# *Asia Insurance (Philippines) Corporation*

**Financial Statements**
**As at and for the years ended December 31, 2014 and 2013**

pwc

Isla Lipana & Co.

## Independent Auditor's Report

To the Board of Directors and Shareholders of
**Asia Insurance (Philippines) Corporation**
15th Floor, Tytana Plaza
Plaza Lorenzo Ruiz
Binondo, Manila

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Asia Insurance (Philippines) Corporation, which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of total 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.

*Auditor's 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.

*Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines*
*T: +63 (2) 845 2728, F: +63 (2) 845 2806,* www.pwc.com/ph

Isla Lipana & Co.



*Opinion*

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

***Report on Bureau of Internal Revenue Requirements***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 23 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 supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Isla Lipana & Co.**

Imelda Dela Vega-Mangundaya
Partner
CPA Cert. No. 90670
PTR No. 0024586, issued on January 6, 2015, Makati City
SEC A.N. (individual) as general auditors 0668-AR-2, Category A; effective until March 3, 2017
SEC A.N. (Firm) as general auditors 0009-FR-3; effective until August 15, 2015
TIN 152-015-124
BIR A.N. 08-000745-47-2013, issued on April 4, 2013; effective until April 3, 2016
BOA/PRC Reg. No. 142, effective until December 31, 2016

Makati City
April 29, 2015

**Asia Insurance (Philippines) Corporation**

Statements of Financial Position
December 31, 2014 and 2013
(All amounts in Philippine Peso)

| | Notes | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 6 | 236,387,346 | 258,920,307 |
| Receivables, net | 7 | 256,327,415 | 187,848,879 |
| Available-for-sale securities | 8 | 78,694,058 | 82,114,141 |
| Held-to-maturity securities | 8 | 462,796,585 | 434,818,402 |
| Reinsurance recoverable on unpaid losses | 9 | 112,169,133 | 240,837,416 |
| Deferred reinsurance premiums | 9 | 87,809,813 | 82,175,946 |
| Deferred acquisition costs, net | 9 | 73,128,642 | 69,259,573 |
| Investment properties, net | 10 | 25,351,151 | 27,106,761 |
| Property and equipment, net | 11 | 14,134,550 | 13,932,117 |
| Deferred income tax assets, net | 12 | 16,394,241 | 16,069,425 |
| Other assets | | 14,430,551 | 4,375,626 |
| Total assets | | 1,377,623,485 | 1,417,458,593 |
| **LIABILITIES AND EQUITY** | | | |
| Losses and claims payable | 9 | 221,836,443 | 349,174,348 |
| Reserve for unearned premiums | 9 | 211,462,935 | 189,593,736 |
| Due to reinsurers and ceding companies | 20 | 104,489,694 | 71,859,699 |
| Funds held for reinsurers | 20 | 24,629,615 | 33,063,201 |
| Commissions payable | | 20,009,020 | 10,132,588 |
| Accounts payable and other liabilities | 13 | 70,308,443 | 71,123,056 |
| Income tax payable | | 16,163,704 | 8,890,264 |
| Total liabilities | | 668,899,854 | 733,836,892 |
| Share capital | 14 | 350,000,000 | 350,000,000 |
| Contributed surplus | 14 | 500,000 | 500,000 |
| Accumulated other comprehensive income | 14 | 12,560,923 | 14,769,970 |
| Retained earnings | | 345,662,708 | 318,351,731 |
| Total equity | | 708,723,631 | 683,621,701 |
| Total liabilities and equity | | 1,377,623,485 | 1,417,458,593 |

(The notes on pages 1 to 52 are integral part of these financial statements)

**Asia Insurance (Philippines) Corporation**

Statements of Total Comprehensive Income
For the years ended December 31, 2014 and 2013
(All amounts in Philippine Peso)

