

PERLA COMPAÑIA DE SEGUROS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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, 2014 (including the comparative figures for the year ended December 31, 2013) were authorized for issue by the Board of Directors on March 6, 2015.

2. Basis of Preparation and Presentation

Statement of Compliance

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

Basis of Financial Statement Preparation and Presentation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets 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.

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, 2014 and 2013, 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 surplus 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 and investments under Unit Investment Trust Funds (UITF).

(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 exist 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 “*Reserve for reinsurance premium*” and lodge under “*Reinsurance assets*” account in 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.

Cost and Expense Recognition

Claims

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

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

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

Acquisition cost

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

Reinsurance commission

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

Expenses

Other cost and expenses are recognized when incurred.

Income Taxes

Current tax liabilities are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted 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, 2014

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, 2014. The adoption however did not result to any material changes in the financial statements.

PAS 32, "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities"

These amendments to PAS 32 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. While the amendment does not have any impact on the net assets of the Company, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The amendment does not have any material impact on the Company's financial position and performance.

Amendments to PAS 36, Impairment of Assets

The amendments require the following disclosure if the recoverable amount is fair value less costs of disposal:

- 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.

The amendments to PAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of the standard affects disclosures only and does not affect the financial position and performance of the Company.

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. These amendments have no material financial impact in the Company's 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. This standard did not significantly affect the Company's financial statements.

New Accounting Standard, Amendments to Existing Standards and Interpretations Effective Subsequent to December 31, 2014

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

Effective 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.

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 that contribution, 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. These amendments are effective for annual periods beginning on or after January 1, 2015. The amendment will not have any significant impact on the Company's financial position or performance.

Annual Improvements to PFRS

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 July 1, 2014 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'). The amendment does not apply to the Company.

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. The amendment does not apply to the Company.

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. The adoption of the standard will

affect disclosures only and will not affect the financial position and performance of the Company.

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. The amendment will not have any significant impact on the Company's financial position or performance.

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. The Company is currently assessing impact of the amendments to PAS 16.

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. The amendment will not have any significant impact on the Company's financial position or performance.

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. The amendment will not have any significant impact on the Company's financial position or performance.

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. The amendment does not apply to the Company as it is not a first time adopter of PFRS.

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. The amendment will not have any significant impact on the Company's financial position or performance.

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

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. The amendment will not have any significant impact on the Company's financial position or performance.

Effective 2016

PAS 1, "Presentation of Financial Statements" – Disclosure Initiative

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. They are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. The amendment will not have any significant impact on the Company's financial position or performance.

PAS 16, "Property, Plant and Equipment" and PAS 38, "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortization

The amendments provide additional guidance on how the depreciation and amortization of property, plant and equipment and intangible assets should be calculated. They are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. The amendment will not have any significant impact on the Company's financial position or performance.

PAS 28, "Investment in Associates and Joint Ventures" and PFRS 10, "Consolidated Financial Statements" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address a conflict between the requirements of PAS 28 and PFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. They are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. The amendment will not have any significant impact on the Company's financial position or performance.

PAS 27, "Separate Financial Statements" – Equity Method in Separate Financial Statements

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. The amendment will not have any significant impact on the Company's financial position or performance.

PAS 41, "Agriculture" – Agriculture: Bearer Plants

The amendments bring bearer plants, which are used solely to grow produce, into the scope of PAS 16 so that they are accounted for in the same way as property, plant and equipment. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. The amendment will not have any impact on the Company's financial position or performance.

PFRS 10, "Consolidated Financial Statements"; PFRS 12, "Disclosure of Interest in Other Entities" and PAS 28, "Investment in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. They are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. The amendment will not have any significant impact on the Company's financial position or performance.

PFRS 11, "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations

The amendments clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. The amendment will not have any significant impact on the Company's financial position or performance.

PFRS 14, "Regulatory Deferral Accounts"

This Standard is intended to allow entities that are first-time adopters of PFRS, and that currently recognize regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to PFRS. The Standard is intended to be a short-

term, interim solution while the longer term rate-regulated activities project is undertaken by the IASB. The IASB has stated that by publishing this Standard, they are not anticipating the outcome of the comprehensive rate-regulated activities project which is in its early stages. The Standard is effective for annual periods beginning on or after January 1, 2016. The Standard will not have any significant impact on the Company's financial position or performance.

