guidelines. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected 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 reporting and portfolio limit structure. Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures to the IC, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

Sensitivity analysis of market risk exposures follows:

i. Currency risk

Foreign currency risk pertains to US$ denominated cash, special savings accounts and AFS investments. No foreign currency forward contracts are outstanding as at December 31, 2013 and 2012 to hedge the foreign currency accounts.

The carrying values of financial assets exposed to currency risk at the end of reporting period are as follows:

	2013		2012	
	Phil. Peso	**US $**	Phil. Peso	US $
Cash and cash equivalents	**P 4,937,419**	**P 111,168**	P 93,232,193	P 2,263,357
AFS investments	**82,017,002**	**1,846,647**	81,302,566	1,973,747
Accrued investment income	**1,619,239**	**36,458**	1,991,565	48,348
	88,573,660	**1,994,273**	176,526,324	4,285,452

The following table demonstrates the sensitivity to a reasonable change in the US$ exchange rate, with all other variables held constant, of the Company's income before tax and equity:

Increase/Decrease in Peso to US Dollar Rate		Effect on income before taxes	Effect on equity
+P2	**2013**	**+0.2 Million**	**+3.3 Million**
-P2		**-0.2 Million**	**-3.3 Million**
+P2	2012	+3.9 Million	+7.2 Million
-P2		-3.9 Million	-7.2 Million

ii. Interest rate risk
Interest rate risk is the risk that the value or 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 risk.

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

	As of December 31, 2013			
	Interest	Due in		
	rate	less than 2 years	2-5 years	beyond 5 years
Financial assets that are :				
Cash equivalents	0.875%-3.15%	P 94,506,577	P -	P -
Short-term investment	0.5%-0.75%	10,000,000	-	-
HTM	0.875%-15%	12,000,000	58,370,673	180,658,408

	As of December 31, 2012			
	Interest	Due in		
	rate	less than 2 years	2-5 years	beyond 5 years
Financial assets that are :				
Cash equivalents	0.125%-4.0%	P 366,564,744	P -	P -
Short-term investment	2.7%-4.25%	38,682,833	-	-
HTM	5.45%-15%	22,323,783	61,750,000	108,694,446

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate investments). There is no other impact on the Company's equity other than those already affecting the profit and loss.

	Increase/ decrease in basis points	Effect on income before income tax
2013	**+200**	**P 6,190,713**
	-200	**(6,190,713)**
2012	+200	P 11,960,316
	-200	(11,960,316)

Management believes that interests rate movements within the range of 200 to 500 basis points during the year is immaterial and would not affect profit and loss.

iii. Price risk
The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of equity price on a monthly basis by assessing the expected changes in the different portfolio due to parallel movements of a 10% increase or decrease in the Philippine stock exchange index (PSEi).

With all other variables held constant, a 10% movement in the stock exchange would result in an impact on equity of P15.8 million in 2013 and P5.6 million in 2012. This does not affect income since changes in fair value of AFS investments are taken to equity.

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

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

The company regards the following as the capital it manages as at December 31, 2013 and 2012.

		2013		2012
Share capital	**P**	**250,000,000**	P	250,000,000
Contributed surplus		**33,000**		33,000
Retained earnings		**326,092,782**		300,315,521
	P	**576,125,782**	P	550,348,521

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

The Department of Finance as recommended by the Insurance Commission issued Department Order (DO) No. 27-06 dated September 1, 2006 requiring insurance companies to comply with the minimum statutory net worth and minimum paid up capital set for non-life insurance companies.

The table below summarizes required capital imposed by IC under DO 27-06.

	Minimum statutory net worth	Minimum paid-up capital
2012	500 million	250 million
2013	500 million	250 million

On June 1, 2012, the Department of Finance, as recommended by IC, issued DO 15-2012 to further increase the minimum paid-up capital (PUC) requirements among life, non-life and reinsurance companies. Accordingly, the P250 million minimum PUC in 2012 (*Pursuant to DO 27-06 and IMC No. 10-2006)* was further increased to P400 million in 2014 with increment of P200 million every two years until 2020. However, on December 5, 2012, a writ of preliminary injunction was issued by Regional Trial Court - Branch 80 of Quezon City, restraining the Department of Finance from implementing DO 15-2012.

