MAA General Assurance Philippines, Inc.

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

SGV
Building a better working world

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
MAA General Assurance Philippines, Inc.

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of MAA General Assurance Philippines, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Djole S. Garcia
Partner
CPA Certificate No. 0097907
SEC Accreditation No. 1285-A (Group A),
February 25, 2013 until February 24, 2016
Tax Identification No. 201-960-347
BIR Accreditation No. 08-001998-102-2013,
January 28, 2013, valid until January 27, 2016
PTR No. 4751285, January 5, 2015, Makati City

March 26, 2015

MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Cash and Cash Equivalents (Notes 4 and 24)	**₱335,182,248**	₱112,010,548
Short-term Investments (Notes 5 and 24)	**14,410,302**	2,538,437
Insurance Receivables - net (Notes 6 and 24)	**350,098,748**	373,055,585
Financial Assets (Notes 7 and 24)		
Available-for-sale financial assets	**684,329,483**	828,786,543
Loans and receivables	**672,573**	3,607,416
Accrued Income (Notes 8 and 24)	**3,608,162**	6,724,221
Reinsurance Assets (Notes 9, 14 and 24)	**556,161,461**	910,628,201
Deferred Acquisition Costs (Note 10)	**136,138,571**	107,981,315
Property and Equipment - net (Note 11)	**16,552,767**	12,366,156
Intangible Asset (Note 12)	**8,114,286**	7,714,286
Deferred Tax Assets - net (Note 23)	**13,678,977**	15,020,802
Other Assets (Note 13)	**20,150,961**	14,014,128
	₱2,139,098,539	₱2,394,447,638
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 14 and 24)	**₱1,270,243,651**	₱1,618,087,872
Insurance payables (Notes 15 and 24)	**44,130,875**	74,624,626
Accounts payable and other liabilities (Notes 16, 24 and 27)	**262,437,286**	244,057,087
Deferred reinsurance commissions (Note 10)	**14,836,371**	27,234,230
Retirement benefit liability -net(Note 22)	**10,276,226**	3,809,303
	1,601,924,409	1,967,813,118
Equity		
Capital stock (Note 17)	**300,000,000**	300,000,000
Contributed surplus	**643,832**	643,832
Contingency surplus (Notes 17 and 24)	**82,123,738**	82,123,738
Revaluation reserve on available-for-sale financial assets (Note 7)	**14,017,511**	(83,559,087)
Retained earnings	**140,389,049**	127,426,037
	537,174,130	426,634,520
	₱2,139,098,539	₱2,394,447,638

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2014	2013
Gross earned premiums on insurance contracts (Notes 14 and 18)	**₱1,075,379,349**	₱993,658,213
Reinsurers' share of gross earned premiums on insurance contracts (Notes 14 and 18)	**(423,998,159)**	(421,961,653)
Net insurance earned premiums	**651,381,190**	571,696,560
Commission income (Note 10)	**44,103,282**	69,157,166
Investmentand other income - net (Note 19)	**(44,488,591)**	117,822,713
Other income (expense)	**(385,309)**	186,979,879
Total income	**650,995,881**	758,676,439
Gross insurance contract benefits and claims paid (Notes 14, 20 and 24)	**540,966,307**	294,630,724
Reinsurers' share of gross insurance contract benefits and claims paid (Notes 14, 20 and 24)	**(277,821,605)**	(115,729,388)
Gross change in insurance contract liabilities (Note 20)	**(407,398,349)**	577,136,141
Reinsurers' share of gross change in insurance contract liabilities (Note 20)	**311,130,771**	(414,315,387)
Net insurance benefits and claims	**166,877,124**	341,722,090
Commission expense (Note 10)	**262,040,001**	254,935,367
Other underwriting expense (Note 21)	**13,864,385**	11,527,732
Operating expenses (Notes 21, 22 and 25)	**183,161,130**	127,735,351
Interest expense	**1,747,339**	2,770,139
Other expenses	**460,812,855**	396,968,589
Total Benefits, Claims and Other Expenses	**627,689,979**	738,690,679
Income before income tax	**23,305,902**	19,985,760
Current	**5,476,098**	7,683,210
Deferred	**2,399,315**	–
Provision for income tax (Note 23)	**7,875,413**	7,683,210
NET INCOME (Note 26)	**₱15,430,489**	₱12,302,550

See accompanying Notes to Financial Statements

MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
NET INCOME (Note 26)	**₱15,430,489**	₱12,302,550
OTHER COMPREHENSIVE INCOME		
Items that will be reclassified to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale financial assets (Note 7)	**8,655,953**	(26,428,505)
Fair value loss (gain) transferred to profit or loss (Note 7)	**88,920,645**	(57,139,993)
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on retirement benefit liability, net of tax effect (Note 22)	**(2,467,477)**	136,719
	95,109,121	(83,431,779)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱110,539,610**	(₱71,129,229)

See accompanying Notes to Financial Statements

.

MAA GENERAL ASSURANCE PHILIPPINES, INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Capital Stock (Note 17)	Contributed Surplus	Contingency Surplus (Notes 17 and 24)	Revaluation Reserve on Available-for-sale Financial Assets (Note 7)	Retained Earnings	Total
As of January 1, 2014	**₱300,000,000**	**₱643,832**	**₱82,123,738**	**(₱83,559,087)**	**₱127,426,037**	**₱426,634,520**
Net income for the year	**–**	**–**	**–**	**–**	**15,430,489**	**15,430,489**
Other comprehensive income (loss)	**–**	**–**	**–**	**97,576,598**	**(2,467,477)**	**95,109,121**
Total comprehensive income for the year	**–**	**–**	**–**	**97,576,598**	**12,963,012**	**110,539,610**
As of December 31, 2014	**₱300,000,000**	**₱643,832**	**₱82,123,738**	**₱14,017,511**	**₱140,389,049**	**₱537,174,130**
As of January 1, 2013	₱300,000,000	₱643,832	₱82,123,738	₱9,411	₱114,986,768	₱497,763,749
Net income for the year	–	–	–	–	12,302,550	12,302,550
Other comprehensive income (loss)	–	–	–	(83,568,498)	136,719	(83,431,779)
Total comprehensive income (loss) for the year	–	–	–	(83,568,498)	12,439,269	(71,129,229)
As of December 31, 2013	₱300,000,000	₱643,832	₱82,123,738	(₱83,559,087)	₱127,426,037	₱426,634,520

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱23,305,902**	₱19,985,760
Adjustments for:		
Dividend income (Note 19)	**(10,219,632)**	(10,046,236)
Depreciation (Notes 11 and 21)	**4,456,703**	4,447,481
Loss (gain) on sale of:		
AFS financial assets (Note 19)	**88,920,645**	(57,139,993)
Property and equipment (Note 19)	**(1)**	3,108
Interest expense	**1,747,339**	2,770,139
Interest income (Note 19)	**(24,113,711)**	(32,598,782)
Net operating income (loss) before working capital changes	**84,097,245**	(72,578,523)
Decrease (increase) in:		
Insurance receivables	**22,956,837**	(98,127,351)
Short-term investments	**(11,871,865)**	1,184,098
Reinsurance recoverable on unpaid losses	**311,100,771**	(414,315,386)
Deferred reinsurance premiums	**43,365,969**	(7,014,085)
Loans and receivables	**2,934,843**	(1,026,079)
Deferred acquisition costs	**(28,157,256)**	1,283,702
Intangible assets (Note 12)	**(400,000)**	–
Other assets	**(6,136,833)**	597,322
Increase (decrease) in:		
Provision for unearned premiums	**59,554,128**	50,900,979
Provision for claims reported and IBNR	**(407,398,349)**	577,136,140
Insurance payables	**(30,493,751)**	(10,644,402)
Accounts payable and other liabilities	**18,380,199**	75,210,817
Deferred reinsurance commissions	**(12,397,859)**	(1,132,622)
Retirement benefit liability	**2,941,956**	2,483,302
Net cash provided by operations	**48,476,035**	103,957,912
Income tax paid	**(5,476,098)**	(10,976,621)
Net cash from operating activities	**42,999,937**	92,981,291
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Available-for-sale financial assets (Note 7)	**(764,697,225)**	(1,184,448,518)
Property and equipment (Note 11)	**(8,692,162)**	(2,857,975)
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 7)	**918,642,090**	1,059,776,391
Property and equipment (Note 11)	**48,849**	1,370
Interest received	**26,397,918**	35,682,129
Dividend received	**10,219,632**	10,046,236
Net cash provided by (used in) investing activities	**181,919,102**	(81,800,367)

(Forward)

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	**(₱1,747,339)**	(₱2,770,139)
Net cash used in financing activities	**(1,747,339)**	(2,770,139)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**223,171,700**	8,410,785
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**112,010,548**	103,599,763
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱335,182,248**	₱112,010,548

See accompanying Notes to Financial Statements.

1. Corporate Information

MAA General Assurance Philippines, Inc. ("the Company"), a corporation duly organized and existing under Philippine laws, is engaged in the business of nonlife insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events. It includes lines such as fire and allied perils, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with and incident to the aforementioned lines. The Company's ultimate parent is MAA Holdings Berhad, which is domiciled in Malaysia.

The Company was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 1950. In a special Board of Directors' (BOD) meeting held on August 8, 1999, it was approved that the Articles of Incorporation will be amended to extend the existence of the Company to another fifty years from its original expiry date. The Philippine SEC approved the Amended Articles of Incorporation in 2000.