Annual Improvements to PFRS

The Annual Improvements to PFRS (2012 to 2014 cycle) contain non-urgent but necessary amendments to PFRS. These amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

PFRS 5, "Non-current Assets Held for Sale and Discontinued Operations"

The amendment adds specific guidance in PFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued. The Company does not expect the amendments will have any significant impact on its financial position or performance.

PFRS 7, "Financial Instruments: Disclosures" (with consequential amendments to PFRS 1)

The amendment adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. The amendment also clarifies the applicability of the amendments to PFRS 7 on off-setting disclosures to condensed interim financial statements. The amendments will affect disclosures only and will have no impact on the Company's financial position or performance.

PAS 19, "Employee Benefits"

The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level). The amendment will not have any significant impact on the Company's financial position or performance.

PAS 34, "Interim Financial Reporting"

The amendment clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference. The amendments will affect disclosures only and will have no impact on the Company's financial position or performance.

Effective 2017

PFRS 15, "Revenue from Contracts with Customers"

PFRS 15 specifies how and when a PFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes PAS 18 'Revenue', PAS 11 'Construction Contracts' and a number of revenue-related interpretations. Application of the standard is mandatory for all PFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. This Standard is effective for financial statements for periods beginning on or after January 1, 2017. The Standard will not have any significant impact on the Company's financial position or performance.

Effective 2018

PFRS 9, "Financial Instruments"

This version of PFRS 9 'Financial Instruments' brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace PAS 39 'Financial Instruments: Recognition and Measurement'. This version also adds a new expected loss impairment model and limited amendments to classification and measurement for financial assets. The Standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January 1, 2018. The Company will assess the impact of this standard to its financial position and performance.

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, 2014 and 2013 are as follows:

	2014	2013
Available-for-sale	P 483,924,151	P 437,116,608
Held-to-maturity	320,719,724	251,029,081

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 property, net of accumulated depreciation and impairment losses amounted to P3,110,186 in 2014 and P3,775,322 in 2013.

Owner-occupied properties, net of accumulated depreciation and impairment losses amounted to P93,226,000 in 2014 and P93,403,142 in 2013.

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 P4,211,887 in 2014 and P4,647,153 in 2013.

Determining the appraised value of land

The Company determines the appraised value of its land through the use of an independent appraiser.

An appraiser values 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.

As of December 31, 2014 and 2013, the appraised value of the Company's land under Property and equipment account amounted to P93,226,000. (see Note 13)

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 assets and liabilities

The Company measures the fair values of its assets and liabilities in manner disclosed in Note 6.

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 2014 and 2013 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 P3,110,186 and P3,775,322 as at December 31, 2014 and 2013, respectively. (see Note 12)

Property and equipment, net of accumulated depreciation and impairment losses, amounted to P99,034,285 and P99,326,907 as at December 31, 2014 and 2013, 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, 2014 and 2013 amounted to P6,332,274 and P6,178,015, 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 2014 and 2013 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, 2014 and 2013 amounted to P143,074,868 and P118,002,054, respectively.

6. Fair Value Measurement

The company measures fair value of assets and liabilities using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1

Inputs are quoted in active market for identical assets or liabilities that the entity can access at the measurement date.

Included in Level 1 category are 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 assets and liabilities measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

	2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	P 89,110,139	P -	P -	P 89,110,139
Short-term investment	2,000,000	-	-	2,000,000
Financial assets				
AFS	482,594,151	1,330,000	-	483,924,151
HTM	323,345,999	-	-	323,345,999
Insurance balances receivable				-
Direct and assumed accounts	-	6,906,379	-	6,906,379
Reinsurance accounts	-	10,584,324	-	10,584,324
Investment property	-	3,110,186	-	3,110,186
Property and equipment	-	99,034,285	-	99,034,285
Accrued investment income	4,368,706	-	-	4,368,706
Deposit and other assets	-	1,070,041	-	1,070,041
	P 901,418,995	P 122,035,215	P -	P 1,023,454,210
Insurance claims payable	P 143,074,868	P -	P -	P 143,074,868
Accounts payable and accrued expenses	22,790,348	-	-	22,790,348
Reinsurance liabilities	8,730,705	-	-	8,730,705
	P 174,595,921	P -	P -	P 174,595,921