| | Notes | 2014 | 2013 |
|---|---|---|---|
| UNDERWRITING INCOME | | | |
| Premiums written, net of returns | | 513,796,363 | 484,978,612 |
| Reinsurance premiums ceded | 20 | (212,131,785) | (207,839,255) |
| Premiums retained | | 301,664,578 | 277,139,357 |
| Increase in reserve for unearned premiums, net | 9 | (16,235,331) | (6,420,924) |
| Premiums earned | | 285,429,247 | 270,718,433 |
| Commissions earned | 20 | 44,252,346 | 47,570,974 |
| Other underwriting income | | 5,433,601 | 7,072,457 |
| GROSS UNDERWRITING INCOME | | 335,115,194 | 325,361,864 |
| UNDERWRITING EXPENSES | | | |
| Commissions and other underwriting expenses | | 135,999,527 | 132,186,850 |
| Losses and claims, net | 9,20 | 105,659,695 | 111,098,773 |
| | | 241,659,222 | 243,285,623 |
| NET UNDERWRITING INCOME | | 93,455,972 | 82,076,241 |
| INVESTMENT AND OTHER INCOME (EXPENSES) | | | |
| Interest income | 15 | 26,577,918 | 28,311,599 |
| Foreign exchange gain, net | | 1,817,212 | 22,130,642 |
| Gain on sale of investments | 8 | 177,174 | 10,853,095 |
| Rent | 10 | 4,281,394 | 4,105,848 |
| Dividend | 8 | 940,785 | 1,380,992 |
| Miscellaneous | | 567,455 | 644,551 |
| | | 34,361,938 | 67,426,727 |
| NET UNDERWRITING AND INVESTMENT INCOME | | 127,817,910 | 149,502,968 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | | |
| Salaries and employee benefits | 16 | 34,592,241 | 35,460,953 |
| Occupancy and equipment-related costs | | 7,575,311 | 7,429,080 |
| Representation and entertainment | | 2,564,045 | 3,989,608 |
| Taxes, licenses and fees | | 2,424,940 | 3,756,298 |
| Transportation and travel | | 4,374,868 | 3,749,732 |
| Printing, stationery and supplies | | 1,972,007 | 2,679,544 |
| Communication and postage | | 1,217,466 | 1,179,672 |
| Association dues | | 1,220,904 | 1,035,905 |
| Professional and directors' fees | 20 | 980,487 | 816,904 |
| Advertising and promotion | | 583,090 | 653,460 |
| Miscellaneous | | 3,961,860 | 2,353,852 |
| | | 61,467,219 | 63,105,008 |
| INCOME BEFORE INCOME TAX | | 66,350,691 | 86,397,960 |
| PROVISION FOR INCOME TAX | 12,18 | (24,039,714) | (20,189,285) |
| NET INCOME FOR THE YEAR | | 42,310,977 | 66,208,675 |
| OTHER COMPREHENSIVE INCOME | | | |
| Item that will be subsequently reclassified to profit or loss | | | |
| Net change in fair value of available-for-sale securities, net of tax | | (2,347,190) | (11,751,179) |
| Item that will not be subsequently reclassified to profit or loss | | | |
| Remeasurement gains on retirement obligation, net of tax | | 138,143 | 2,823,937 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 40,101,930 | 57,281,433 |

(The notes on pages 1 to 52 are integral part of these financial statements)

**Asia Insurance (Philippines) Corporation**

Statements of Changes in Equity
For the years ended December 31, 2014 and 2013
(All amounts in Philippine Peso)

| | Share capital (Note 14) | Contributed surplus (Note 14) | Accumulated other comprehensive income (Note 14) | Retained earnings (Note 14) | Total equity |
|---|---|---|---|---|---|
| Balances at January 1, 2013 | 350,000,000 | 500,000 | 23,697,212 | 269,643,056 | 643,840,268 |
| Comprehensive income | | | | | |
| Net income for the year | - | - | - | 66,208,675 | 66,208,675 |
| Other comprehensive income | | | | | |
| Changes in fair value of available-for-sale investments | - | - | (11,751,179) | - | (11,751,179) |
| Remeasurement gain on retirement obligation | - | - | 2,823,937 | - | 2,823,937 |
| Total comprehensive income for the year | - | - | (8,927,242) | 66,208,675 | 57,281,433 |
| Transactions with owners | | | | | |
| Cash dividend | - | - | - | (17,500,000) | (17,500,000) |
| Total transactions with owners | - | - | - | (17,500,000) | (17,500,000) |
| Balances at December 31, 2013 | 350,000,000 | 500,000 | 14,769,970 | 318,351,731 | 683,621,701 |
| Comprehensive income | | | | | |
| Net income for the year | - | - | - | 42,310,977 | 42,310,977 |
| Other comprehensive income | | | | | |
| Changes in fair value of available-for-sale investments | - | - | (2,347,190) | - | (2,347,190) |
| Remeasurement gain on retirement obligation | - | - | 138,143 | - | 138,143 |
| Total comprehensive income for the year | - | - | (2,209,047) | 42,310,977 | 40,101,930 |
| Transactions with owners | | | | | |
| Cash dividend | - | - | - | (15,000,000) | (15,000,000) |
| Balances at December 31, 2014 | 350,000,000 | 500,000 | 12,560,923 | 345,662,708 | 708,723,631 |

(The notes on pages 1 to 52 are integral part of these financial statements)