The registered office address of the Company is 10th Floor, Pearl Bank Centre Building, 146 Valero Street, Salcedo Village, Makati City.

The accompanying financial statements were authorized for issue by the BOD on March 26, 2015.

2. Summary of Significant Accounting Policies

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

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

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

- Investment Entities *(*Amendments to PFRS 10*, Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entitie*s, and PAS 27, *Separate Financial Statements)*
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The

amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact to the Company, since none of the entities within the Group qualifies to be an investment entity under PFRS 10.

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

- PAS 39, Financial Instruments: *Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as the Company has no derivatives during the current or prior periods.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
  These amendments remove the unintended consequences of PFRS 13, Fair Value Measurement, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The application of these amendments has no impact on the Company's financial statements.

- Philippine Interpretation IFRIC 21, *Levies*
  Philippine Interpretation IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for Philippine Interpretation IFRIC 21. This Philippine Interpretation has no impact on the Company as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of Philippine Interpretation IFRIC 21 in prior years.

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

- *Annual Improvements to PFRSs (2011-2013 cycle)*
  In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is

applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Company as it is not a first-time PFRS adopter.

Future Changes Accounting Policies

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

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

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

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

The following new standards and amendments issued by the International Accounting Standards Board ("IASB") were already adopted by the FRSC but are still for approval of the BOA:

Effective in 2015

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

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

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

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

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

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

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

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

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

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

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

Effective in 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company since it has no intangible assets.

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

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

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after 1 January 2016.

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

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

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

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

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

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

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

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

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

Effective in 2018

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

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

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

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

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

New Standard Issued By The IASB But Has Not Yet Been Adopted By The FRSC

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to

measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Use of Estimates, Assumptions and Judgments
The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities at the end of the reporting period as well as the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the end of the reporting period, the actual outcome may differ from these estimates, possibly significantly. For further information on critical estimates and judgments, refer to Note 3.

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

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

Fair Value Measurement
The Company measures financial instrument at fair value at each reporting period.

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

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

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

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

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

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

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

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

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

Short-term Investments
Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

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

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

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

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

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVPL. This accounting policy relates to the statement of financial position captions: (a) "Cash and Cash Equivalents", (b) "Short-term Investments", (c) "Insurance Receivables", (d) "Loans and Receivables" and (e) "Accrued Income".

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

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

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized in profit or loss when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as 'Revaluation reserve on available-for-sale financial assets' in other comprehensive income. The losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as realized gains or losses in profit or loss. Where the Company holds more than one investment in the same security, the cost is determined using the weighted average method.

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

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to

satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

This accounting policy applies primarily to the Company's insurance payables and accounts payable and other liabilities that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement benefit liability).

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

AFS investments carried at fair value
In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of other comprehensive income is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

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

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

<u>Derecognition of Financial Assets and Liabilities</u>
Financial Asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

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

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

An impairment review is performed at each at end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged against profit or loss.

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

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

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

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

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

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

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

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

Property and Equipment
Property and equipment are stated at cost, net of accumulated depreciation and any impairment in value.

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

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

	Years
Transportation equipment	5-10
Leasehold improvements	5
Computer equipment	5
Office furniture, fixtures and equipment	5
Building	20

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

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against profit or loss.

Creditable Withholding Taxes (CWTs)
Creditable withholding pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under "Other assets" account.

At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company. If these CWTs are claimed as a refund, these will be recorded as a receivable under "Loans and receivables" account.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of these CWTs.

Intangible Asset
Intangible asset pertains to the Company's computer software.

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

Computer software is carried at cost less accumulated amortization. Computer software cost is amortized over the expected useful life of the asset, but not to exceed five (5) years. All computer software components are amortized over five (5) years. Amortization commences when the asset is available for use or when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Company.

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

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

Value-added Tax (VAT)
The input value added tax pertains to the 12% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the sale of insurance policies and other goods or services by the Company.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under "Accounts payable and accrued expenses" account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under "Other assets" account.

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

Provision for Unearned Premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums.Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums as part of Insurance contract liabilities and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

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

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

Pension Cost
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any),

adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

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

Equity

Capital stock represents the value of shares that have been issued at par.

Contributed surplus includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Contingency surplus pertains to capital infusions of shareholders in order to comply with Margin of Solvency (MOS) deficiency as a result of the examination made by the Insurance Commission (IC).

Retained earnings include all the accumulated earnings of the Company.

Revenue

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

Premiums revenue

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

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

Reinsurance commission income

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

Interest income

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

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

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

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

Other Expenses
Other underwriting expense, operating expenses and interest expense, except for lease agreements, are recognized as expense as they are incurred.

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

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

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

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

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

Provisions and Contingencies
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or

loss, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Income Tax

Current tax

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

Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at each 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 asset to be utilized. Unrecognized deferred tax assets are reassessed at each end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

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

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

3. Significant Accounting Judgments and Estimates

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

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

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

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

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

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

As of December 31, 2014, the carrying values of provision for outstanding claims and IBNR amounted to ₱638,020,259 and ₱115,435,541, respectively. As of December 31, 2013, the carrying values of provision for outstanding claims and IBNR amounted to ₱911,790,160 and ₱249,063,989, respectively (see Note 14).

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

The carrying value of AFS financial assets is ₱684,329,483 and ₱828,786,543 as of December 31, 2014 and 2013, respectively (see Note 7).

Impairment of Financial Assets
The Company determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged decline requires judgment. The Company treats 'significant' generally as 20% or more or 'prolonged' greater than twelve (12) months. In addition, the Company evaluates other factors, including the normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, like changes in technology, and operational and financing cash flows.

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

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

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

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

Insurance receivables, net of allowance for doubtful accounts, amounted to ₱350,098,748 and ₱373,055,585 as of December 31, 2014 and 2013, respectively (see Note 6). Loans and receivables amounted to ₱672,573 and ₱3,607,416 as of December 31, 2014 and 2013, respectively (see Note 7).

As of December 31, 2014 and 2013, the Company has impairment loss amounting to ₱136,528 and ₱145,432, respectively, on its AFS financial assets (see Note 7).

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

As of December 31, 2014 and 2013, property and equipment amounted to ₱16,552,767 and ₱12,366,156, respectively (see Note 11). Intangible asset amounted to ₱8,114,286 and ₱7,714,286 as of December 31, 2014 and 2013, respectively (see Note 12).

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

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

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets or holding of an investment, the Company is required to make estimates and assumptions that can materially affect the financial statements.

As of December 31, 2014 and 2013, the Company has not recognized any impairment loss on its nonfinancial assets.

Pension and Other Employee Benefits
The determination of the Company's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts.

Those assumptions are described in Note 22 and include among others, discount rates and rates of salary increase. While the Company believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect retirement obligations. Please see Note 22 for the related balances.

Recognition of Deferred Tax Assets
The Company reviews the carrying amounts of deferred tax assets at each end of the reporting period and reduces it to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. The Company looks at its projected performance in assessing the sufficiency of future taxable income.

The Company recognized deferred tax assets amounting to ₱60,556,611 and ₱54,533,872 as of December 31, 2014 and 2013, respectively (see Note 23).

4. Cash and Cash Equivalents

This account consists of:

	2014	2013
Cash on hand and in banks	**₱157,138,009**	₱95,170,459
Short-term deposits	**178,044,239**	16,840,089
	₱335,182,248	₱112,010,548

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are money market placements maturing three (3) months or less from the date of acquisition, but with varying periods depending on the immediate cash requirements of the Company and earn interest at the rates ranging from 0.625% to 1.5% in 2014 and 0.50% to 1.88% in 2013.

5. Short-term Investments

Short-term investments amounted to ₱14,410,302 and ₱2,538,437 as of December 31, 2014 and 2013, respectively.

Short-term investments are money market placements made for varying periods of more than three (3) months and up to six (6) months and earn interest at the respective short-term investment rates.

6. **Insurance Receivables** - Net

This account consists of:

	2014	2013
Due from brokers and agents	**₱379,121,688**	₱365,049,838
Due from ceding companies	**3,230,976**	5,211,993
Funds held by ceding companies	**4,080,124**	2,319,570
Reinsurance recoverable on paid losses	**34,495,961**	23,265,738
	420,928,749	395,847,139
Less allowance for doubtful accounts	**70,830,001**	22,791,554
	₱350,098,748	₱373,055,585

The following table shows aging information of insurance receivables:

December 31, 2014

	1 to 30 days	**31 to 90 days**	**91to 180 days**	**181to 240 days**	**241to 360 days**	**Total**
Due from brokers and agents	**₱57,760,826**	**₱126,475,477**	**₱126,906,180**	**₱30,929,091**	**₱37,050,114**	**₱379,121,688**
Due from ceding companies	**33,367**	**499,260**	**1,877,169**	**289,585**	**531,595**	**3,230,976**
Funds held by ceding companies	**–**	**–**	**4,080,124**	**–**	**–**	**4,080,124**
Reinsurance recoverable on paid losses	**8,120,671**	**2,086,816**	**2,135,297**	**6,059,074**	**16,094,103**	**34,495,961**
	₱65,914,864	**₱129,061,553**	**₱134,998,770**	**₱37,277,750**	**₱53,675,811**	**₱420,928,749**