	2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	P 94,637,077	P -	P -	P 94,637,077
Short-term investment	10,000,000	-	-	10,000,000
Financial assets				
AFS	435,806,608	1,310,000	-	437,116,608
HTM	251,029,081	-	-	251,029,081
Insurance balances receivable				
Direct and assumed accounts	-	7,122,788	-	7,122,788
Reinsurance accounts	-	12,011,870	-	12,011,870
Investment property	-	3,775,322	-	3,775,322
Property and equipment	-	99,326,907	-	99,326,907
Accrued investment income	4,429,892	-	-	4,429,892
Deposit and other assets	-	703,689	-	703,689
	P 795,902,658	P 124,250,576	P -	P 920,153,234
Insurance claims payable	P 118,002,054	P -	P -	P 118,002,054
Accounts payable and accrued expenses	20,781,566	-	-	20,781,566
Reinsurance liabilities	6,962,834	-	-	6,962,834
	P 145,746,454	P -	P -	P 145,746,454

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 (see Note 5).

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, 2014 and 2013 is as follows:

(000 omitted)	2014					2013				
	Gross	Share of Reinsurer	Net Liability	%		Gross	Share of Reinsurer	Net Liability	%	
Motor car	P 136,530	P -	P 136,530	96%	P	101,120	P -	P 101,120	88%	
Fire	1,390	1,123	267	0%	P	15,851	2,605	13,246	11%	
Marine	633	-	633	0%	P	534	-	534	0%	
Personal accident	2,840	-	2,840	2%	P	286	-	286	0%	
Miscellaneous	1,682	-	1,682	1%	P	211	-	211	0%	
	P 143,075	P 1,123	P 141,952	100%	P	118,002	P 2,605	P 115,397	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, 2014 and 2013.

	2014		2013	
Cash and cash equivalents*	P	88,969,639	P	94,506,577
Short-term investments		2,000,000		10,000,000
Financial assets				
AFS		483,924,151		437,116,608
HTM		320,719,724		251,029,081
Loans and receivable		644,648		644,648
Insurance and reinsurance				
balances receivable		17,490,703		19,134,658
Accrued investment income		4,368,706		4,429,892
Other assets		1,070,041		703,689
	P	919,187,612	P	817,565,153

*Excludes cash on hand

The Company uses the following risk mitigation policies to reduce credit risks:

- 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 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, 2014					
		Neither past due nor impaired		Past due but not impaired		Past due & impaired	Total
		High grade	Standard grade				
Cash and cash equivalents*	P	79,030,446	P 9,939,193	P -	P -	P -	88,969,639
Short-term Investment		2,000,000	-	-	-	-	2,000,000
Financial assets							
AFS		482,594,151	1,330,000	-	-	-	483,924,151
HTM		320,719,724	-	-	-	-	320,719,724
Loans and receivables		-	-	-	644,648	-	644,648
Insurance and reinsurance balances receivable		-	17,380,254	110,449	-	-	17,490,703
Accrued investment income		4,368,706	-	-	-	-	4,368,706
Deposit and other assets		731,902	338,139	-	-	-	1,070,041
	P	889,444,929	P 28,987,586	P 110,449	P 644,648	P -	P 919,187,612

*Excludes cash on hand

		As of December 31, 2013					
		Neither past due nor impaired		Past due but not impaired		Past due & impaired	Total
		High grade	Standard grade				
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 other assets		421,550	282,139	-	-	-	703,689
	P	762,309,325	P 48,520,211	P 6,090,969	P 644,648	P -	P 817,565,153

*Excludes cash on hand

Financial assets that are past due but not impaired is 30 days past due.

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.
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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, 2014 and 2013 are presented below:

2014 (In thousand)	Contractual maturities						Total
	<1 year	1 year - 2 years	2-3 years	3-4 years	4-5 years	>5 years	
Financial assets that are :							
Cash equivalents	P 88,970	P -	P -	P -	P -	P -	P 88,970
Short-term investment	2,000	-	-	-	-	-	2,000
AFS (excluding equity securities)	-	60,357	-	-	5,585	-	65,942
HTM	7,000	11,750	33,000	8,235	29,045	231,690	320,720
Insurance receivables	6,906	-	-	-	-	-	6,906
Reinsurance assets	10,584	-	-	-	-	-	10,584
Financial liabilities:							
Insurance claims payable	143,075	-	-	-	-	-	143,075
Accounts payable and accrued expenses	22,790	-	-	-	-	-	22,790
Reinsurance liabilities	8,731	-	-	-	-	-	8,731