IC Circular 22-2008 dated August 7, 2008 requires that paid-up capital should remain intact or unimpaired at all times; the Statement of Financial Position should show that the net worth is at least equal to the actual paid-up capital.

As at December 31, 2013 and 2012, the Company is in compliance with the required minimum paid-up capital. The statutory net worth is based on Regulatory Accounting

Policies and may be determined only after the accounts of the Company have been examined by the IC.

(ii) Risk-based Capital

Insurance Memorandum Circular (IMC) 7-2006 provides for the risk-based capital (RBC) framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risk. Every non-life insurance companies are annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the Company to the corresponding regulatory intervention which has been defined at various levels.

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

Internal calculations of RBC ratio as at December 31, 2013 and 2012 revealed the following:

		2013		2012
Networth	**P**	**647,924,756**	P	623,721,559
RBC requirement		**77,286,817**		70,188,545
RBC Ratio		**838%**		889%

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

The regulatory capital requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided the industry complies with the required Industry RBC Compliance Rates and RBC Hurdle Rates from 2007 to 2013. For review year 2013 which will be based on the 2012 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%. Failure to achieve one of the rates will result in the imposition of the regulatory capital requirement for the year under review.

Should adverse RBC ratio be achieved in the implementation of IMC 10-2006, the Company’s stockholders are committed to provide additional capital contribution to cover up any deficiency to meet the required capital and networth level.

8. Cash and Cash Equivalents and Short-term investments

This account consists of:

		2013		2012
Cash on hand	**P**	**130,500**	P	117,500
Cash in banks		**39,919,883**		29,026,088
Short-term bank placements		**54,586,694**		337,538,656
	P	**94,637,077**	P	366,682,244

Cash in bank and short-term bank deposits earn interest at prevailing bank interest rates. Interest income earned on these deposits amounted to P5,745,054 in 2013 and P12,168,339 in 2012.

Short-term investments amounted to P10,000,000 and P38,682,833 in 2013 and 2012, respectively. These investments consist of time deposit with original maturities of more than three months but less than 1 year.

9. Financial assets

The reconciliation of the carrying amounts of financial assets at the beginning and end of the year is as follows:

	As of December 31, 2013							
		AFS		HTM		Loans & receivable		Total
Gross carrying value								
Balance at the beginning of year	**P**	**157,176,786**	**P**	**192,768,229**	**P**	**644,648**	**P**	**350,589,663**
Additions		**307,881,137**		**88,334,634**		**-**		**396,215,771**
Disposal/Maturity		**(11,896,321)**		**(30,073,782)**		**-**		**(41,970,103)**
Written off						**-**		**-**
Changes in:								
fair value		**(22,404,405)**		**-**		**-**		**(22,404,405)**
exchange rates		**6,359,411**		**-**		**-**		**6,359,411**
Balance at the end of the year		**437,116,608**		**251,029,081**		**644,648**		**688,790,337**
Allowance for impairment losses		**-**		**-**		**(644,648)**		**(644,648)**
	P	**437,116,608**	**P**	**251,029,081**	**P**	**-**	**P**	**688,145,689**

	As of December 31, 2012							
		AFS		HTM		Loans & receivable		Total
Gross carrying value								
Balance at the beginning of year	P	198,033,446	P	145,803,782	P	644,648	P	344,481,876
Additions		27,655,978		85,964,447		-		113,620,425
Disposal/Maturity		(69,551,996)		(39,000,000)		-		(108,551,996)
Changes in:								
fair value		6,407,423		-		-		6,407,423
exchange rates		(5,368,065)		-		-		(5,368,065)
Balance at the end of the year		157,176,786		192,768,229		644,648		350,589,663
Allowance for impairment losses		-		-		(644,648)		(644,648)
	P	157,176,786	P	192,768,229	P	-	P	349,945,015

- AFS

Available-for-sale financial assets represent equity and debt instruments with quoted and unquoted market values. For securities with no active market, the carrying amounts are stated at cost.

The breakdown of this account is as follows:

		2013		2012
Cost:				
Debt instruments	**P**	**82,070,601**	P	76,055,470
Equity securities quoted in the stock exchange		**147,645,255**		59,464,011
Equity securities not quoted in the stock exchange		**1,160,000**		1,160,000
Other investments		**201,920,000**		-
		432,795,856		136,679,481
Changes in fair values				
Debt instruments		**5,955,159**		5,247,096
Equity securities quoted in the stock exchange		**(2,535,592)**		15,070,209
Equity securities not quoted in the stock exchange		**150,000**		180,000
Other investments		**751,185**		-
		4,320,752		20,497,305
Fair values	**P**	**437,116,608**	P	157,176,786

Other investments represent placements under Unit Investment Trust Fund.