December 31, 2013

	1 to 30 days	31 to 90 days	91 to 180 days	181 to 240 days	241 to 360 days	Total
Due from brokers and agents	₱91,125,049	₱122,095,654	₱83,540,656	₱26,800,051	₱41,488,428	₱365,049,838
Due from ceding companies	381,944	611,876	1,752,573	613,474	1,852,126	5,211,993
Funds held by ceding companies	–	–	2,319,570	–	–	2,319,570
Reinsurance recoverable on paid losses	8,106,783	787,209	265,565	1,083,809	13,022,372	23,265,738
	₱99,613,776	₱123,494,739	₱87,878,364	₱28,497,334	₱56,362,926	₱395,847,139

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

December 31, 2014

	Due from brokers and agents	**Due from ceding Companies**	**Reinsurance recoverable on paid losses**	**Total**
At January 1, 2014	**₱4,660,506**	**₱–**	**₱18,131,048**	**₱22,791,554**
Impairment (reversals) during the year	**4,902,900**	**47,554,456**	**(4,418,909)**	**48,038,447**
At December 31, 2014	**₱9,563,406**	**₱47,554,456**	**₱13,712,139**	**₱70,830,001**
Individually impaired	**₱1,655,382**	**₱42,479**	**₱13,467,263**	**₱15,165,124**
Collectively impaired	**7,908,024**	**47,511,977**	**244,876**	**55,664,877**
	₱9,563,406	**₱47,554,456**	**₱13,712,139**	**₱70,830,001**

December 31, 2013

	Due from brokers and agents	Due from ceding Companies	Reinsurance recoverable on paid losses	Total
At January 1, 2013	₱1,717,980	₱204,588	₱13,041,971	₱14,964,539
Impairment (reversals) during the year	2,942,526	(204,588)	5,089,077	7,827,015
At December 31, 2013	₱4,660,506	₱–	₱18,131,048	₱22,791,554
Individually impaired	₱1,466,279	₱–	₱17,815,921	₱19,282,200
Collectively impaired	3,194,227	–	315,127	3,509,354
	₱4,660,506	₱–	₱18,131,048	₱22,791,554

7. **Financial Assets**

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

	2014	2013
AFS financial assets	**₱684,329,483**	₱828,786,543
Loans and receivables	**672,573**	3,607,416
	₱685,002,056	₱832,393,959

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

a) *AFS financial assets*

	2014	2013
Quoted securities - at fair value		
Listed equity securities:		
Common shares	**₱116,229,824**	₱403,648
Preferred shares	**234,821,800**	128,234,000
Club shares	**3,100,000**	3,200,000
Government debt securities:		
Local currency	**192,304,701**	590,524,995
Foreign currency	**37,486,808**	35,516,000
Private debt securities	**100,366,350**	70,887,900
Non-quoted securities - at cost		
Unlisted equity securities:		
Common shares	**20,000**	20,000
Total AFS financial assets recognized in the statements of financial position	**₱684,329,483**	₱828,786,543
Quoted securities - at cost or amortized cost		
Listed equity securities		
Common shares - net of allowance for impairment loss of ₱136,528 in 2014 and ₱145,432 in 2013.	**₱112,346,319**	₱403,648
Preferred shares	**230,712,516**	122,516,000
Club shares	**1,600,000**	1,600,000

(Forward)

	2014	2013
Government debt securities		
Local currency	**₱192,357,137**	₱683,289,982
Foreign currency	**35,776,000**	35,516,000
Private debt securities	**97,500,000**	69,000,000
Non-quoted securities - at cost		
Unlisted equity securities:		
Common shares	**20,000**	20,000
Total AFS financial assets at cost or amortized cost	**₱670,311,972**	₱912,345,630

As of December 31, 2014 and 2013, the unrealized gains (losses) in respect of AFS financial assets recorded in equity amounted to ₱14,017,511 and (₱83,559,087), respectively.

The rollforward of revaluation reserve on AFS financial assets follows:

	2014	2013
As of January 1	**(₱83,559,087)**	₱9,411
Other comprehensive income:		
Changes in fair value of AFS financial assets	**8,655,953**	(26,428,505)
Transferred to statements of income	**88,920,645**	(57,139,993)
	97,576,598	(83,568,498)
As of December 31	**₱14,017,511**	(₱83,559,087)

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

	2014	2013
At January 1	**₱828,786,543**	₱733,081,210
Additions	**764,697,225**	1,184,448,518
Disposals/maturities	**(918,642,090)**	(1,059,776,391)
Amortization of bond	**831,852**	(2,538,289)
Fair value gains (loss) credited to (charged against) other comprehensive income	**8,655,953**	(26,428,505)
At December 31	**₱684,329,483**	₱828,786,543

b) *Loans and receivables*

This account consists of the following:

	2014	2013
Intercompany accounts receivables (see Notes 24 and 25)	**₱118,877**	₱3,255,693
Accounts receivables (see Note 24)	**509,853**	84,861
Miscellaneous receivables (see Note 24)	**43,843**	266,862
	₱672,573	₱3,607,416

Miscellaneous receivables account includes employees' loans, social security system (SSS) receivables and documentary stamp tax (DST) receivables.Loans granted to employees are non-interest bearing and payable to the Company within one year through payroll deduction.

In 2014, the Company has written off receivables from MAA Corporate and Compliance Philippines, Inc. amounting to ₱1,841,901 (see Note 21).

As of December 31, 2014 and 2013, the Company's outstanding loans and receivables are all due within one year, except for the intercompany accounts receivables which are payable on demand.

8. Accrued Income

Accrued income consists of interest receivable amounting to ₱3,608,162 and ₱6,724,221 as of December 31, 2014 and 2013, respectively, which pertains mainly to interest accrued arising from cash and cash equivalents, AFS debt securities and contributions to the security fund.

9. Reinsurance Assets

This account consists of the following:

	2014	2013
Reinsurance recoverable on unpaid losses (see Note 14)	**₱458,070,712**	₱769,201,483
Deferred reinsurance premiums (see Note 14)	**98,090,749**	141,426,718
	₱556,161,461	₱910,628,201

10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs
The rollforward analysis of this account follows:

	2014	2013
At January 1	**₱107,981,315**	₱109,265,017
Costs deferred during the year	**290,197,257**	253,651,665
Amortization during the year	**(262,040,001)**	(254,935,367)
At December 31	**₱136,138,571**	₱107,981,315

Deferred Reinsurance Commissions
The rollforward analysis of this account follows:

	2014	2013
At January 1	**₱27,234,230**	₱28,366,852
Income deferred during the year	**31,705,423**	68,024,544
Amortization during the year	**(44,103,282)**	(69,157,166)
At December 31	**₱14,836,371**	₱27,234,230

11. **Property and Equipment** - Net

The rollforward analysis of this account follows:

December 31, 2014

	Transportation Equipment	**Leasehold Improvements**	**Computer Equipment**	**Office Furniture, Fixtures and Equipment**	**Building**	**Total**
Cost						
At January 1, 2013	**₱13,076,625**	**₱7,600,171**	**₱50,922,004**	**₱6,011,970**	**₱3,250,000**	**₱80,860,770**
Additions	**368,200**	**120,124**	**1,142,812**	**561,026**	**6,500,000**	**8,692,162**
Disposals	**–**	**–**	**(6,817)**	**(250,828)**	**–**	**(257,645)**
At December 31, 2013	**13,444,825**	**7,720,295**	**52,057,999**	**6,322,168**	**9,750,000**	**89,295,287**
Accumulated depreciation and amortization						
At January 1, 2013	**9,231,174**	**6,542,341**	**46,586,104**	**4,794,370**	**1,340,625**	**68,494,614**
Depreciation	**1,430,460**	**421,052**	**1,793,610**	**432,414**	**379,167**	**4,456,703**
Disposals	**–**	**–**	**(6,817)**	**(201,980)**	**–**	**(208,797)**
At December 31, 2013	**10,661,634**	**6,963,393**	**48,372,897**	**5,024,804**	**1,719,792**	**72,742,520**
Net book value as of December 31, 2013	**₱2,783,191**	**₱756,902**	**₱3,685,102**	**₱1,297,364**	**₱8,030,208**	**₱16,552,767**

December 31, 2013

	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2013	₱11,909,118	₱7,382,995	₱49,887,177	₱5,579,753	₱3,250,000	₱78,009,043
Additions	1,167,507	217,176	1,034,827	438,465	–	2,857,975
Disposals	–	–	–	(6,248)	–	(6,248)
At December 31, 2013	13,076,625	7,600,171	50,922,004	6,011,970	3,250,000	80,860,770
Accumulated depreciation and amortization						
At January 1, 2013	7,382,558	6,138,940	44,905,791	4,443,489	1,178,125	64,048,903
Depreciation	1,848,616	403,401	1,680,313	352,651	162,500	4,447,481
Disposals	–	–	–	(1,770)	–	(1,770)
At December 31, 2013	9,231,174	6,542,341	46,586,104	4,794,370	1,340,625	68,494,614
Net book value as of December 31, 2013	₱3,845,451	₱1,057,830	₱4,335,900	₱1,217,600	₱1,909,375	₱12,366,156

Depreciation expense charged against operations amounted to ₱4,456,703 and ₱4,447,481in 2014 and 2013, respectively (see Note 21).

12. **Intangible Asset**

The rollforward analysis of this account follows:

	2014	2013
At January 1	**₱7,714,826**	₱7,714,826
Additions	**400,000**	–
At December 31	**₱8,114,826**	₱7,714,826

On August 7, 2012, the Company acquired computed software amounting to ₱7,714,826 which is to be implemented in 2015. I n2014, the Company incurred additional software costs amounting to ₱400,000. No amortization expense has been charged against operations in 2014 and 2013 since it is still in the testing and development stage.