2013 (In thousand)	Contractual maturities						Total
	<1 year	1 year - 2 years	2-3 years	3-4 years	4-5 years	>5 years	
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
Financial liabilities:							
Insurance claims payable	118,002	-	-	-	-	-	118,002
Accounts payable and accrued expenses	20,782	-	-	-	-	-	20,782
Reinsurance liabilities	6,963	-	-	-	-	-	6,963

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, 2014 and 2013 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:

	2014		2013	
	Phil. Peso	US \$	Phil. Peso	US \$
Cash and cash equivalents	P 3,744,036	P 83,915	P 4,937,419	P 111,168
AFS investments	65,942,476	1,477,968	82,017,002	1,846,647
Accrued investment income	1,313,171	29,432	1,619,239	36,458
	70,999,683	1,591,315	88,573,660	1,994,273

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	2014	+0.2 Million	+3.1 Million
-P2		-0.2 Million	-3.1 Million
+P2	2013	+0.2 Million	+3.9 Million
-P2		-0.2 Million	-3.9 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, 2014			
		Due in			
Interest rate		<1 year	>1 year but years	<5	>5 years
Financial assets that are :					
Cash equivalents	0.625%-2.25% P	88,969,639 P	-	P	-
Short-term investment	1.75%	2,000,000	-	-	-
HTM	3.25%-15%	4,000,000	85,029,375		231,690,349

		As of December 31, 2013			
		Due in			
Interest rate		<1 year	>1 year but years	<5	>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%	5,000,000	65,370,673		180,658,408

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
2014	+200	P 8,233,787
	-200	(8,233,787)
2013	+200	P 6,190,713
	-200	(6,190,713)

Management believes that interests rate movements within the range of 200 to 500 basis points during the year is material and would 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 P23.1 million in 2014 and P15.8 million in 2013. 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, 2014 and 2013.

	2014	2013
Share capital	P 250,000,000	P 250,000,000
Contributed surplus	33,000	33,000
Retained earnings	387,274,220	326,092,782
	P 637,307,220	P 576,125,782

(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
2014	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, 2014 and 2013, 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, 2014 and 2013 revealed the following:

	2014	2013
Networth	P 713,238,514	P 647,924,756
RBC requirement	81,922,116	77,286,817
RBC Ratio	871%	838%

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

The regulatory capital requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided the industry complies with the required Industry RBC Compliance Rates and RBC Hurdle Rates from 2008 to 2014. For review year 2014 which will be based on the 2013 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:

	2014		2013	
Cash on hand	P	140,500	P	130,500
Cash in banks		49,553,195		39,919,883
Short-term bank placements		39,416,444		54,586,694
	P	89,110,139	P	94,637,077

Cash in bank and short-term bank deposits earn interest at prevailing bank interest rates. Interest income earned on these deposits amounted to P5,795,477 in 2014 and P5,745,054 in 2013.

Short-term investments amounted to P2,000,000 and P10,000,000 in 2014 and 2013, 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, 2014							
	AFS		HTM		Loans & receivable		Total
Gross carrying value							
Balance at the beginning of year	P	437,116,608	P	251,029,081	P	644,648	P 688,790,337
Additions		208,006,699		75,158,256		-	283,164,955
Disposal/Maturity		(181,888,780)		(5,000,000)		-	(186,888,780)
Amortization of premium		-		(467,613)		-	(467,613)
Changes in:							
fair value		20,376,162		-		-	20,376,162
exchange rates		313,462		-		-	313,462
Balance at the end of the year		483,924,151		320,719,724		644,648	805,288,523
Allowance for impairment losses		-		-		(644,648)	(644,648)
	P	483,924,151	P	320,719,724	P	-	P 804,643,875

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

- **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:

	2014	2013
Cost:		
Debt instruments	P 60,647,390	P 82,070,601
Equity securities quoted in the stock exchange	156,038,629	147,645,255
Equity securities not quoted in the stock exchange	1,160,000	1,160,000
Other investments	246,645,337	201,920,000
	464,491,356	432,795,856
Changes in fair values		
Debt instruments	5,295,086	5,955,159
Equity securities quoted in the stock exchange	5,490,131	(2,535,592)
Equity securities not quoted in the stock exchange	170,000	150,000
Other investments	8,477,578	751,185
	19,432,795	4,320,752
Fair values	P 483,924,151	P 437,116,608

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:

	2014	2013
Due in:		
One year	P -	P 13,435,279
More than one year but less than five years	65,942,476	66,959,607
Beyond five years	-	7,630,874
	P 65,942,476	P 88,025,760

- **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 3.25%-15% in 2014 and 0.875%-15% in 2013.