**Asia Insurance (Philippines) Corporation**

Statements of Cash Flows
For the years ended December 31, 2014 and 2013
(All amounts in Philippine Peso)

| | Notes | 2014 | 2013 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 19 | 11,260,334 | 30,685,026 |
| Interest received | | 4,203,354 | 5,921,187 |
| Contributions to the retirement fund | 17 | (5,017,500) | (7,000,000) |
| Income taxes paid | | (45,287) | (181,151) |
| Net cash from operating activities | | 10,400,901 | 29,425,062 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisitions of: | | | |
| Held-to-maturity securities | 8 | (147,054,383) | (117,830,098) |
| Available-for-sale securities | 8 | (14,545) | (2,204,020) |
| Property and equipment | 11 | (3,143,512) | (1,062,012) |
| Proceeds from: | | | |
| Maturities of held-to-maturity securities | 8 | 119,782,336 | 80,406,740 |
| Disposal of available-for-sale securities | 8 | 410,704 | 15,139,855 |
| Disposal of property and equipment | | 56,321 | 285,840 |
| Interest received | | 17,088,638 | 22,623,620 |
| Dividends received | | 940,785 | 1,380,992 |
| Income taxes paid | | (3,855,420) | (4,035,860) |
| Net cash used in investing activities | | (15,789,076) | (5,294,943) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash dividends paid | 14 | (17,204,862) | (9,201,910) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (22,593,037) | 14,928,209 |
| CASH AND CASH EQUIVALENTS | 6 | | |
| January 1 | | 258,920,307 | 243,862,773 |
| Effects of exchange rate changes on cash and cash equivalents | | 60,076 | 129,325 |
| December 31 | | 236,387,346 | 258,920,307 |

(The notes on pages 1 to 52 are an integral part of these financial statements)

**Asia Insurance (Philippines) Corporation**

Notes to Financial Statements
As at and for the years ended December 31, 2014 and 2013
(All amounts are shown in Philippine Peso, unless otherwise stated)

## Note 1 - General information

Asia Insurance (Philippines) Corporation (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) primarily to engage in selling non-life insurance policies on fire, marine cargo, motor vehicle, casualty, surety bond, personal accident, comprehensive general liability, engineering lines and miscellaneous insurances.

As at reporting dates, the Company is 20% owned by Asia Insurance International (Holdings), Inc., 11% owned by APIC Holdings, Inc., 10% owned by Bangkok Bank Public Company, Ltd. and a number of corporate and individual shareholders holds the remaining 41%.

The Company's registered office, which is also its principal place of business, is located at the 15th Floor, Tytana Plaza, Plaza Lorenzo Ruiz, Binondo, Manila.

The Company has 75 employees as at December 31, 2014 (2013 - 74).

The financial statements have been approved and authorized for issuance by the Company's Board of Directors on April 29, 2015.

## Note 2 - Summary of significant accounting policies

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

### 2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

**Changes in accounting policy and disclosures**

*(a) New interpretation and amended standards adopted by the Company*

The following relevant interpretation and amendments to existing standards have been adopted by the Company effective January 1, 2014:

- *Amendment to PAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities*. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.

- *Amendment to PAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets*. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in PAS 36 by the issue of PFRS 13. The adoption of this amendment did not have a significant impact on the financial statements of the Company.

- *Amendment to PAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting*. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under PAS 39, novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Company has applied the amendment and there has been no significant impact on the financial statements as a result.

- *Philippine Interpretation IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of PAS 37, 'Provisions'*. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The adoption of the interpretation has no significant impact on the financial statements of the Company.

*(b) New standards, amendments and interpretations not yet adopted*

A number of new standards and amendments to the standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been early adopted nor applied by the Company in preparing these financial statements. The following standards are relevant to the Company:

- *PFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities.* The complete version of PFRS 9 was issued in July 2014. It replaces the guidance in PAS 39 that relates to the classification and measurement of financial instruments. PFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income without recycling to profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in PAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. PFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under PAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. Based on management's initial assessment, the adoption of this standard will not significantly impact the financial statements of the Company.

- *PFRS 15, 'Revenue from contracts with customers',* deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces PAS 18, 'Revenue' and PAS 11, 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Company has assessed that the adoption of PFRS 15 will not significantly impact the financial statements of the Company.

There are no other relevant standards, amendments or interpretations which are issued and effective beginning January 1, 2014 and onwards that have or are expected to have a significant impact on the Company's financial statements.

### 2.2 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of changes in value.

### 2.3 Financial assets

#### 2.3.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables, held-to-maturity, at fair value through profit or loss and available-for-sale securities. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Company has no investments classified as at fair value through profit or loss during and at the end of each reporting date.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, with no intention of trading, and are not designated as available-for-sale.

The policy on loans and receivables applies to cash and cash equivalents and insurance and other receivables in the statement of financial position.

*Held-to-maturity securities*

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity.

*Available-for-sale securities*

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

#### 2.3.2 Initial recognition and subsequent measurement

Financial assets, consisting of loans and receivables, held-to-maturity securities and available-for-sale securities, are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition.

Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost using the effective interest method.

Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest earned on these securities is recognized using the effective interest rate in profit or loss. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive payment is established. Changes in the fair value of monetary securities denominated in foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of security and other changes in the carrying amount of the security. The translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognized in equity.