The changes in fair value are reported in the equity section of the Statement of Financial Position, net of related tax effect.

The contractual maturity of debt instrument is presented below:

		2013		2012
Due in:				
One year	P	**13,435,279**	P	-
More than one year but less than five years		**66,959,607**		75,607,978
Beyond five years		**7,630,874**		5,694,588
	P	**88,025,760**	P	81,302,566

- Held-to-maturity

Held-to-maturity financial assets represent debt instruments issued by the Philippine government which are either in Philippine Peso or in US Dollar denominations. The term of the issues ranges from 3 to 8 years and earns an interest of 0.875%-15% in 2013 and 5.45%-15% in 2012.

The maturity profile of this account is presented below:

		2013		2012
Due in:				
One year	P	**5,000,000**	P	17,250,000
More than one year but less than five years		**65,370,673**		66,823,783
Beyond five years		**180,658,408**		108,694,446
	P	**251,029,081**	P	192,768,229

As required by the IC, Philippine government securities with face value of P92.98 million in 2013 and P62.98 million in 2012 are deposited with the commission in accordance with the provision of the Insurance Code as security for the benefit of the policyholders and creditors of the Company.

10. Insurance balances receivables

The breakdown of this account is as follows:

		2013		2012
Due from brokers and agents	P	**6,090,969**	P	4,524,101
Due from ceding companies		**-**		856,306
Funds held by ceding companies		**1,031,819**		1,023,912
	P	**7,122,788**	P	6,404,319

Due from brokers and agents have an average terms of 1-3 months.

Due from ceding companies have an average term of 30 to 90 days. Funds held by ceding companies represent portion of the premium withheld by ceding companies in accordance with reinsurance agreements.

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

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

11. Reinsurance assets

This account consists of:

		2013		2012
Reserve for reinsurance premium *(see Note 17)*	P	**9,406,532**	P	10,961,902
Reinsurance recoverable on unpaid losses *(see Note 18)*		**2,605,338**		20,378,126
	P	**12,011,870**	P	31,340,028

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

12. Investment property - net

Details of this account follows:

		2013		2012
Acquisition cost	P	**13,302,715**	P	13,302,715
Accumulated depreciation				
January 1		**8,862,257**		8,197,121
Provision for the year		**665,136**		665,136
Balance, December 31		**9,527,393**		8,862,257
Net Book Value	P	**3,775,322**	P	4,440,458

The Company's investment property is leased out to a third party under terms and conditions mutually agreed upon by the Company and the tenant. Rental income on these properties amounted to P1,867,698 in 2013 and P1,499,388 in 2012. Direct cost relating to the lease excluding depreciation expense above amounted to P79,516 in 2013 and P60,706 in 2012.

13. Property and equipment - net

The breakdown of this account is as follows:

	As of December 31, 2013				
	Land*	Building & Condominium units	Furniture, Fixtures & Office Equiptment	Transportation equipment	Total
Costs					
At January 1, 2013	P 93,243,800	P 19,652,417	P 9,957,371	P 24,814,852	P 147,668,440
Additions	-	-	559,286	-	559,286
At December 31, 2013	93,243,800	19,652,417	10,516,657	24,814,852	148,227,726
Accumulated depreciation and and impairment losses					
At January 1, 2013	17,800	19,171,603	8,275,725	18,004,642	45,469,770
Provisions	-	303,672	600,327	2,527,050	3,431,049
At December 31, 2013	17,800	19,475,275	8,876,052	20,531,692	48,900,819
Net Book Value					
At December 31, 2013	P 93,226,000	P 177,142	P 1,640,605	P 4,283,160	P 99,326,907