The maturity profile of this account is presented below:

	2014	2013
Due in:		
One year	P 4,000,000	P 5,000,000
More than one year but less than five years	85,029,375	65,370,673
Beyond five years	231,690,349	180,658,408
	P 320,719,724	P 251,029,081

As required by the IC, Philippine government securities with face value of P90.94 million in 2014 and P92.98 million in 2013 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 receivable

The breakdown of this account is as follows:

		2014		2013
Due from brokers and agents	P	5,663,200	P	6,090,969
Due from ceding companies		189,037		-
Funds held by ceding companies		1,054,142		1,031,819
	P	6,906,379	P	7,122,788

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:

		2014		2013
Reserve for reinsurance premium <i>(see Note 17)</i>	P	9,461,507	P	9,406,532
Reinsurance recoverable on unpaid losses <i>(see Note 18)</i>		1,122,817		2,605,338
	P	10,584,324	P	12,011,870

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:

		2014		2013
Acquisition cost	P	13,302,715	P	13,302,715
Accumulated depreciation				
January 1		9,527,393		8,862,257
Provision for the year		665,136		665,136
Balance, December 31		10,192,529		9,527,393
Net Book Value	P	3,110,186	P	3,775,322

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 P1,810,808 in 2014 and P1,867,698 in 2013. Direct cost relating to the lease excluding depreciation expense above amounted to P38,894 in 2014 and P79,516 in 2013.

As of December 31, 2014, management believes that fair value of the Company's investment property is not significantly different from its carrying value.

13. Property and equipment - net

The breakdown of this account is as follows:

	As of December 31, 2014					Total
	Land*	Building & condominium units	Furniture, fixtures & office equipment	Transportation equipment		
Costs						
At January 1, 2013	P 93,243,800	P 19,652,417	P 10,516,657	P 24,814,852	P	148,227,726
Additions	-	-	1,131,927	1,378,996		2,510,923
At December 31, 2013	93,243,800	19,652,417	11,648,584	26,193,848		150,738,649
Accumulated depreciation and impairment losses						
At January 1, 2013	17,800	19,475,275	8,876,052	20,531,692		48,900,819
Provisions	-	177,142	775,548	1,850,855		2,803,545
At December 31, 2013	17,800	19,652,417	9,651,600	22,382,547		51,704,364
Net Book Value						
At December 31, 2013	P 93,226,000	P -	P 1,996,984	P 3,811,301	P	99,034,285

*At appraised value

	As of December 31, 2013					Total
	Land*	Building & condominium units	Furniture, fixtures & office equipment	Transportation equipment		
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 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

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 P2,401,078 in 2014 and P2,779,455 in 2013.

Depreciation of property and equipment charged to operations amounted to P2,803,545 in 2014 and P3,431,049 in 2013.

The fair value of the land was based on the appraiser's report issued by an independent firm of appraisers on December 31, 2007. 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.

As of December 31, 2014, the management believes that the fair values have not significantly changed from the last appraisal.

Had the land been carried at cost, its carrying amount would amount to P9,813,681 in 2014 and 2013.

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

Movements of this account during the year are as follows:

	As of December 31, 2014		
	Deferred Commission expense	Deferred Commission income	Net DAC
Balances, January 1	P 39,461,450	P 2,787,248	P 36,674,202
Net change in acquisition cost	(2,150,726)	(97,967)	(2,052,759)
	P 37,310,724	P 2,689,281	P 34,621,443

	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 at December 31 2014 and 2013, 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:

	2014	2013
Government securities and other debt instruments	P 4,280,743	P 4,060,642
Short-term investment	3,967	78,386
Cash and cash equivalents	83,996	290,864
	P 4,368,706	P 4,429,892

Interest rates on accrued investment income, gross of final taxes due, ranges from 0.625% to 15.0% in 2014 and 0.5% to 15.0% in 2013.