### 2.3.3 Derecognition

Financial assets, consisting of loans and receivables, held-to-maturity securities and available-for-sale securities, are derecognized when the contractual right to receive cash flows from the financial assets has ceased to exist or where the Company has transferred substantially all risks and rewards of ownership.

### 2.3.4 Impairment of financial assets

*Assets classified as loans and receivables and held-to-maturity securities*

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial asset is impaired. A financial asset or a group of financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments; and
- it becomes probable that the debtor will enter bankruptcy or other financial reorganization.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an 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 them for impairment. Financial 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 of impairment.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss as a reduction of impairment losses for the year.Loans and receivables are written-off in the year in which they are determined to be uncollectible. Loans and receivables are determined to be uncollectible after exerting effort to collect the accounts and upon approval by the Company's Board of Directors.

*Assets classified as available-for-sale*

The Company assesses at the end of each reporting period whether there is objective evidence that available-for-sale debt securities are impaired using similar criteria and process applied to financial assets carried at amortized cost as described above.

For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence that the assets are impaired. A decline in the fair value of the instrument by more than 20 percent is considered significant and a period of 12 months or greater is considered to be a 'prolonged' decline. If any such evidence exists for available-for-sale equity securities, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in profit or loss. Impairment losses on equity investment are not reversed in profit or loss. Increases in fair value after impairment are recognized directly in equity.

## 2.4 Financial liabilities

### 2.4.1 Classification

The Company classifies its financial liabilities in the following categories: at fair value through profit or loss and at amortized cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition.

The above policy applies to the Company's commissions, insurance, and accounts payable and other liabilities (excluding taxes payable). The Company has no financial liabilities classified as at fair value through profit or loss during and at the end of each reporting period.

### *2.4.2* Initial recognition subsequent measurement

Financial liabilities are initially recognized at the fair value of the consideration received plus transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method.

### 2.4.3 Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired.

## 2.5 Fair value measurement

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 of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

*Financial assets*

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and,
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

*Non-financial assets*

For non-financial assets, the Company uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Common used valuation techniques are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

## 2.6 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## 2.7 Insurance contracts

### 2.7.1 Recognition and measurement

Short-term insurance contracts of the Company include property, marine cargo and casualty insurance contracts.

For all these contracts, premiums are recognized as revenue as follows:

*Direct business*

Gross premiums written are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The portion of the gross premiums written that relates to the unexpired periods of the policies at year-end is presented as reserve for unearned premiums in the statement of financial position.

*Inward reinsurance business*

Gross premiums written are recognized based on the date of notification by the ceding companies and are earned over the period of cover in accordance with the incidence of risk using the 24th method. The portion of the gross premiums written that relates to the unexpired periods of the policies at year-end is presented as reserve for unearned premiums in the statement of financial position.

*Outward reinsurance business*

The related reinsurance premiums ceded that pertain to the unexpired periods at year-end are reported as deferred reinsurance premiums in the asset section of the statement of financial position.

The net change in the reserve for unearned premiums and deferred reinsurance premiums during the reporting period is recognized in profit or loss.

Reinsurance premiums are recognized based on notification of inception of the underlying risks underwritten and are allocated over the period of cover in accordance with the incidence of risk using the 24th method.

### 2.7.2 Losses and claims

Losses and claims payable are recognized when the contracts are entered into and the premiums are charged. Loss and claims adjustment expenses are recognized in profit or loss based on the estimated liability for compensation owed to contract holders or to third parties damaged by the contract holders. They include direct and indirect claim settlement costs arising from events that have occurred up to the reporting date even if they have not yet been reported to the Company [i.e., incurred but not reported (IBNR)]. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claim costs, including those for IBNR, are estimated and accrued and considers actual claims reported in the succeeding year but for which the related insured event occurred in the year under coverage. The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims using the input of assessment for individual cases reported to the Company. The method of determining such estimates and establishing reserves is continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expenses in the year in which the estimates are changed or payments are made. Estimated recoveries on settled and unsettled claims are evaluated in terms of estimated realizable values of the salvage recoverable and deducted from the liability for unpaid claims. Outstanding claims and IBNR losses are presented in the statement of financial position as part of losses and claims payable.

### 2.7.3 Reinsurance commission

Reinsurance commission is initially recognized upon acceptance of the premium cession by reinsurers. Reinsurance commission is presented as commissions earned in the statement of total comprehensive income.

### 2.7.4 Acquisition costs

Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts such as commissions are deferred and charged to expense in proportion to premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as deferred acquisition costs.

Reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, and recognized in profit or loss using the same amortization method as the related acquisition costs.

### 2.7.5 Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs (DAC). In performing these tests, current best estimate of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing-off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired provision). There were no deficiencies recognized in profit or loss during the reporting periods. Any DAC written off as a result of this test cannot be subsequently reinstated.