13. Other Assets

This account consists of:

	2014	2013
Creditable withholding tax	**₱10,975,470**	₱7,166,722
Deposits	**6,574,630**	4,246,545
Claims fund	**2,137,165**	2,137,165
Prepaid expenses	**392,981**	392,981
Security fund	**70,715**	70,715
	₱20,150,961	₱14,014,128

14. Insurance Contract Liabilities and Reinsurance Assets

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

	Insurance contract liabilities	**Reinsurers' share of liabilities** (see Note 9)	**Net 2014**	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2013
Provision for claims reported and loss adjustment expenses	**₱638,020,259**	**₱394,792,427**	**₱243,227,832**	₱911,790,160	₱659,507,253	₱252,282,907
Provision for IBNR losses	**115,435,541**	**63,278,285**	**52,157,256**	249,063,989	109,694,230	139,369,759
Total claims reported and IBNR	**753,455,800**	**458,070,712**	**295,385,088**	1,160,854,149	769,201,483	391,652,666
Provision for unearned premiums	**516,787,851**	**98,090,749**	**418,697,102**	457,233,723	141,426,718	315,807,005
Total insurance contract liabilities	**₱1,270,243,651**	**₱556,161,461**	**₱714,082,190**	₱1,618,087,872	₱910,628,201	₱707,459,671

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

	Insurance contract liabilities	**Reinsurers' share of liabilities** (see Note 9)	**Net 2014**	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2013
At January 1	**₱1,160,854,149**	**₱769,201,484**	**₱391,652,665**	₱583,718,009	₱354,886,097	₱228,831,912
Claims incurred during the year	**267,196,405**	**13,106,778**	**254,089,627**	793,424,924	497,871,595	295,553,329
Claims paid during the year - net of salvage and subrogation (see Note 20)	**(540,966,307)**	**(277,821,605)**	**(263,144,702)**	(294,630,724)	(115,729,388)	(178,901,336)
Increase in IBNR	**(133,628,447)**	**(46,415,945)**	**(87,212,502)**	78,341,940	32,173,180	46,168,760
At December 31	**₱753,455,800**	**₱458,070,712**	**₱295,385,088**	₱1,160,854,149	₱769,201,484	₱391,652,665

Provision for unearned premiums may be analyzed as follows:

	Insurance contract liabilities	**Reinsurers' share of liabilities** (see Note 9)	**Net 2014**	Insurance Contract Liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2013
At January 1	**₱457,233,723**	**₱141,426,718**	**₱315,807,005**	₱406,332,744	₱134,412,633	₱271,920,111
New policies written during the year (see Note 18)	**1,134,933,477**	**380,662,190**	**754,271,287**	1,044,559,192	428,975,738	615,583,454
Premiums earned during the year (see Note 18)	**(1,075,379,349)**	**(423,998,159)**	**(651,381,190)**	(993,658,213)	(421,961,653)	(571,696,560)
At December 31	**₱516,787,851**	**₱98,090,749**	**₱418,697,102**	₱457,233,723	₱141,426,718	₱315,807,005

15. Insurance Payables

This account consists of:

	2014	2013
Due to reinsurers and ceding companies (see Note 24)	**₱30,930,830**	₱31,697,140
Funds held for reinsurers (see Note 24)	**13,200,045**	42,927,486
	₱44,130,875	₱74,624,626

The rollforward analysis of insurance payables follows:

	Due to reinsurers and ceding companies	**Funds held for reinsurers**	**Total**
At January 1, 2013	₱41,298,901	₱43,970,127	₱85,269,028
Arising during the year	81,232,755	(1,042,641)	80,190,114
Utilized	(90,834,516)	–	(90,834,516)
At December 31, 2013	31,697,140	42,927,486	74,624,626
Arising during the year	**40,299,295**	**(29,727,441)**	**10,571,854**
Utilized	**(41,065,605)**	**–**	**(41,065,605)**
At December 31, 2014	**₱30,930,830**	**₱13,200,045**	**₱44,130,875**

16. Accounts Payable and Other Liabilities

This account consists of:

	2014	2013
Commission payable	**₱94,631,647**	₱97,143,141
Value added tax (VAT) payable	**69,247,204**	75,866,893
Withholding taxes payable	**38,375,703**	29,581,573
Accounts payable	**42,616,760**	28,372,764
Taxes payable	**8,056,864**	6,121,986
Accrued expenses	**6,422,519**	4,517,987
Documentary stamp tax(DST) payable	**2,091,939**	1,252,080
Others	**994,650**	1,200,663
	₱262,437,286	₱244,057,087

Others include loans and salary contributions payable.

17. **Capital Stock**

The Company's capital stock consists of:

	2014		2013	
	Shares	**Amount**	Shares	Amount
Authorized: Common stock				
₱1,000 par value	**300,000**	**₱300,000,000**	300,000	₱300,000,000
Issued and outstanding:				
At beginning/end of year	**300,000**	**₱300,000,000**	300,000	₱300,000,000

18. **Net Insurance Earned Premiums**

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

	2014	2013
Gross premiums on insurance contracts:		
Direct insurance	**₱956,412,126**	₱878,529,819
Assumed reinsurance	**178,521,351**	166,029,373
Total gross premiums on insurance contracts (see Note 14)	**1,134,933,477**	1,044,559,192
Gross change in provision for unearned premiums	**(59,554,128)**	(50,900,979)
Total gross earned premiums on insurance contracts (see Note 14)	**1,075,379,349**	993,658,213
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	**199,920,915**	191,186,747
Assumed reinsurance	**180,741,275**	237,788,991
Total reinsurers' share of gross premiums on insurance contracts (see Note 14)	**380,662,190**	428,975,738
Reinsurers' share of gross change in provision for unearned premiums	**43,335,969**	(7,014,085)
Total reinsurers' share of gross earned premiums on insurance contracts (see Note 14)	**423,998,159**	421,961,653
Total net insurance earned premiums (see Note 14)	**₱651,381,190**	₱571,696,560

19. **Investment and other income (expense)** - Net

This account consists of:

	2014	2013
Interest income on:		
AFS financial assets	**₱20,752,268**	₱29,982,539
Cash and cash equivalents	**3,361,443**	2,616,243
Dividend income	**10,219,632**	10,046,236
Gain (loss) on sale of available-for-sale financial assets (Note 7)	**(88,920,645)**	57,139,993
Gain (loss) on sale of property and equipment (Note 11)	**(1)**	(3,108)
Impairment loss (Note 7)	**(136,528)**	(145,432)
Foreign exchange gain - net	**6,126,927**	14,523,320
Others	**4,108,313**	3,662,922
	(₱44,488,591)	₱117,822,713

20. **Net Insurance Benefits and Claims**

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

	2014	2013
Insurance contract benefits and claims paid:		
Direct insurance	**₱506,392,748**	₱284,854,444
Assumed reinsurance	**34,573,559**	9,776,280
Total insurance contract benefits and claims paid (see Note 14)	**₱540,966,307**	₱294,630,724

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

	2014	2013
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	**₱33,353,387**	₱26,739,923
Assumed reinsurance	**244,468,218**	88,989,465
Total reinsurers' share of insurance contract benefits and claims paid (see Note 14)	**₱277,821,605**	₱115,729,388

Gross change in insurance contract liabilities:

	2014	2013
Change in provision for claims reported (see Note 14):		
Direct insurance	**(₱247,501,926)**	₱496,402,156
Assumed reinsurance	**26,267,976)**	2,392,044
Change in provision for IBNR	**(133,628,447)**	78,341,940
Total gross change in insurance contract liabilities	**(₱407,398,349)**	₱577,136,140

Reinsurers' share of gross change in insurance contract liabilities:

	2014	2013
Reinsurers' share of gross change in insurance contractliabilities (see Note 14):		
Direct insurance	**(₱264,714,826)**	₱382,142,207
Reinsurers' share of change in provision for IBNR	**(46,415,945)**	32,173,180
Total reinsurers' share of gross change in insurance contract liabilities	**(₱311,130,771)**	₱414,315,387

21. **Operating Expenses and Other Underwriting Expense**

This account consists of:

	2014	2013
Salaries and employee benefits (see Note 22)	**₱64,221,243**	₱56,996,213
Provision for allowance for doubtful accounts (see Note 6)	**48,038,447**	7,827,015
Outside services	**12,108,097**	8,568,681
Advertising and promotion	**8,888,066**	4,688,573
Rent	**8,401,725**	8,436,812
Communication, light and water	**6,820,715**	6,367,321
Printing and office supplies	**4,888,152**	3,900,750
Repairs and maintenance	**4,736,927**	4,596,556
Depreciation (see Note 11)	**4,456,703**	4,447,481
Transportation and travel	**3,417,891**	2,902,690
Entertainment, amusement and recreation	**2,726,057**	2,717,815
Agency fees	**2,278,432**	2,616,800
Intercompany accounts receivable written off (see Note 7)	**1,841,901**	–
Insurance	**1,651,352**	1,446,375
Taxes and licenses	**884,719**	4,339,904
Director's fees	**656,667**	1,032,000
Miscellaneous	**7,144,036**	6,850,365
Total Operating Expenses	**₱183,161,130**	₱127,735,351

Other underwriting expenses amounted to ₱13,864,385 and ₱11,527,732 in 2014 and 2013, respectively. These generally pertain to the Company's share of the administrative and miscellaneous expenses reported by Philippine Accident Managers, Inc. and overseas Filipino workers' accounts.