16. Other assets

This account consists of:

	2014	2013
Security fund	P 140,167	P 140,167
Deposits and others	929,874	563,522
	P 1,070,041	P 703,689

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:

	2014			2013		
	Direct Business	Ceded	Net	Direct Business	Ceded	Net
Balances, January 1	P 142,614,539	P 9,406,532	P 133,208,007	P 135,685,803	P 10,961,902	P 124,723,901
Policies written during the year	291,212,348	22,615,667	268,596,681	308,940,504	25,445,205	283,495,299
Premiums earned during the year	297,179,925	22,560,692	274,619,233	302,011,768	27,000,575	275,011,193
	P 136,646,962	P 9,461,507	P 127,185,455	P 142,614,539	P 9,406,532	P 133,208,007

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:

	2014			2013		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Balances, January 1	P 118,002,054	P 2,605,338	P 115,396,716	P 122,724,159	P 20,378,125	P 102,346,034
Claims and losses incurred - net of recoveries	133,595,585	3,226,650	130,368,935	137,578,432	4,915,150	132,663,282
Claims and loss paid - net of recoveries	(108,522,771)	(4,709,171)	(103,813,600)	(142,300,537)	(22,687,937)	(119,612,600)
Balances, December 31	P 143,074,868	P 1,122,817	P 141,952,051	P 118,002,054	P 2,605,338	P 115,396,716

19. Accounts payable and accrued expenses

This account consists of:

	2014	2013
Taxes payable	P 16,966,505	P 14,999,390
Accrued and other liabilities	5,277,016	4,887,209
Commissions payable	546,827	894,967
	P 22,790,348	P 20,781,566

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, 2014 and 2013.

20. Reinsurance liabilities

The movements of this account are as follows:

	As of December 31, 2014		
	Due to reinsurers	Funds held for reinsurers	Total
Balance at the beginning of year	P 1,094,609	P 5,868,225	P 6,962,834
Additions	20,071,370	4,073,909	24,145,279
Reductions	(17,456,784)	(4,920,624)	(22,377,408)
Balance at the end of year	P 3,709,195	P 5,021,510	P 8,730,705

	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

21. Equity

Share Capital

The Company's capital structure as at December 31, 2014 and 2013 is as follows:

	Shares	Amount
Authorized - P1 par value per share	320,000,000	P 320,000,000
Issued and outstanding:		
2014	250,000,000	250,000,000
2013	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 are as follows:

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

No dividends were declared during 2014.

As at December 31, 2014 and 2013, the Company has 16 stockholders owning 100 or more shares each.

Revaluation surplus on AFS

The movements in this account are shown below:

		2014		2013
Balances, Jan. 1				
Before tax effect	P	4,014,283	P	20,215,598
Effect of deferred income tax		84,774		(24,761)
		4,099,057		20,190,837
Mark to market adjustment				
Released to profit and loss		1,517,997		(4,218,384)
Changes in fair value				
Forex gain/ loss		313,462		6,359,411
Market value changes		13,502,279		(18,317,581)
Effect of deferred income tax				
Provision		(832,644)		84,774
Balances, Dec. 31	P	18,600,151	P	4,099,057

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						
2011	1,031,250	120,750	-	-	-	1,152,000
2012	-	1,038,368	-	-	-	1,038,368
2013	358,650	32,855,867	-	-	-	33,214,517
2014	-	102,514,646	2,840,304	632,531	1,682,502	107,669,983
Total estimated claims	1,389,900	136,529,631	2,840,304	632,531	1,682,502	143,074,868
Less: share of reinsurer	1,122,817	-	-	-	-	1,122,817
	P 267,083	P 136,529,631	P 2,840,304	P 632,531	P 1,682,502	P 141,952,051

23. Premiums

Analysis of premiums is as follows:

	For the year ended December 31, 2014				
	Direct Business	Assumed Business	Total	Ceded Business	Net premiums Retained
Premiums written	P 288,578,289	P 2,634,059	P 291,212,348	P 22,615,667	P 268,596,681
Changes in unexpired risk	6,104,216	(136,639)	5,967,577	(54,975)	6,022,552
Net	P 294,682,505	P 2,497,420	P 297,179,925	P 22,560,692	P 274,619,233

	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

24. Interest and other investment income (loss)

Sources of interest income are as follows:

	2014	2013
Cash and cash equivalents and short-term investment	P 5,795,477	P 5,745,054
Other debt instruments	28,496,275	22,585,069
	P 34,291,752	P 28,330,123

Other investment income (loss) consists of:

	2014		2013	
Rental income	P	4,211,887	P	4,647,153
Dividend income		8,264,102		3,730,259
Realized gain on sale of				
Available-for-sale investments		11,456,254		5,904,432
Gain on foreign exchange		-		3,473,109
	P	23,932,243	P	17,754,953