### 2.7.6 Reinsurance contracts held

Contracts entered by the Company with reinsurers which compensate the Company for losses in one or more contracts issued and meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are classified as insurance contracts. Contracts that do not meet these classification requirements are classified as financial contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of reinsurance recoverable on paid losses, due from reinsurers and ceding companies and funds held by ceding companies (classified within receivables) and reinsurance recoverable on unpaid losses.

The Company assesses its reinsurance assets for impairment annually. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes an impairment loss in profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same policies adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets. These policies are described in Note 2.3.4.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense upon recognition of related premiums. These liabilities pertain to due to reinsurers and ceding companies and funds held for reinsurers.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with terms of each reinsurance contract.

### 2.7.7 Receivables and payables related to insurance contracts

Receivables and payables, such as premium receivable, losses and claims payable and commissions payable, are recognized when the right to receive payment is established or when the obligation becomes due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same policies adopted for loans and receivables. The impairment loss is also calculated under the same method used for financial assets. These policies are described in Note 2.3.4.

### 2.7.8 Salvage and subrogation reimbursements

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

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

## 2.8 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditures that are directly attributable to the acquisition of items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that 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 to profit or loss during the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Building | 27 years |
| EDP equipment | 5 years |
| Transportation equipment | 5 years |
| Furniture, fixtures and office equipment | 5 to 7 years |
| Leasehold improvements | 5 years or lease term, whichever is shorter |

The assets' residual values and useful lives are reviewed, and adjusted as appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and their related accumulated depreciation are removed from the accounts. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in profit or loss.

## 2.9 Investment properties

Properties held for long term rental yields or for capital appreciation or for both, are classified as investment properties. These properties are initially measured at cost, which includes transaction costs, but excludes day to day servicing costs. Replacement cost is capitalized if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. Subsequently, at each report date, investment properties, except for land, are carried at cost less accumulated depreciation and impairment loses, if any. Land is carried at cost less any impairment in value.

Depreciation of investment property is computed using the straight-line method over its useful life. The estimated useful life and the depreciation method is reviewed periodically to ensure that the period and the method of depreciation is consistent with the expected pattern of economic benefits from items of investment properties. The estimated useful life of the investment properties is 25 years.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. There were no transfers made to investment property during and at the end of each reporting period.

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

Rental income from investment property is recognized in profit or loss on a straight-line basis over the lease term. Lease incentives are recognized as an integral part of the total rent income. Expenses with regard to investment property are treated as ordinary operating expenses and are recognized when incurred.

### 2.10 Impairment of non-financial assets

Non-financial assets, such as property and equipment and investment property, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Value in use requires the Company to make estimates of future cash flows to be derived from a particular asset, and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset. Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.11 Income taxes

*Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

*Deferred income tax*

Deferred income tax (DIT) is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. DIT is determined using the tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related DIT asset is realized or the DIT liability is settled.

DIT assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess of minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. DIT liabilities are recognized in full for all taxable temporary differences, except to the extent that the DIT liability arises from the initial recognition of goodwill.

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the DIT assets and liabilities relate to income taxes levied by the same taxation authority and where there is an intention to settle the balances on a net basis.

DIT expense or credit included in provision for income tax is recognized for the changes during the year in the DIT assets and liabilities.

The Company reassesses the carrying amount of DIT assets at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilized.

### 2.12 Provisions

Provisions for legal claims are recognized when the following are present:

- the Company has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense. Provisions are not recognized for future operating losses.

### 2.13 Retirement benefit obligation

The Company maintains a funded defined benefit plan for all its regular employees. A defined benefit plan is a retirement plan that defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at reporting dates. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against equity in other comprehensive income (shown as part of accumulated other comprehensive income in the statement of financial position) in the period in which they arise.

Past service cost, if any, are recognized immediately in profit or loss.

## 2.14 Equity

Common shares are classified as equity.

## 2.15 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

## 2.16 Revenue recognition

Revenue is recognized to the extent that it is a 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:

*Premium revenue*

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at reporting date is accounted for as reserve for unearned premiums in the statement of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums presented in the statement of financial position. The net changes in these accounts between reporting dates are included in the determination of net premium earned.

*Commission income*

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the deferred reinsurance commission pertains to the premiums for the last two months of the year. The portion of the commission income that relates to the unexpired periods of the policies at the reporting date is accounted for as deferred reinsurance commission and offset against deferred acquisition costs in the statement of financial position.

## 2.17 Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Properties leased out under operating leases are included in investment properties in the statement of financial position. Rental income under operating leases is recognized in profit or loss on a straight-line basis over the period of the lease.

## 2.18 General and administrative expenses

General and administrative expenses are recognized when incurred.

### 2.19 Foreign currency transactions and translation

*Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The Company's financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rate as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rate at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities classified as available-for-sale are included in other comprehensive income.