22. **Retirement Plan**

The Company has a funded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The plan provides a retirement benefit equal to one hundred percent (100%) of Plan Salary for every year of Credited Service plus Retirement Bonus, if any. The plan is administered by a local bank as trustee.

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

Pension Expense

	2014	2013
Current service cost	**₱2,725,437**	₱2,395,145
Net interest cost	**216,519**	88,157
Total pension expense	**₱2,941,956**	₱2,483,302
Actual return on plan assets	**(₱39,506)**	₱1,927,848

Remeasurement Effects to be recognized in OCI

	2014	2013
Actuarial loss	**(₱2,527,689)**	(₱868,217)
Remeasurement gain (loss):		
Plan asset	**(997,278)**	1,063,530
Total amount to be recognized in OCI	**(₱3,524,967)**	₱195,313

Accumulated other comprehensive income - net of deferred tax

	2014	2013
Accumulated OCI, beginning	**(₱2,203,133)**	(₱2,339,852)
Recognized during the year	**(2,467,477)**	136,719
Accumulated OCI, end	**(₱4,670,610)**	(₱2,203,133)

Retirement Benefit liability - net

	2014	2013
Benefit obligation	**₱27,330,115**	₱21,044,641
Plan assets	**(17,053,889)**	(17,235,338)
Deficit	**₱10,276,226**	₱3,809,303

Changes in present value of the defined benefit obligation are as follows:

	2014	2013
Opening defined benefit obligation	**₱21,044,641**	₱16,917,853
Current service cost	**2,725,437**	2,395,145
Interest cost	**1,174,291**	952,475
Actuarial loss on obligation	**2,527,689**	868,217
Benefits paid	**(141,943)**	(89,049)
At end of year	**₱27,330,115**	₱21,044,641

Changes in fair value of plan assets are as follows:

	2014	2013
Opening fair value of plan assets	**₱17,235,338**	₱15,396,539
Interest income	**957,772**	864,318
Actuarial gain (loss)	**(997,278)**	1,063,530
Benefits paid	**(141,943)**	(89,049)
At end of year	**₱17,053,889**	₱17,235,338

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

	2014	2013
Cash in bank	**₱841,008**	₱637,708
Short-term investments	**-**	–
Units investment trust fund	**3,537,029**	3,538,415
Government debt securities	**10,498,040**	10,199,873
Others	**2,177,812**	2,859,342
Total plan assets	**₱17,053,889**	₱17,235,338

The principal assumptions used to determine pension benefits for the Company are as follows:

	2014	2013
Discount rate	**4.67%**	5.58%
Expected salary rate increase	**5.00%**	5.00%

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

2014

	Change in variables	**Impact on present value of defined benefit obligation Increase (Decrease)**	**Percentage change**
Discount rate	+100 bps	(₱2,255,920)	(8.3%)
	–100 bps	2,579,796	9.4
Salary increase rate	+100 bps	₱2,296,320	8.4%
	–100 bps	(2,060,913)	(7.5%)

2013

	Change in variables	**Impact on present value of defined benefit obligation Increase (Decrease)**	**Percentage change**
Discount rate	+400 bps	(₱5,958,795)	(28.3%)
	–100 bps	2,040,144	9.7
Salary increase rate	+300 bps	₱6,172,130	29.3%
	–100 bps	(1,646,002)	(7.8%)

The Company does not expect any contribution to the plan for next accounting period.

Weighted average duration of the defined benefit obligation is 10.1 and 11.7 years in 2014 and 2013, respectively.

Maturity profile of the expected future benefit payments are as follow:

Financial Year	Amount
2015	₱3,207,485
2017	569,979
2019	293,285
2020 - 2024	24,893,665

23. Income Tax

The components of the Company's net deferred tax asset consist of the tax effects of the following:

	2014	2013
Deferred tax assets on:		
IBNR - net	**₱15,647,177**	₱19,555,041
Excess of provision for unearned premiums per books over per tax basis	**4,425,752**	19,026,896
Deferred reinsurance commissions	**4,450,911**	8,170,268
Allowance for doubtful accounts	**21,249,000**	6,837,467
Pension obligation	**2,001,690**	944,200
NOLCO	**12,782,081**	–
Total deferred tax assets	**60,556,611**	54,533,872
Deferred tax liabilities on:		
Deferred acquisition costs	**40,841,571**	32,394,394
Excess of deferred reinsurance premiums per books over tax basis	**5,772,478**	5,499,756
Unrealized foreign exchange gain	**263,585**	1,618,920
Total deferred tax liabilities	**46,877,634**	39,513,070
Net deferred tax assets	**₱13,678,977**	₱15,020,802

The table below shows the temporary differences for which no deferred income tax assets have been set up because the Company believes that there will be no sufficient future taxable profit against which the benefit from these can be utilized.

	2014	2013
Provision for IBNR - net	**(₱25,910,367)**	₱48,275,919
NOLCO	**42,496,801**	42,496,801
Unamortized past service cost	**5,284,365**	6,279,491
Accrued expense	**3,555,854**	3,106,008
Excess MCIT	**2,701,117**	1,985,846
Pension obligation - net	**4,201,721**	1,259,765

As of December 31, 2014, the Company has NOLCO and MCIT that can be claimed as deduction from future taxable profit:

Year Incurred	Year of Expiry	NOLCO	MCIT
2014	2017	₱42,606,938	₱715,270
2013	2016	28,193,468	867,817
2012	2015	14,303,333	1,118,029
		₱85,103,739	₱2,701,116

The movements of NOLCO are as follows:

	2014	2013
At January 1	**₱42,496,801**	₱14,303,333
Additions	**42,606,938**	28,193,468
At December 31	**₱85,103,739**	₱42,496,801

The movements of MCIT are as follows:

	2014	2013
At January 1	**₱1,985,846**	₱1,118,029
Additions	**715,270**	867,817
At December 31	**₱2,701,116**	₱1,985,846

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

	2014	2013
Tax at statutory income tax rate	**₱6,991,771**	₱5,995,728
Add (deduct) tax effects of:		
Change in unrecognized deferred tax assets	**(20,821,612)**	25,402,834
Final tax paid	**4,760,828**	6,815,393
Nondeductible expenses	**212,428**	901,193
Nontaxable income	**(1,574,493)**	(2,738,076)
Dividend income	**(2,904,424)**	(3,013,871)
Interest income subjected to final tax	**(5,465,278)**	(8,537,993)
Loss (gain) on sale of AFS financial assets	**26,676,193**	(17,141,998)
Effective income tax	**₱7,875,413**	₱7,683,210

24. Management of Capital, Insurance and Financial Risks

Governance Framework

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

The Company is guided by its standard operating procedures and internal control procedures designed to ensure attainment of the Company objective. More so it is strongly backed up by its strong treaty agreements, which more or less limits the risk acceptance.

The Company has already outlined its risk management manual and is for endorsement to the Risk Management Committee for approval. Said manual clearly outlines the structure of the Risk Management Organization and defines integral role of each position. It also states reportorial requirements and processes.

The Risk Management Committee is composed of not less than (3) members of the Board whereas, the Chief Underwriting Technical is appointed as the Risk Champion. To serve as member of the organization, the head of each department are automatically called the Risk Owner.

Risk Owners are task to conduct regular identification, evaluation and review of the risk factors of their respective department through semi-annual submission of risk scorecards. The same shall be used as basis of reporting to the Board of Directors.

Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the Insurance Commission (IC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g.,fixed capitalization requirements and risk-based capital requirements).

Capital Management Framework

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators as imposed under Department of Finance Order (DO) 27-06 and the amount computed under the Risk Based Capital (RBC) Model.

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

Fixed Capitalization Requirements

On August 15, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the “New Insurance Code” which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

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

As of December 31, 2014 and 2013, the estimated statutory net worth of the Company amounted to ₱360,598,662 and ₱255,011,795, respectively.

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

As of December 31, 2014, the Company has complied with the unimpaired capital requirement.

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

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

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

	2014	2013
Net worth	**₱360,598,662**	₱255,011,795
RBC requirement	**407,684,699**	488,022,757
RBC Ratio	**88%**	52%

As of December 31, 2014, the Company's computed RBC ratio is 88% in which case the Company may be subjected to a company action event by the Insurance Commission.

Under Section A of Insurance Commission Insurance Memorandum Circular No. 7-2006, Company Action Event shall occur if the RBC ratio of the company is less than 100% but not below 75%. Should this event occur, the company shall file to the Commissioner within forty-five (45) days of the event an RBC plan that shall:

a) Identify the conditions that contributed to the event;
b) Contain proposals of corrective action that the company intends to take and that would be expected to result in the elimination of the event;
c) Provide projections of the company's Annual Statements for at least two years with and without the proposed corrective actions; including but not limited to projections on the balance sheets, analysis of operations (total), surplus accounts, RBC Exhibits and lines of business information relevant to the RBC plan;
d) Identify the key assumptions impacting the company's projections and the sensitivity of the projections to the assumptions; and
e) Identify the quality of, and problems associated with, the company's business, including but not limited to its assets, anticipated business growth, surplus strain, extraordinary exposure to risk, mix of business and use of reinsurance, if any, in each case.