**At appraised value*

	As of December 31, 2012				
	Land*	Building & Condominium units	Furniture, Fixtures & Office Equiptment	Transportation equipment	Total
Costs					
At January 1, 2012	P 93,243,800	P 19,652,417	P 9,279,568	P 21,251,459	P 143,427,244
Additions	-	-	677,803	3,563,393	4,241,196
At December 31, 2012	93,243,800	19,652,417	9,957,371	24,814,852	147,668,440
Accumulated depreciation and and impairment losses					
At January 1, 2012	17,800	18,802,502	7,750,495	15,878,552	42,449,349
Provisions	-	369,101	525,230	2,126,090	3,020,421
At December 31, 2012	17,800	19,171,603	8,275,725	18,004,642	45,469,770
Net Book Value					
At December 31, 2012	P 93,226,000	P 480,814	P 1,681,646	P 6,810,210	P 102,198,670

**At appraised value*

Land and buildings are used as branch offices and portion of these buildings are also being leased out to third parties under operating leases. Rental income on these properties amounted to P2,779,455 in 2013 and P3,099,918 in 2012.

In prior year, the Company engaged the services of an independent firm of appraisers to determine the fair value of its land. The assigned value for land was estimated using the Market Data Approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as locations, size and shape of the properties.

Based on the appraiser's report, the Company recognized a revaluation increase of P85,877,319, with carrying value of P10,408,681 on December 31, 2007 of which, P60,114,124 was credited to revaluation surplus on property and equipment, net of related tax effect. The amount is not available for distribution to stockholders until fully realized. Management believes that the fair values as at December 31, 2013 have not significantly changed from the last appraisal.

Depreciation of property and equipment charged to operations amounted to P3,431,049 in 2013 and P3,020,421 in 2012.

Had the land been carried at cost, its carrying amount would amount to P9,813,681 in 2013 and 2012.

14. Deferred acquisition costs (DAC) and Deferred commission income (DCI)

Movements of this account during the year are as follows:

		As of December 31, 2013				
		Deferred Commission expense		Deferred Commission income		Net DAC
Balances, January 1	**P**	**41,069,404**	**P**	**3,824,429**	**P**	**37,244,975**
Net change in acquisition cost		**(1,607,954)**		**(1,037,181)**		**(570,773)**
	P	**39,461,450**	**P**	**2,787,248**	**P**	**36,674,202**

		As of December 31, 2012				
		Deferred Commission expense		Deferred Commission income		Net DAC
Balances, January 1	P	36,818,779	P	3,542,364	P	33,276,415
Net change in acquisition cost		4,250,625		282,065		3,968,560
	P	41,069,404	P	3,824,429	P	37,244,975

As at December 31 2013 and 2012, management believes that DAC are fully recoverable and that no impairment loss is necessary.

15. Accrued investment income

The sources of this account are as follows:

		2013		2012
Government securities and other debt instruments	**P**	**4,060,642**	P	3,533,377
Short-term investment		**78,386**		797,068
Cash and cash equivalents		**290,864**		388,252
	P	**4,429,892**	P	4,718,698

Interest rates on accrued investment income, gross of final taxes due, ranges from 0.5% to 15.0% in 2013 and 0.625% to 15.0% in 2012.

16. Other assets

This account consists of:

		2013		2012
Security fund	**P**	**140,167**	P	140,167
Deposits and others		**563,522**		409,412
	P	**703,689**	P	549,579

Security fund was created under Section 365 of Presidential Decree (PD) No. 612 as amended under PD No. 1640, to be used for payment of allowed claims against insolvent insurance companies. The balances of the fund represent the Company's contribution to the fund. The balance of the fund earns interest at rates determined by the IC annually.
Deposits, which are carried at cost, are made to secure leasing arrangements and utility services.

17. Reserves for unearned and reinsurance premiums

The analysis of this account is as follows:

	2013						2012					
		Direct Business		Ceded		Net		Direct Business		Ceded		Net
Balances, January 1	P	135,685,803	P	10,961,902	P	124,723,901	P	117,321,540	P	10,010,643	P	107,310,897
Policies written during the year		308,940,504		25,445,205		283,495,299		299,743,964		22,887,968		276,855,996
Premiums earned during the year		302,011,768		27,000,575		275,011,193		281,379,701		21,936,709		259,442,992
	P	142,614,539	P	9,406,532	P	133,208,007	P	135,685,803	P	10,961,902	P	124,723,901

18. Insurance claims payable

Outstanding claims will become payable and materialize into claims paid when the amounts of insured losses suffered by policyholders were ascertained and agreed, without any contractual maturity date. The timing of future cash outflow arising from the provision is not ascertainable but is likely to fall within 3 years.