### 2.20 Related party transactions and relationships

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

### 2.21 Events after the reporting date

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

## Note 3 - Critical accounting estimate, assumptions and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates, assumptions 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. The estimate, assumptions and judgments that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### 3.1 Critical accounting estimate and assumptions

*Liability arising from claims made under insurance contracts (Note 9)*

Management makes best estimate of its insurance liability at reporting date using adjuster's report and other available information relating to claims. However, there are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The major uncertainties are the frequency of claims due to the contingencies covered and the timing of benefit payments (Note 4.1).

The Company considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the ultimate liability arising from claims made under insurance contracts as the major uncertainties may differ significantly. With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next reporting period that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected including reserve for outstanding losses and related insurance balances.

The carrying value of losses and claims payable as at December 31, 2014 amounts to P221,886,443 (2013 - P349,174,348). IBNR claims, gross of reinsurance, as at December 31, 2014 amount to P3,650,378 (2013 - P7,191,212). Net claims and losses during the year amount to P109,667,310 (2013 - P108,336,931).

*Retirement liability*

The Company estimates its retirement benefit obligation and expense for defined benefit pension plan based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, the discount rate and future salary increases. The present value of the defined benefit obligations of the Company reporting date are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the Company's assumptions are reflected as remeasurements in other comprehensive income. The assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. The sensitivity analysis on key assumptions is disclosed in Note 17.

### 3.2 Critical accounting judgments

*Recoverability of receivables (Note 7)*

The Company reviews its receivables at each reporting date to assess whether an allowance for impairment or write-off should be recorded in profit or loss. In these cases, management uses judgment based on the best available facts and circumstances, including but not limited to, the length of relationship with the counterparty and the counterparty's payment history. These also include factors, such as, but not limited to, age of balances and financial status of the counterparty. The amount and timing of recorded impairment losses for any period would therefore differ based on the judgments made. Based on management's assessment, there is no provision needed to be recognized on trade and other receivables for the years ended December 31, 2014 and 2013.

At reporting dates, the Company's allowance for impairment on its receivables amounted to P1,553,000.

*Impairment of available-for-sale and held-to-maturity securities (Notes 8 and 9)*

The Company determines that available-for-sale securities are impaired when there has been a significant or prolonged decline in the fair value below its cost for equity securities. For debt securities, classified as available-for-sale and held-to-maturity, the Company first assesses at each reporting date whether objective evidence of impairment exists. A financial asset or a group of financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The determination of what is significant or prolonged decline or objective evidence of impairment requires judgment (Note 2.3.4). Impairment may be appropriate when there is evidence of deterioration in the financial health and near-term business outlook of the investee or issuer, including factors such as industry and sector performance, changes in technology, and financing and operational cash flows.

As at reporting date, the Company believes, based on its assessment, that there is no required impairment provision on its available-for-sale and held-to-maturity securities.

*Classification to held-to-maturity securities (Note 8)*

The Company follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not amortized cost.

If the entire class of held-to-maturity investments is tainted, the carrying amount of the investment would increase by P23,276,368 (2013 - P23,703,801 increase), as a result of the fair value adjustment, with a corresponding entry in reserve for available-for-sale securities in the equity section of the statement of financial position.

*Recoverability of deferred income taxes (Note 12)*

Management reviews at each reporting date the carrying amounts of DIT assets. The carrying amount of DIT assets is reduced to the extent that is no longer probable that sufficient taxable profit will be available against which the related DIT assets can be utilized. Management believes that sufficient taxable profit will be generated to allow all of the recognized DIT assets to be utilized.

The balance of DIT assets as at December 31, 2014 amounted to P16,394,241 (2013 - P16,069,425).

## Note 4 - Insurance and financial risk and capital management

This section summarizes the Company's insurance and financial risks and the way the Company manages them, including the Company's capital management objectives.

### 4.1 Insurance risk

Insurance is a form of contract whereby periodic payments (also known as insurance premiums) are made to an insurance company, in order to provide an individual or business compensation in the event of property loss or damage. The risk under any one insurance contract is the uncertainty about an unfavorable outcome in a given situation. Insurance risk is uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

The principal risk the Company is facing under insurance contracts is when the actual claims and benefit payments exceeds the carrying amount of the insurance liabilities. This could happen when there are numerous claims that occur in a particular period and the actual payment exceeds the estimated amount.

Factors that aggravate insurance risk include reduction in rates of premium, geographical location, and type of industry covered. One way of reducing insurance risk is by transfer and sharing of risk.

The Company has developed its insurance underwriting strategy to expand the type of insurance risk accepted in order to attain premium income growth and above-average underwriting profit.