25. Claims, losses and adjustment expenses

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

	For the year ended December 31, 2014									
	Direct		Assumed		Total		Recovered		Net	
Claims and losses	P	107,890,709	P	1,702,185	P	109,592,894	P	(4,647,806)	P	104,945,088
Loss adjustment expenses		(1,070,123)		-		(1,070,123)		(61,365)		(1,131,488)
	P	106,820,586	P	1,702,185	P	108,522,771	P	(4,709,171)	P	103,813,600

	For the year ended December 31, 2013									
	Direct		Assumed		Total		Recovered		Net	
Claims and losses	P	139,735,593	P	730,781	P	140,466,374	P	(22,578,211)	P	117,888,163
Loss adjustment expenses		1,834,163		-		1,834,163		(109,726)		1,724,437
	P	141,569,756	P	730,781	P	142,300,537	P	(22,687,937)	P	119,612,600

26. General and administrative expenses

General and administrative expenses consist of:

	2014		2013	
Salaries and allowances	P	29,351,169	P	27,788,854
Other employee benefits		5,162,559		4,321,679
Repairs and maintenance		4,461,788		2,424,536
Depreciation (See Notes 12 & 13)		3,468,681		4,096,185
Transportation		2,456,281		2,299,021
Rental and other occupancy costs		2,418,064		2,108,615
Taxes and licenses		2,350,748		2,000,899
Foreign exchange loss		1,770,279		-
Communication and postage		1,637,325		1,525,025
Representation and entertainment		1,601,522		1,325,158
Supplies		1,407,269		1,194,648
Association and pool dues		1,234,817		1,080,024
Professional fees		697,142		483,811
Advertising		378,883		933,881
Professional development		281,253		564,918
Miscellaneous		1,495,245		1,361,137
	P	60,173,025	P	53,508,391

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 P1,152,786 in 2014 and P62,680 in 2013.

As at December 31, 2014 and 2013, the distribution of the provident plan is as follows:

	2014	2013
Debt securities	44%	8%
Cash and cash equivalents	31%	88%
Equity securities	24%	4%
Loans and receivables	1%	0%
	100%	100%

28. Income Taxes

The major components of provision for income tax for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Current		
Regular	P 5,583,754	P 4,845,144
Final tax	4,148,252	3,671,693
Deferred	(771,048)	(352,431)
	P 8,960,958	P 8,164,406

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

	2014	2013
Statutory income tax	P 21,042,719	P 17,682,500
Adjustment for:		
Income subjected to lower income tax rates	(9,576,148)	(7,717,751)
Non-taxable income/Non-deductible expense	(1,734,565)	(1,447,912)
Effect of deferred income tax	(771,048)	(352,431)
Actual provision for income tax	P 8,960,958	P 8,164,406

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

	2014		2013	
Deferred tax assets				
Allowance for impairment of assets	P	198,734	P	198,734
Unrealized foreign exchange loss		151,949		-
Excess of unearned premiums per books over tax basis		5,981,591		5,979,281
	P	6,332,274	P	6,178,015
Deferred tax liabilities				
Deferred acquisition cost -net	P	10,386,433	P	11,002,261
Unrealized foreign exchange gain		-		961
Revaluation surplus on:				
Land		25,023,696		25,023,696
AFS		832,644		4,077
	P	36,242,773	P	36,030,995

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

	As of December 31, 2014				
	Beginning	Changes taken to			Ending
		Profit and loss	Equity		
Deferred tax assets	P 6,178,015	P 154,259	P -	P 6,332,274	
Deferred tax liabilities	(36,030,995)	616,789	(828,567)	(36,242,773)	
	P (29,852,980)	P 771,048	P (828,567)	P (29,910,499)	

	As of December 31, 2013				
	Beginning	Changes taken to			Ending
		Profit and loss	Equity		
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)	

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:

	2014		2013	
PFRS net income	P	61,181,438	P	50,777,261
Add(deduct):				
Difference in change in reserve for unearned premiums - net		7,701		5,848,621
Deferred acquisition cost - net		2,052,759		570,773
Foreign exchange loss (gain)		421,767		(6,089,582)
Effect of deferred income tax		771,048		352,431
Others		(342,432)		-
RAP net income	P	64,092,281	P	51,459,504

30. Supplementary Information required under Revenue Regulations 15-2010 and 19-2011

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, 2014 is presented in compliance thereto.