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

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

The analysis of this account is shown below:

	2013						2012					
		Gross		Re-insurance		Net		Gross		Re-insurance		Net
Balances, January 1	P	122,724,159	P	20,378,126	P	102,346,033	P	83,591,658	P	1,601,819	P	81,989,839
Claims and losses incurred - net of recoveries		135,013,489		6,892,012		128,121,477		102,346,033		20,366,523		81,979,510
Claims and loss paid - net of recoveries		(139,735,594)		(24,664,800)		(115,070,794)		(63,213,532)		(1,590,216)		(61,623,316)
Balances, December 31	P	118,002,054	P	2,605,338	P	115,396,716	P	122,724,159	P	20,378,126	P	102,346,033

19. Accounts payable and accrued expenses

This account consists of:

		2013		2012
Taxes payable	P	14,999,390	P	10,402,057
Accrued and other liabilities		4,887,209		2,563,463
Commissions payable		894,967		1,222,113
	P	20,781,566	P	14,187,633

The terms and conditions of these accounts are as follows:

- Accrued expenses are liabilities for utilities and services that have been provided with payment terms of 30-90 days.
- Taxes payable consisting of documentary stamp tax, output tax, premium tax and other taxes are usually paid and remitted on the following month.
- Commissions payable are liabilities to brokers and agents for uncollected premiums. The amounts are settled within 12 months.

Management believes that the carrying amounts are the reasonable approximation of their fair values as at December 31, 2013 and 2012.

20. Reinsurance liabilities

The movements of this account are as follows:

	As of December 31, 2013		
	Due to reinsurers	**Funds held for reinsurers**	**Total**
Balance at the beginning of year	**P 4,415,413**	**P 5,975,644**	**P 10,391,057**
Additions	**15,571,965**	**5,868,224**	**21,440,189**
Reductions	**(18,892,769)**	**(5,975,643)**	**(24,868,412)**
Balance at the end of year	**P 1,094,609**	**P 5,868,225**	**P 6,962,834**

	As of December 31, 2012		
	Due to reinsurers	Funds held for reinsurers	Total
Balance at the beginning of year	P 3,879,500	P 5,215,369	P 9,094,869
Additions	13,063,670	5,975,644	19,039,314
Reductions	(12,527,757)	(5,215,369)	(17,743,126)
Balance at the end of year	P 4,415,413	P 5,975,644	P 10,391,057

21. Equity

Share Capital

The Company's capital structure as at December 31, 2013 and 2012 is as follows:

	Shares	Amount
Authorized - P1 par value per share	320,000,000	P 320,000,000
Issued and outstanding:		
2013	250,000,000	250,000,000
2012	250,000,000	250,000,000

Dividends

Cash dividends declared by the BOD and approved by IC to be paid and taken out of the retained earnings during 2013 and 2012 are as follows:

Date of Declaration	Date of Record	Date of Payment	Date of IC approval	Amount per share	Total Dividends
May 28, 2012	May 28, 2012	June 11, 2012	June 18, 2012	0.33	25 million
April 22, 2013	April 22, 2013	June 3, 2013	May 30, 2013	0.10	25 million

No stock dividends were declared during 2013.

As at December 31, 2013 and 2012, the Company has 16 stockholders owning 100 or more shares each.

Revaluation surplus on AFS
The movements in this account are shown below:

		2013		2012
Balances, Jan. 1				
Before tax effect	**P**	**20,215,598**	P	31,457,589
Effect of deferred income tax		**(24,761)**		(64,090)
		20,190,837		31,393,499
Mark to market adjustment				
Released to profit and loss		**(4,218,384)**		(11,359,860)
Changes in fair value				
Forex gain/ loss		**6,359,411**		(5,368,065)
Market value changes		**(18,317,581)**		5,550,024
Effect of deferred income tax				
Provision		**84,774**		(24,761)
Balances, Dec. 31	**P**	**4,099,057**	P	20,190,837

22. Insurance Contracts – Terms, Assumption and Sensitivities

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

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

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

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

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

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

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

Loss development table

Loss development table for the last underwriting year, gross and net of reinsurer's share is presented as follows:

		Fire		Motor car		Personal accident		Marine		Other lines		Total
Estimate of cumulative claim cost												
2009 and prior	P	-	P	297,000	P	-	P	-	P	-	P	297,000
2010		-		170,168		-		-		-		170,168
2011		1,138,250		666,600		-		-		-		1,804,850
2012		-		6,889,877		-		534,500		-		7,424,377
2013		14,712,728		93,095,990		286,440		-		210,502		108,305,660
Total estimated claims		15,850,978		101,119,635		286,440		534,500		210,502		118,002,055
Less: share of reinsurer		2,605,338		-		-		-		-		2,605,338
	P	13,245,640	P	101,119,635	P	286,440	P	534,500	P	210,502	P	115,396,717

23. Premiums

Analysis of premiums is as follows:

	For the year ended December 31, 2013								
		Direct Business		Assumed Business		Total		Ceded Business	Net premiums Retained
Premiums written	P	306,190,105	P	2,750,400	P	308,940,505	P	25,445,205	P 283,495,300
Changes in unexpired risk		(4,714,412)		(2,214,325)		(6,928,737)		1,555,370	(8,484,107)
Net	P	301,475,693	P	536,075	P	302,011,768	P	27,000,575	P 275,011,193

	For the year ended December 31, 2012								
		Direct Business		Assumed Business		Total		Ceded Business	Net premiums Retained
Premiums written	P	288,500,835	P	11,243,129	P	299,743,964	P	22,887,968	P 276,855,996
Changes in unexpired risk		(20,463,988)		2,099,725		(18,364,263)		(951,259)	(17,413,004)
Net	P	268,036,847	P	13,342,854	P	281,379,701	P	21,936,709	P 259,442,992

24. Interest and other investment income - net

Sources of interest income are as follows:

		2013		2012
Cash and cash equivalents and short-term investment	P	5,745,054	P	12,168,339
Other debt instruments		22,585,069		22,977,270
	P	28,330,123	P	35,145,609

Other investment income (loss) consists of:

		2013		2012
Rental income	P	**4,647,153**	P	4,599,306
Dividend income		**3,730,259**		2,423,687
Realized gain on sale of				
Available-for-sale investments		**5,904,432**		23,942,409
Gain (Loss) on foreign exchange		**3,473,109**		(15,651,433)
	P	**17,754,953**	P	15,313,969

25. Claims, losses and adjustment expenses

Analysis of claims, losses and adjustment expenses paid is as follows:

	For the year ended December 31, 2013									
		Direct		Assumed		Total		Recovered		Net
Claims and losses	**P**	**121,962,806**	**P**	**730,781**	**P**	**122,693,587**	**P**	**(4,805,424)**	**P**	**117,888,163**
Loss adjustment expenses		**1,834,163**		**-**		**1,834,163**		**(109,726)**		**1,724,437**
	P	**123,796,969**	**P**	**730,781**	**P**	**124,527,750**	**P**	**(4,915,150)**	**P**	**119,612,600**

	For the year ended December 31, 2012									
		Direct		Assumed		Total		Recovered		Net
Claims and losses	P	114,888,785	P	872,606	P	115,761,391	P	(20,268,069)	P	95,493,322
Loss adjustment expenses		1,495,855		-		1,495,855		(379,406)		1,116,449
	P	116,384,640	P	872,606	P	117,257,246	P	(20,647,475)	P	96,609,771

26. General and administrative expenses

General and administrative expenses consist of:

		2013		2012
Salaries and allowances	**P**	**27,788,854**	P	26,853,314
Other employee benefits		**4,321,679**		5,185,891
Depreciation *(See Notes 12 & 13)*		**4,096,185**		3,685,557
Repairs and maintenance		**2,424,536**		1,763,244
Transportation		**2,299,021**		2,746,954
Rental and other occupancy costs		**2,108,615**		2,131,250
Taxes and licenses		**2,000,899**		1,629,924
Communication and postage		**1,525,025**		1,547,652
Representation and entertainment		**1,325,158**		1,359,839
Supplies		**1,194,648**		1,240,443
Association and pool dues		**1,080,024**		943,595
Advertising		**933,881**		1,023,464
Professional development		**564,918**		449,139
Professional fees		**483,811**		746,705
Miscellaneous		**1,361,137**		1,111,895
	P	**53,508,391**	P	52,418,866

27. Retirement benefit cost

The Company maintains a funded retirement plan, which is a defined contribution type, covering all regular employees. The Company periodically contributes to the plan at 5% of employees' monthly salary. After rendering a service of at least 10 years, the amount payable to the retiring employee is his/her contribution, net of administrative fees and expenses plus all income thereto. The plan is administered by a bank-trustee. At regular intervals, an actuarial valuation is made to determine if the retirement benefits due to the employee is not below the framework of Republic Act 7641, otherwise known as "*Retirement Pay Law*".