#### 4.1.1 Casualty insurance contracts

*Frequency and severity of claims*

The frequency and severity of claims can be affected by several factors. Estimated inflation is a significant factor due to the long period typically required to settle these cases. Another factor is the political and economic stability of the country which could result to numerous theft claims. The Company manages these risks through its well-designed underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography in order to spread possible losses fairly between the Company (retention) and the reinsurers.

Management continues to review the loss experience and premium payment record of existing agencies to identify and weed out the bad agencies and motivate the good agencies to produce more business.

*Sources of uncertainty in the estimation of future claim payments*

The claims outstanding provision is the estimated ultimate cost of all claims and the related claims handling expenses in respect of events up to the accounting date less amounts already paid.

The provision will relate to all events that have occurred up to the accounting date, whether or not the Company has been notified of the claims in question before the close of the accounting period. The latter category of claims is referred to as IBNR claims.

It is impossible for an insurance company to predict its outstanding claims provisions with 100% accuracy. If understated, the Company may distribute assets or otherwise act in a way that could lead to severe financial problems, and possible insolvency, when claims come to be paid.

The provision for reported claims and IBNR claims are the Company's estimate of the amount which it will have to pay at year-end.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures.

### 4.1.2 Property insurance contracts

*Frequency and severity of claims*

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, flooding, typhoons, etc.) and their consequences.

Cost of rebuilding properties, replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage.

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Moreover, it has the right not to accept a certain risk by not engaging in any form of hazardous enterprise at all. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event.

*Sources of uncertainty in the estimation of future claims payments*

Treaty cession limits and underwriting strategies are being implemented to protect the Company and reinsurers from high exposures to possible losses. Property claims are analyzed separately for its exposures and risk accumulation. This is estimated within the definition of the crest zone exposures. The shorter settlement period for these claims allows the Company to achieve a higher degree of certainty about the estimated cost of claims.

### 4.1.3 Marine insurance contracts

All marine insurance policies issued are covered by the Company's reinsurance program. The Company sees to it that the name of the vessel is stated to determine whether the vessel is acceptable and to ensure that it is insuring a shipment that is loaded in a sea worthy vessel.

*Sources of uncertainty in the estimation of future claims payments*

For marine claims, it is the marine adjusters who make valuations and recommendations for the estimated loss reserves including direct expenses, subrogation value and recoveries that will be incurred in settling the claims. The Company sees to it that the underwriting guidelines in accepting a marine risk is being implemented to mitigate exposure to an amount which is beyond the Company's capacity to write involving one vessel.

### 4.1.4 Sensitivities

The general insurance claims provision is sensitive to the Company's past claims development experiences. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claims provisions are not known with certainty at the reporting date.

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

The Company provides for estimated IBNR losses based on the actual reported losses during the first three months subsequent to year-end. A sensitivity analysis was performed based on the standard deviation in IBNR for the past three years covering claims filed during the first three months of each year for losses incurred for the previous year.

| | Change in IBNR | Effect on pre-tax income |
|---|---|---|
| December 31, 2014 | +/- 8% | +/- 583,055 |
| December 31, 2013 | +/- 3% | +/- 247,070 |

## 4.2 Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risk are market risk, credit risk and liquidity risk.
.

### 4.2.1 Market risk

*Interest rate risk*

This is the type of risk that the Company primarily faces due to the nature of its financial assets and liabilities. The interest rate risk is the only financial risk that has a materially different impact across the assets and liabilities categorized in the Company's asset liability management framework.

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

The Company is exposed to fair value interest rate risk because of debt securities held by the Company and classified on the statement of financial position as available-for-sale (Note 8). A sensitivity analysis was performed based on a reasonable possible shift in interest rate year on year on the Company's debt securities.

| | Change in interest rate | Effect on fair value reserve |
|---|---|---|
| December 31, 2014 | + .50% | (409,820) |
| | - .50% | 204,910 |
| December 31, 2013 | + 0.37% | (451,099) |
| | - 0.37% | 179,694 |

The Company's investments in government securities classified as held-to-maturity (Note 8) bear fixed interest rates and are carried at amortized cost; and therefore the Company is not exposed to fair value and cash flow interest risk on these securities.

*Foreign currency risk*

The insurance business of the Company is mostly denominated in local currency.

Currency exposures arise primarily from the holding of monetary assets and liabilities denominated in US Dollar. The Company does not enter into derivatives to manage foreign currency risks.

The Company's foreign currency assets and liabilities as at December 31 are as follows:

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Assets | | (in US Dollar) | |
| Cash and cash equivalents | 6 | | |
| Cash in banks | | 461,209 | 378,903 |
| Time deposits | | 342,589 | 551,643 |
| Available-for-sale securities | 8 | 1,000,000 | 1,007,009 |
| Held-to-maturity securities | 8 | 5,036,354 | 4,325,000 |
| Reinsurance recoverable on unpaid losses | | - | 881,968 |
| Total assets | | 6,840,152 | 7,144,523 |
| Liability | | | |
| Losses and claims payable | | - | 892,500 |
| Net asset | | 6,840,152 | 6,252,023 |
| Peso equivalent | | 305,187,062 | 277,677,350 |

The exchange rate of US Dollar into Philippine Peso is P44.617 (2013 - P44.414).