The Commissioner shall notify the company within sixty (60) days upon submission of the RBC plan whether it shall be implemented or is unsatisfactory. In the latter case the Commission shall include reasons for the determination and proposed revisions to the RBC plan, and the company shall resubmit the RBC plan within thirty (30) days of notice.

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

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

Insurance Risk

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

The Company principally issue the following types of general insurance contracts: fire, motor, health and accident, aviation/hull, marine, engineering, professional indemnity, bonds, fidelity guarantee and surety. Risks under general insurance policies usually cover twelve month duration.

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

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

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

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

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

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

December 31, 2014

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	**₱443,823,372**	**₱317,979,198**	**₱125,844,174**
Motor	**118,399,550**	**1,426,169**	**116,973,381**
Marine	**82,785,213**	**57,387,095**	**25,398,118**
Engineering	**61,446,412**	**51,912,800**	**9,533,612**
General Accounts	**31,288,046**	**19,114,837**	**12,173,209**
Bonds	**8,780,550**	**6,485,820**	**2,294,730**
Personal Accident	**6,932,657**	**3,764,793**	**3,167,864**
Total	**₱753,455,800**	**₱458,070,712**	**₱295,385,088**

December 31, 2013

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	₱685,833,143	₱578,987,398	₱106,845,745
Motor	270,517,766	45,843,691	224,674,075
Marine	93,272,555	76,771,271	16,501,284
General Accounts	38,135,518	29,319,828	8,815,690
Engineering	27,304,126	21,211,830	6,092,296
Personal Accident	25,979,058	5,860,292	20,118,766
Bonds	19,811,983	11,207,173	8,604,810
Total	₱1,160,854,149	₱769,201,483	₱391,652,666

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

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

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

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

<u>Assumptions</u>
The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example once off occurrence, changes in market factors such as public attitude to claiming,

economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions include variation in interest rate, delays in settlement and changes in foreign currency rates.

Sensitivities

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

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

December 31, 2014

	Change in assumptions	**Increase on gross liabilities**	**Increaseon net liabilities**	**Decrease on profit before tax**	**Decrease on Equity**
Average claim cost	**+15%**	**₱113,018,370**	**₱44,307,763**	**(₱44,307,763)**	**(₱31,015,434)**
Average number of claims	**+10%**	**75,345,580**	**29,538,509**	**(29,538,509)**	**(20,676,956)**

December 31, 2013

	Change in assumptions	Increase on gross liabilities	Increase on net liabilities	Decrease on profit before tax	Decrease on Equity
Average claim cost	+15%	₱174,128,122	₱58,747,900	(₱58,747,900)	(₱41,123,530)
Average number of claims	+10%	116,085,415	39,165,267	(39,165,267)	(27,415,687)

Claims Development Table

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

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

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

Accident year	**2001and prior years**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Estimate of ultimate claims costs:															
At the end of accident year	₱192,507	₱68,089,945	₱178,781,778	₱200,893,231	₱221,143,622	₱203,233,292	₱176,540,244	₱354,020,024	₱703,455,884	₱351,768,139	₱290,055,315	₱491,680,497	₱981,514,284	₱478,565,167	₱478,565,167
One year later	558,959	80,408,529	199,767,832	243,524,364	228,127,026	242,876,952	210,016,821	350,711,481	617,311,664	295,380,180	249,236,892	328,667,261	642,202,190	–	642,202,190
Two years later	558,959	80,587,279	205,284,452	243,692,311	249,290,190	242,908,209	209,733,446	349,210,333	644,380,617	298,215,370	244,731,915	299,267,383	–	–	299,267,383
Three years later	558,959	80,595,725	205,700,942	243,692,311	249,297,669	243,951,003	209,649,711	346,043,817	642,105,266	303,351,536	231,656,214	–	–	–	231,656,214
Four years later	558,959	80,623,630	205,700,942	243,692,311	250,051,455	203,801,487	216,716,586	346,594,361	642,321,602	301,212,492	–	–	–	–	301,212,492
Five years later	558,959	80,623,630	205,700,942	243,844,640	250,320,833	199,876,937	216,922,135	346,439,978	640,966,024	–	–	–	–	–	640,966,024
Six years later	558,959	80,623,630	206,914,097	244,005,563	250,352,010	201,291,846	216,961,982	346,688,550	–	–	–	–	–	–	346,688,550
Seven years later	558,959	80,704,515	207,072,477	244,139,631	250,352,010	201,291,846	216,922,135	–	–	–	–	–	–	–	216,922,135
Eight years later	558,959	80,819,526	207,915,321	244,139,631	250,352,010	201,327,645	–	–	–	–	–	–	–	–	201,327,645
Nine years later	558,959	80,826,569	207,915,321	244,176,887	250,384,796	–	–	–	–	–	–	–	–	–	250,384,796
Ten years later	558,959	80,826,569	212,107,442	244,176,887	–	–	–	–	–	–	–	–	–	–	244,176,887
Eleven years later	558,959	80,826,569	212,464,585	–	–	–	–	–	–	–	–	–	–	–	212,464,585
Twelve years later	558,959	80,826,569	–	–	–	–	–	–	–	–	–	–	–	–	80,826,569
Thirteen years later	558,959	–	–	–	–	–	–	–	–	–	–	–	–	–	558,959
Current estimate of cumulative claims	**558,959**	**80,826,569**	**212,464,585**	**244,176,887**	**250,384,796**	**201,327,645**	**216,922,135**	**346,688,550**	**640,966,024**	**301,212,492**	**231,656,214**	**299,267,383**	**642,202,190**	**478,565,167**	**4,147,219,596**
Cumulative payments to date	**(558,959)**	**(80,826,569)**	**(182,464,585)**	**(244,176,887)**	**(250,384,796)**	**(201,327,645)**	**(216,922,135)**	**(346,246,740)**	**(621,593,926)**	**(295,580,764)**	**(227,075,884)**	**(282,026,977)**	**(441,153,414)**	**(111,872,180)**	**(3,502,211,461)**
Total gross insurance liabilities included in the statement of financial position	**₱–**	**₱–**	**₱30,000,000**	**₱–**	**₱–**	**₱–**	**₱–**	**₱441,810**	**₱19,372,098**	**₱5,631,728**	**₱4,580,330**	**₱17,240,406**	**₱201,048,776**	**₱366,692,987**	**₱645,008,135**

Accident year	2001 and prior years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Estimate of ultimate claims costs:															
At the end of accident year	₱192,507	₱45,912,805	₱115,040,197	₱99,672,402	₱174,725,047	₱134,133,973	₱125,625,286	₱116,148,062	₱212,252,765	₱154,584,623	₱163,791,499	₱261,005,450	₱387,859,463	₱314,048,055	₱314,048,055
One year later	443,055	49,797,105	134,169,598	139,003,958	183,330,768	174,339,641	130,533,162	100,305,430	280,268,882	125,266,766	139,967,859	197,503,795	316,141,982	–	316,141,982
Two years later	443,055	50,415,511	134,309,798	161,516,416	184,261,160	174,539,493	130,456,897	100,047,676	285,109,844	125,793,379	145,677,308	185,173,419	–	–	185,173,419
Three years later	443,055	51,767,052	157,481,065	161,516,416	184,273,144	174,957,885	130,364,269	98,975,740	285,043,458	126,317,409	138,609,673	–	–	–	138,609,673
Four years later	443,055	52,823,523	157,481,065	161,516,416	184,372,296	175,044,463	130,615,539	99,351,772	285,013,815	124,687,468	–	–	–	–	124,687,468
Five years later	443,055	52,823,523	157,481,065	161,651,565	184,402,354	176,078,021	130,821,088	99,288,309	283,811,476	–	–	–	–	–	283,811,476
Six years later	443,055	52,823,523	157,515,967	161,789,349	184,433,531	175,170,604	130,860,935	98,925,963	–	–	–	–	–	–	98,925,963
Seven years later	443,055	52,850,959	157,568,971	161,923,417	184,433,531	175,170,604	130,821,088	–	–	–	–	–	–	–	130,821,088
Eight years later	443,055	52,891,126	157,704,088	161,923,417	184,433,531	175,170,679	–	–	–	–	–	–	–	–	175,170,679
Nine years later	443,055	52,898,169	157,704,088	161,949,356	184,445,442	–	–	–	–	–	–	–	–	–	184,445,442
Ten years later	443,055	52,898,169	157,771,545	161,949,356	–	–	–	–	–	–	–	–	–	–	161,949,356
Eleven years later	443,055	52,898,169	157,775,412	–	–	–	–	–	–	–	–	–	–	–	157,775,412
Twelve years later	443,055	52,898,169	–	–	–	–	–	–	–	–	–	–	–	–	52,898,169
Thirteen years later	443,055	–	–	–	–	–	–	–	–	–	–	–	–	–	443,055
Current estimate of cumulative claims	**443,055**	**52,898,169**	**157,775,412**	**161,949,356**	**184,445,442**	**175,170,679**	**130,821,088**	**98,925,963**	**283,811,476**	**124,687,468**	**138,609,673**	**185,173,419**	**316,141,982**	**314,048,055**	**2,324,901,237**
Cumulative payments to date	**(443,055)**	**(52,898,169)**	**(157,450,296)**	**(161,949,356)**	**(184,445,442)**	**(175,170,679)**	**(130,821,088)**	**(98,888,208)**	**(282,308,801)**	**(124,041,333)**	**(137,697,617)**	**(179,728,793)**	**(262,445,134)**	**(108,397,593)**	**(2,056,685,564)**
Total net insurance liabilities included in the statement of financial position	**₱–**	**₱–**	**₱325,116**	**₱–**	**₱–**	**₱–**	**₱–**	**₱37,755**	**₱1,502,675**	**₱646,135**	**₱912,056**	**₱5,444,626**	**₱53,696,848**	**₱205,650,462**	**₱268,215,673**

Financial Instruments
Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, accrued income, insurance payables, accounts payable and commission payable, their carrying values reasonably approximate fair values as at December 31, 2014 and 2013.