Contribution to the plan amounted to P62,680 in 2013 and P594,571 in 2012.

As at December 31, 2013 and 2012, the distribution of the provident plan is as follows:

	2013	2012
Cash and cash equivalents	**88%**	69%
Debt securities	**8%**	25%
Equity securities	**4%**	5%
Loans and receivables	**0%**	1%
	100%	100%

28. Income Taxes

The major components of provision for income tax for the years ended December 31, 2013 and 2012 are as follows:

		2013		2012
Current				
Regular	**P**	**4,845,144**	P	3,847,288
Final tax		**3,671,693**		4,653,310
Deferred		**(352,431)**		(1,184,150)
	P	**8,164,406**	P	7,316,448

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

		2013		2012
Statutory income tax	**P**	**17,682,500**	P	21,116,649
Adjustment for:				
Income subjected to lower income tax rates		**(9,618,115)**		(11,270,789)
Non-taxable income/Non-deductible expense		**100,021**		(2,529,412)
Actual provision for income tax	**P**	**8,164,406**	P	7,316,448

Significant component of Company's deferred tax assets and liabilities recognized in the financial statements is as follows:

		2013		2012
Deferred tax assets				
Allowance for impairment of assets	**P**	**198,734**	P	198,734
Unrealized foreign exchange loss		**-**		1,572,427
Excess of unearned premiums per books over tax basis		**5,979,281**		4,224,694
	P	**6,178,015**	P	5,995,855
Deferred tax liabilities				
Deferred acquisition cost -net	**P**	**11,002,261**	P	11,173,493
Unrealized foreign exchange gain		**961**		-
Revaluation surplus on:				
Land		**25,023,696**		25,023,696
AFS		**4,077**		88,851
	P	**36,030,995**	P	36,286,040

The movements of deferred tax assets and liabilities are as follows:

	As of December 31, 2013							
			Changes taken to					
		Beginning		Profit and loss		Equity		Ending
Deferred tax assets	**P**	**5,995,855**	**P**	**182,160**	**P**	**-**	**P**	**6,178,015**
Deferred tax liabilities		**(36,286,040)**		**170,271**		**84,774**		**(36,030,995)**
	P	**(30,290,185)**	**P**	**352,431**	**P**	**84,774**	**P**	**(29,852,980)**

	As of December 31, 2012							
			Changes taken to					
		Beginning		Profit and loss		Equity		Ending
Deferred tax assets	P	3,621,137	P	2,374,718	P	-	P	5,995,855
Deferred tax liabilities		(35,070,711)		(1,190,568)		(24,761)		(36,286,040)
	P	(31,449,574)	P	1,184,150	P	(24,761)	P	(30,290,185)

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

PFRS varies in certain respects from RAP prescribed by the Insurance Commission particularly in the computation of reserve for unearned premiums. A reconciliation of net income under PFRS and net income under RAP as at December 31 is presented below:

		2013		2012
PFRS net income	**P**	**50,777,261**	P	63,072,382
Add(deduct):				
Difference in change in reserve for unearned premiums - net		**5,848,621**		3,434,026
Deferred acquisition cost - net		**(570,773)**		(3,968,560)
Foreign exchange gain/ (loss)		**(4,243,174)**		(5,241,422)
Effect of deferred income tax		**(352,431)**		(1,184,150)
RAP net income	**P**	**51,459,504**	P	56,112,276

30. Supplementary Information required under Revenue Regulation 15-2010

The Bureau of Internal Revenue (BIR) issued Revenue Regulation 15-2010 which require additional tax information to be disclosed in the Notes to Financial Statements. The following information covering the calendar year ended December 31, 2013 is presented in compliance thereto.