(i) Supplementary information under RR 15-2010

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

	Amount subject to VAT		Output tax	
Premiums	P	269,506,409	P	32,340,769
Commission		2,338,409		280,609
Rental income		3,735,241		448,229
	P	275,580,059	P	33,069,607

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

Balance at the beginning of the year	P	-
Current year' domestic purchases/payments for:		
Goods		1,649,366
Services		9,764,945
Applied against output tax		(11,414,311)
	P	-

- The premium tax on personal accident insurance paid and accrued amounted to P44,340.
- The documentary stamp tax paid/accrued for insurance policies is P36,312,524.
- The amounts of withholding tax payments, by category are as follows:

Tax on compensation and benefits	P	3,089,595
Expanded withholding tax		9,590,967

- As at December 31, 2014 the Company has no pending tax cases within and outside the administration of the BIR.

(ii) Supplementary information under RR 19-2011

- The details of Company's revenues for income tax purposes are as follows:

Net premiums retained	P	274,626,934
Commission income		6,876,051
Rental income		4,211,887
	P	285,714,872

- The breakdown of Company's direct costs for income tax purposes are as follows:

Claims and losses incurred - net of reinsurer's share	P	130,368,935
Commission expense		76,048,949
Salaries, wages and benefits		32,770,018
Materials, supplies and facilities		4,471,162
Taxes and licenses		1,902,095
Transportation		1,197,749
Representation and entertainment		1,083,487
Underwriting expense		933,215
Rental		305,408
Depreciation		177,142
Miscellaneous		378,884
	P	249,637,044

- The breakdown of Company's itemized deductions for income tax purposes are as follows:

Depreciation	P	3,291,539
Rental and other occupancy costs		2,112,656
Repairs and maintenance		1,823,802
Salaries and allowances		1,496,654
Foreign exchange loss		1,348,518
Transportation		1,258,532
Association and pool dues		1,234,817
Professional fees		697,142
Communication and postage		653,669
Supplies		557,748
Representation and entertainment		518,035
Taxes and licenses		448,653
Advertising		378,883
Professional development		281,253
Other employee benefits		247,056
Miscellaneous		1,116,362
	P	17,465,319

- The details of taxes and licenses presented under administrative expenses in the Company's statement of income are as follows:

Real estate tax	P	799,429
Local business taxes		1,055,584
Community tax certificate		10,500
Fringe benefit tax		120,672
Others		364,563
	P	2,350,748

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, 2014 and 2013, the estimated amounts of non-admitted assets as defined under the insurance regulations, which are included in the accompanying statement of financial position follows:

		2014		2013
Deferred acquisition costs	P	37,310,724	P	39,461,450
Reserve for deferred reinsurance premium		9,461,507		9,406,532
Property and equipment		5,808,285		5,923,765
Deferred tax assets		6,332,274		6,178,015
Other assets		929,874		563,522
	P	59,842,664	P	61,533,284

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, 2014 and 2013 are as follows:

		2014		2013
Within one year	P	4,402,789	P	4,401,640
After one year but not after five years		4,609,000		4,573,924
	P	9,011,789	P	8,975,564

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 P305,408 in 2014 and P145,311 in 2013.

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:

	2014		2013	
Compensation and benefits	P	6,366,967	P	7,135,802
Retirement benefits		388,167		146,352
	P	6,755,134	P	7,282,154

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	P	900 million
December 31, 2022	P	1.3 billion
- Maintenance of Reserve for Unearned Premiums computed based on the 24th method for all policies in force.

As of March 6, 2015, 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:

	2014		2013	
Current assets				
Cash and cash equivalents	P	89,110,139	P	94,637,077
Short-term investment		2,000,000		10,000,000
Financial assets		4,000,000		18,435,279
Insurance and reinsurance assets		17,490,703		19,134,658
Accrued investment income		4,368,706		4,429,892
Deferred acquisition costs		37,310,724		39,461,450
	P	154,280,272	P	186,098,356
Current liabilities				
Accounts payable and accrued expenses	P	22,790,348	P	20,781,566
Reinsurance liabilities		8,730,705		6,962,834
Insurance claims payable		143,074,868		118,002,054
Reserve for unearned premiums		136,646,963		142,614,539
Deferred commission income		2,689,281		2,787,248
	P	313,932,165	P	291,148,241