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

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

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

The Company classifies its financial assets measured at fair value as follows:

	2014			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
AFS Financial Assets				
Listed equity securities				
Common shares	**₱116,229,824**	**₱–**	**₱–**	**₱116,229,824**
Preferred shares	**234,821,800**	**–**	**–**	**234,821,800**
Club shares	**3,100,000**	**–**	**–**	**3,100,000**
Government debt securities				
Local currency	**192,304,701**	**–**	**–**	**192,304,701**
Foreign currency	**37,486,808**	**–**	**–**	**37,486,808**
Private debt securities	**100,366,350**	**–**	**–**	**100,366,350**
Total AFS financial assets	**₱684,309,483**	**₱–**	**₱–**	**₱684,309,483**

	2013			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
AFS Financial Assets				
Listed equity securities				
Common shares	₱403,648	₱–	₱–	₱403,648
Preferred shares	128,234,000	–	–	128,234,000
Club shares	3,200,000	–	–	3,200,000
Government debt securities				
Local currency	590,524,995	–	–	590,524,995
Foreign currency	35,516,000	–	–	35,516,000
Private debt securities	70,887,900	–	–	70,887,900
Total AFS financial assets	₱828,766,543	₱	₱	₱828,766,543

As of December 31, 2014 and 2013, the Company classifies AFS financial assets under Level 1 of the fair value hierarchy, except for the unlisted equity securities that do not have quoted market prices in an active market which are measured at cost and hence, not included above. During the reporting period ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial Risk

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

Credit risk

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

The Company manages the level of credit risk by setting up limits of exposure. Exposure in the sense that the concentration of its businesses is widespread in scope, in terms of counterparties involved, location or geographical and industry segments. A counterparty may be subjected to a credit investigation prior to entering into a contract considering the financial condition or credit standing and character of the prospective producer, reinsurer and policy holder.

Regular review of company policies is being conducted to ensure proper monitoring of direct and reinsurance receivables versus payables. The Company reserves the right to offset where counterparties are both debtors and creditors; cancel policies which are beyond the credit-term or those with lesser probability of being collected and terminate contract which the management believes to be non-productive. Commissions and claims are likewise being used as leverage to collect from counterparty. In the event of a major loss, the Company is backed up by reinsurers with strong financial standing. Reinsurers and agents' portfolio are periodically being rated with A+ being the highest and B- the lowest.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs.

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

	2014	2013
Cash and cash equivalents	**₱335,040,248**	₱111,873,548
Short-term investments	**14,410,302**	2,538,437
Insurance receivables:		
Due from brokers and agents	**379,121,688**	365,049,838
Due from ceding companies	**3,230,976**	5,211,993
Funds held by ceding companies	**4,080,124**	2,319,570
Reinsurance recoverable on paid losses	**34,495,961**	23,265,738

(Forward)

	2014	2013
Financial assets:		
AFS		
Equity securities	**₱354,171,624**	₱131,857,648
Debt securities	**330,157,859**	696,928,895
Loans and receivables		
Intercompany receivable	**118,877**	3,255,693
Accounts receivable	**509,853**	84,861
Miscellaneous receivables	**43,843**	266,862
Accrued income	**3,608,162**	6,724,221
Total	**₱1,458,989,517**	₱1,349,377,304

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

December 31, 2014

	Neither past due nor impaired			**Past due**	
	High	**Medium**	**Low**	**or impaired**	**Total**
Cash and cash equivalents	**₱335,040,248**	**₱–**	**₱–**	**₱–**	**₱335,040,248**
Short-term investments	**14,410,302**	–	–	–	**14,410,302**
Insurance receivables:					
Due from brokers and agents	**184,236,303**	–	–	**194,885,385**	**379,121,688**
Due from ceding companies	**532,627**	–	–	**2,698,349**	**3,230,976**
Funds held by ceding company	**4,080,124**	–	–	–	**4,080,124**
Reinsurance recoverable on paid losses	**10,207,577**	–	–	**24,288,384**	**34,495,961**
Financial assets:					
AFS financial assets:					
Equity securities	**353,904,504**	–	–	**403,648**	**354,308,152**
Debt securities	**330,157,859**	–	–	–	**330,157,859**
Loans and receivables:					
Intercompany receivable	**118,877**	–	–	–	**118,877**
Accounts receivable	**509,853**	–	–	–	**509,853**
Miscellaneous receivables	**43,843**	–	–	–	**43,843**
Accrued income	**3,608,162**	–	–	–	**3,608,162**
Total	**₱1,126,134,456**	**₱–**	**₱–**	**₱222,275,766**	**₱1,348,410,223**

December 31, 2013

	Neither past due nor impaired			Past due	
	High	Medium	Low	or impaired	Total
Cash and cash equivalents	₱111,873,548	₱–	₱–	₱–	₱111,873,548
Short-term investments	2,538,437	–	–	–	2,538,437
Insurance receivables:					
Due from brokers and agents	213,220,703	–	–	151,829,135	365,049,838
Due from ceding companies	993,820	–	–	4,218,173	5,211,993
Funds held by ceding company	2,319,570	–	–	–	2,319,570
Reinsurance recoverable on paid losses	8,893,992	–	–	14,371,746	23,265,738
Financial assets:					
AFS financial assets:					
Equity securities	131,454,000	–	–	549,080	132,003,080
Debt securities	696,928,895	–	–	–	696,928,895
Loans and receivables:					
Intercompany receivable	3,255,693	–	–	–	3,255,693
Accounts receivable	84,861	–	–	–	84,861
Miscellaneous receivables	266,862	–	–	–	266,862
Accrued income	6,724,221	–	–	–	6,724,221
Total	₱1,178,554,602	₱–	₱–	₱170,968,134	₱1,349,522,736

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

The above assets were classified by the Company as High grade, Medium grade, Low grade or Past due. High grade pertains to assets of the Company that are highly convertible to cash based on the Company's experience and those that are classified by the Insurance Commission as readily admitted assets. Accounts beyond the standard 90-day credit term are classified as Past due. Although categorized as past due, these are highly collectible accounts based on Company's experience. Normally, these are corporate accounts wherein the Company has reciprocity of business. However, it took a while for some accounts to revert to Collection department and secure their commitments. This has caused the Company to be extra cautious thus, increasing the bad debts provision to 3% for 2014.

The table below shows the analysis of age of financial assets that are past-due but are not impaired.

December 31, 2014

	Age analysis of financial assets past-due but not impaired				**Total past due but**	**Past-due**	
	< 30 days	**31 to 60 days**	**61 to 90 days**	**> 90 days**	**not impaired**	**and impaired**	**Total**
Insurance receivables							
Due from brokers and agents	**₱56,543,891**	**₱34,629,096**	**₱35,667,339**	**₱59,167,957**	**₱186,008,283**	**₱8,877,102**	**₱194,885,385**
Due from ceding companies	**1,176,521**	**311,496**	**389,152**	**556,635**	**2,433,804**	**264,545**	**2,698,349**
Reinsurance recoverable on paid losses	**762,538**	**276,906**	**988,536**	**8,548,265**	**10,576,245**	**13,712,139**	**24,288,384**
AFS financial assets	**–**	**–**	**–**	**–**	**–**	**403,648**	**403,648**
Total	**₱58,482,950**	**₱35,217,498**	**₱37,045,027**	**₱68,272,857**	**₱199,018,332**	**₱23,257,434**	**₱222,275,766**

December 31, 2013

	Age analysis of financial assets past-due but not impaired				Total past due but	Past-due	
	< 30 days	31 to 60 days	61 to 90 days	> 90 days	not impaired	and impaired	Total
Insurance receivables							
Due from brokers and agents	₱32,647,238	₱23,993,385	₱26,758,075	₱63,769,931	₱147,168,629	₱4,660,506	₱151,829,135
Due from ceding companies	1,320,806	245,172	186,595	2,465,600	4,218,173	–	4,218,173
Reinsurance recoverable on paid losses	–	–	–	–	–	14,371,746	14,371,746
AFS financial assets	–	–	–	–	–	549,080	549,080
Total	₱33,968,044	₱24,238,557	₱26,944,670	₱66,235,531	₱151,386,802	₱19,581,332	₱170,968,134

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

Liquidity risk

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

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

To strike the optimal balance between generating adequate investment returns and holding securities that can be easily sold for cash if required, the Company divides its investment portfolio into tranches with liquidity objective and benchmarks. The Company's core liquidity portfolio is invested in relatively liquid securities that can be readily sold if required. In addition to the core portfolio, the Company maintains a second tranche of liquidity that is always invested in the most highly liquid securities to cover its expected operational cash flow needs. The third tranche of liquidity are the Company's equity resources held together with a portfolio of fixed income securities which are both designated as AFS investments.