(i) Supplementary information under RR 15-2010

- The details of VAT output tax declared in the Company's 2013 VAT returns and their related account are as follows:

		Amount subject to VAT		Output tax
Premiums	P	293,448,597	P	35,213,832
Commission		7,451,240		894,149
Rental income		4,005,621		480,675
	P	304,905,458	P	36,588,655

- The VAT input tax claimed is broken down as follows:

Balance at the beginnning of the year	P	-
Current year' domestic purchases/payments for:		
Goods		1,658,527
Services		7,613,130
Applied against output tax		(9,271,657)
	P	-

- The premium tax on personal accident insurance paid and accrued amounted to P76,839

- The documentary stamp tax paid/accrued for insurance policies is P38,385,123.

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

Tax on compensation and benefits	P	3,079,203
Expanded withholding tax		10,345,368
Final withholding taxes		2,504,820

- As at December 31, 2013 the Company has no pending tax cases within and outside the administration of the BIR.

31. Other significant matters

Margin of Solvency Requirements

Under the Insurance Code, an insurance Company doing business in the Philippines shall maintain at all times a margin of solvency (MOS) equal to P500,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The margin of solvency shall be the excess of the value of its admitted assets (as defined under the same code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves.

As at December 31, 2013 and 2012, the estimated amounts of non-admitted assets as defined under the insurance regulations, which are included in the accompanying statement of financial position follows:

		2013		2012
Deferred acquisition costs	**P**	**39,461,450**	P	41,069,404
Reserve for deferred reinsurance premium		**9,406,532**		10,961,902
Property and equipment		**5,923,765**		8,491,855
Deferred tax assets		**6,178,015**		5,995,855
Other assets		**563,521**		409,411
	P	**61,533,283**	P	66,928,427

The final amount of MOS can be determined only after the accounts of the Company have been examined by the IC particularly with respect to the determination of admitted and non-admitted assets.

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

Operating leases
Company as lessor
Portion of the companies provincial branches are leased out to third parties. Future minimum rentals receivable under the operating leases as at December 31, 2013 and 2012 are as follows:

		2013		2012
Within one year	**P**	**4,401,640**	P	4,330,000
After one year but not after five years		**4,573,924**		4,763,000
	P	**8,975,564**	P	9,093,000

Company as a lessee
The company enters into a rent agreement for the lease of certain provincial branches. Lease contract covers a period of 1 year, renewable at the option of both parties. Rent expense charged to operations amounted to P145,311 in 2013 and P188,047 in 2012.

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

Related party transaction consists of compensation to key management personnel as follows:

		2013		2012
Compensation and benefits	**P**	**7,135,802**	P	7,484,641
Retirement benefits		**146,352**		270,956
	P	**7,282,154**	P	7,755,597

Amended Philippine Insurance Code
In August 15 2013, the Republic Act 10607 or The Revised Insurance Code (*the Code)* was signed into law and was made effective in the same year. Salient features of the new code with financial significance are as follows:

- Section 194 provides that every domestic insurance company already doing business shall have a net worth by June 30, 2013 of P250 million.

- A net worth requirement based on year of compliance as follows:

December 31, 2016	P 550 million
December 31, 2019	900 million
December 31, 2022	1.3 billion

  The code defines net worth as sum of (i) Paid up capital, (ii) Retained earnings, (iii) Unimpaired surplus and (iv) Revaluation of assets as maybe approved by the Commissioner.

- Maintenance of Reserve for Unearned Premiums computed based on the 24th method for all policies in force.

As of December 31, 2013, the implementing rules and regulation of the code is yet to be issued by the office of the Insurance Commission.

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

		2013		2012
Current assets				
Cash and cash equivalents	**P**	**94,637,077**	P	366,682,244
Short-term investment		**10,000,000**		38,682,833
Financial assets		**18,435,279**		17,250,000
Insurance and reinsurance assets		**19,134,658**		37,744,347
Accrued investment income		**4,429,892**		4,718,698
Deferred acquisition costs		**39,461,450**		41,069,404
	P	**186,098,356**	P	506,147,526
Current liabilities				
Accounts payable and accrued expenses	**P**	**20,781,566**	P	14,187,633
Reinsurance liabilities		**6,962,834**		10,391,057
Insurance claims payable		**118,002,054**		122,724,159
Reserve for unearned premiums		**142,614,539**		135,685,803
Deferred commission income		**2,787,248**		3,824,429
	P	**291,148,241**	P	286,813,081