Maturity profiles

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

December 31, 2014	**Within a year**	**2-3 years**	**4-5 years**	**Over 5 years**	**No Term**	**Total**
Cash and cash equivalents	**₱335,182,248**	**₱–**	**₱–**	**₱–**	**₱–**	**₱335,182,248**
Short-term investments	**14,410,302**	**–**	**–**	**–**	**–**	**14,410,302**
Insurance receivables	**350,098,748**	**–**	**–**	**–**	**–**	**350,098,748**
AFS securities	**37,486,808**	**17,214,605**	**87,178,500**	**188,277,946**	**354,171,624**	**684,329,483**
Loans and receivables	**672,573**	**–**	**–**	**–**	**–**	**672,573**
Accrued income	**14,410,302**	**–**	**–**	**–**	**–**	**14,410,302**
Reinsurance assets	**458,070,712**	**–**	**–**	**–**	**–**	**458,070,712**
Total financial assets	**₱1,210,331,693**	**₱17,214,605**	**₱87,178,500**	**₱188,277,946**	**₱354,171,624**	**₱1,857,174,368**
Insurance contract liabilities	**₱753,455,800**	**₱–**	**₱–**	**₱–**	**₱–**	**₱753,455,800**
Insurance payables	**44,130,875**	**–**	**–**	**–**	**–**	**44,130,875**
Accounts payable	**42,616,760**	**–**	**–**	**–**	**–**	**42,616,760**
Commission payable	**94,631,647**	**–**	**–**	**–**	**–**	**94,631,647**
Total other financial liabilities	**₱934,835,082**	**₱–**	**₱–**	**₱–**	**₱–**	**₱934,835,062**

December 31, 2013	Within a year	2-3 years	4-5 years	Over 5 years	No Term	Total
Cash and cash equivalents	₱112,010,548	₱–	₱–	₱–	₱–	₱112,010,548
Short-term investments	2,538,437	–	–	–	–	2,538,437
Insurance receivables	373,055,585	–	–	–	–	373,055,585
AFS securities	11,805,325	49,329,370	4,145,520	631,648,680	131,857,648	828,786,543
Loans and receivables	3,607,416	–	–	–	–	3,607,416
Accrued income	6,724,221	–	–	–	–	6,724,221
Reinsurance assets	769,201,483	–	–	–	–	769,201,483
Total financial assets	₱1,278,943,015	₱49,329,370	₱4,145,520	₱631,648,680	₱131,857,648	₱2,095,924,233
Insurance contract liabilities	₱1,160,854,149	₱–	₱–	₱–	₱–	₱1,160,854,149
Insurance payables	74,624,627	–	–	–	–	74,624,627
Accounts payable	28,372,764	–	–	–	–	28,372,764
Commission payable	97,143,141	–	–	–	–	97,143,141
Total other financial liabilities	₱1,360,994,681	₱–	₱–	₱–	₱–	₱1,360,994,681

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

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

(a) Currency risk

The Company's principal transactions are carried out in Philippine peso and its foreign exchange risk arises primarily with respect to US dollars. The Company's financial assets are primarily denominated in the same currencies as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than in which the insurance contracts are expected to be settled.

The following table shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine peso equivalents.

	2014		2013	
	USD	**PHP**	USD	PHP
Financial assets:				
Cash and cash equivalents	**$782,773**	**₱35,005,623**	$171,334	₱7,606,375
Government securities	**800,000**	**35,776,000**	800,000	35,516,000
	$1,582,773	**₱70,781,623**	$971,334	₱43,122,375

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

December 31, 2014

	Change in variables	**Impact on profit before tax Increase (decrease)**
USD	**+3.25%**	**₱230,040**
USD	**–3.25%**	**(230,040)**

December 31, 2013

	Change in variables	Impact on profit before tax Increase (decrease)
USD	+3.35%	₱1,444,600
USD	–3.35%	(1,444,600)

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

(b) Interest rate risk

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

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

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

	Interest Rates	Maturity Within a year	2-3 years	4-5 years	Over 5 years	Total
AFS debt securities						
2014	**3.625%-9.25%**	**₱37,486,808**	**₱17,214,605**	**₱87,178,500**	**₱188,277,946**	**₱330,157,859**
2013	9.6250%	11,805,325	49,329,370	4,145,520	631,648,680	696,928,895

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

December 31, 2014

	Change in variables	Impact on equity Increase (decrease)
Peso	**+100 basis points**	**₱7,452,393**
Peso	**–100 basis points**	**54,868,173**

December 31, 2013

	Change in variables	Impact on equity Increase (decrease)
Peso	+100 basis points	(₱15,466,312)
Peso	–100 basis points	37,851,035

(c) *Price risk*

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

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

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

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

December 31, 2014

Market Index	**Change in Variable**	**Impact on equity Increase (decrease)**
PSEi 2014	**+12.05%**	**₱27,696,196**
PSEi 2014	**–12.05%**	**(27,696,194)**

December 31, 2013

Market Index	Change in Variable	Impact on equity Increase (decrease)
PSEi 2013	+17.14%	₱22,042,403
PSEi 2013	–17.14%	(22,042,403)

25. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or if the parties are subject to common control or common significant influence. A related party may be an individual or a corporate entity.

In the ordinary course of business, the Company has transactions with related parties. Significant transactions with related parties follow:

December 31, 2014

	Transactions during the year	Outstanding balance	Terms	Conditions
Intercompany accounts receivable:				
MAA Corporate and Compliance Phil., Inc. (Common Control)	**₱118,877**	**₱**	**On-demand; non-interest bearing**	**Unsecured; no impairment**
MAA Mutualife Phil., Inc. (Common Control)			**On-demand; non-interest bearing**	**Unsecured; no impairment**
	₱118,877	**₱**		
Short-term benefits				
Key Management Personnel	**₱19,885,996**	**₱**	**Not applicable**	**Not applicable**

December 31, 2013

	Transactions during the year	Outstanding balance	Terms	Conditions
Intercompany accounts receivable:				
MAA Corporate and Compliance Phil., Inc. (Common Control)	₱–	₱1,841,901	On-demand; non-interest bearing	Unsecured; no impairment
MAA Mutualife Phil., Inc. (Common Control)	1,066,176	1,413,793	On-demand; non-interest bearing	Unsecured; no impairment
	₱1,066,176	₱3,255,694		
Short-term benefits				
Key Management Personnel	₱19,514,629	₱–	Not applicable	Not applicable

The Company has no provision for doubtful debts related to the outstanding balances and no expense recognized during the period in respect of doubtful debts due from related parties in 2014.

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

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

	2014	2013
PFRS net income	**₱15,430,489**	₱12,302,550
Adjustments for:		
Difference in change in provision for unearned premiums - net	**(49,579,550)**	871,035
Deferred acquisition costs - net	**(40,555,115)**	151,080
Change in IBNR - net	**(87,212,502)**	46,168,760
Tax effects of PFRS adjustments	**53,204,150**	(14,157,262)
Statutory net income	**₱(108,712,528)**	₱45,336,163

27. Contingencies

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

28. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

In compliance with the requirements set forth by RR No. 15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year.

a. The Company is a VAT-registered company with VAT output tax declaration of ₱76,308,795 for the year based on the amount reflected in the Direct Premiums of ₱635,906,625.

   The Company has exempt sales amounting to ₱40,227,590 pursuant to the provisions of Republic Act No. 7227, RR No. 2-2005, and BIR Ruling ITAD-45-00.

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

Balance at January 1	₱7,724,900
Current year's purchases/payments :	
Goods other than for resale	14,801,758
Services paid lodged under operating expenses	22,590,491
	45,117,149
Input VAT applied against Output VAT	(38,261,441)
Balance at December 31	₱6,855,708

c. Taxes relating to nonlife insurance policies that have been shifted or passed on the policyholders and are not recognized in the Statement of Comprehensive Income follow:

Details of DST for following transactions during the year are:

Transaction	Amount	DST
DS110-Policies of insurance upon property	₱523,681,737	₱65,460,217
DS114-Motor	341,502,597	42,687,825
DS109-Accident and Health	91,227,793	228,069
	₱956,412,127	₱108,376,111

The total unpaid DST as at December 31, 2014 amounted to ₱2,091,939.

Other taxes during year which represent the total accrued and paid follow:

Tax	Amount
Premium Taxes	₱1,612,372
Fire Service Taxes (FST)	4,021,800
Local Government Taxes (LGT)	819,220
	₱6,453,392

The total unpaid as at December 31, 2014 amounted to ₱1,192,673 which comprised of ₱102,220, ₱175,798, and ₱914,655 for Premium Taxes, FST, and LGT, respectively.

d. Details of other taxes, local and national, follow:

National:

Insurance Commission Fees	₱549,605
LTO Registration Fees	35,026
FBT	33,938
DST	107,534
Tax assessment - interest	–
Total	₱726,103

Local:

Mayor’s Permit	₱66,770
Real Estate Taxes	13,532
Others	78,315
Total	₱158,617

e. The amount of withholding taxes for the year amounted to :

Tax on compensation and benefits	₱8,532,007
Creditable withholding taxes	22,184,846
Final withholding taxes	262,081
Total	₱30,978,934

The total unpaid withholding taxes as at December 31, 2014 amounted to ₱2,784,621 which comprised of ₱1,133,610 and ₱1,651,011 for Tax on compensation and benefits and Creditable withholding taxes, respectively. All taxes due related to Final withholding taxes had been paid during the year.

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