For the years ended December 31, the Company's foreign exchange gains (losses) are as follows:

| | 2014 | 2013 |
|---|---|---|
| Unrealized foreign exchange gain (loss) | 3,004,942 | 19,204,636 |
| Realized foreign exchange gain (loss) | (1,187,130) | 2,926,006 |
| | 1,817,812 | 22,130,642 |

A sensitivity analysis was performed on the US Dollar denominated assets and liabilities. The fluctuation rate is based on the historical movement of US Dollar year on year.

| Year | Change in currency | Effect on pre-tax income in Philippine Peso |
|---|---|---|
| 2014 | +/- 1.35% | +/- 4,101,479 |
| 2013 | +/- 3.38% | +/- 9,004,366 |

*Price risk*

The Company is exposed to price risk in respect of debt and equity securities classified as available-for-sale securities.

The Company manages such risk by setting and monitoring objectives and diversification plan.

Net change in fair value of available-for-sale equity securities for the years ended December 31 would increase/decrease by P3,074,608 (2013 - P367,782) as a result of an increase/decrease of 22.76% (2013 - 1.35%) in market prices which is based on the average historical fluctuation in the stock price index year-on-year.

### 4.2.2 Credit risk

*Credit risk management, risk limit and mitigation policies*

*(i) Insurance and reinsurance receivable balances*

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or group of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved annually by the Board of Directors.

Reinsurance risk is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. For facultative reinsurers, only approved companies are being used after taking into consideration their paying habit and reciprocal business.

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- amounts due from insurance intermediaries.

*(ii) Available-for-sale and held-to-maturity debt securities*

One of the Company's primary investment objectives is to seek the preservation of its portfolio by mitigating the credit risk which is the risk of loss due to failure of the issuer to make good on its obligation when maturity becomes due. This is mitigated by investing in safe securities and diversifying its investment portfolio so that the failure of any one issuer would not materially affect the cash flows of the Company. Within the guidelines provided by the Insurance Commission (IC), the Company's Investment Committee ensures that the Company invests in allowable categories of investment instruments and provided limitation as to the percentage of the portfolio which can be invested in certain category. Presently, the Company has significant investments in government securities and time deposits with local banks.

For time deposits and debt securities, external ratings such as those provided by Philippine Rating Services Corporation (Philratings) and Standard & Poor's (S&P) or their equivalent are used by the Company for managing credit risk exposures. Investments in these deposits and securities are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements.

*Maximum exposure to credit risk*

Credit risk exposures relating to financial assets at December 31 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | 209,603,217 | 225,654,145 |
| Receivable arising from insurance contracts | | |
| Premium receivable | 80,017,448 | 51,786,685 |
| Reinsurance recoverable on paid losses | 139,569,179 | 106,030,187 |
| Due from reinsurers and ceding companies | 5,748,552 | 3,958,277 |
| Funds held by ceding companies | 6,505,773 | 4,919,996 |
| Other receivables | | |
| Accounts receivable | 17,974,558 | 15,120,837 |
| Accrued interest income | 5,517,160 | 5,119,568 |
| Accrued rental income | 900,116 | 818,700 |
| Refundable deposits | 69,700 | 69,700 |
| Security fund | 24,929 | 24,929 |
| Available-for-sale debt securities | 51,841,628 | 52,251,448 |
| Held-to-maturity securities | 462,796,585 | 434,818,402 |

*Credit quality of receivables arising from insurance contracts and other loans and receivables*

| (Amounts in thousands) | Neither past due nor impaired (1-30 days) | Past due but not impaired 31-180 days | 181-360 days | More than 360 days | Overdue and impaired | Gross carrying amount |
|---|---|---|---|---|---|---|
| **December 31, 2014** | | | | | | |
| Receivable arising from insurance contracts | | | | | | |
| Premium receivable | 11,430 | 54,210 | 8,507 | 5,870 | 1,553 | 81,570 |
| Reinsurance recoverable on paid losses | 943 | 33,984 | 20,051 | 84,591 | - | 139,569 |
| Due from reinsurers and ceding companies | 297 | 1,520 | 870 | 3,062 | - | 5,749 |
| Funds held by ceding companies | - | 448 | 1,003 | 5,055 | - | 6,506 |
| Other loans and receivables | | | | | - | |
| Accounts receivable | 11,281 | 647 | 1,275 | 4,771 | - | 17,974 |
| Accrued interest income | 1,394 | 4,123 | - | - | - | 5,517 |
| Accrued rental income | 900 | - | - | - | - | 900 |
| Refundable deposits | 70 | - | - | - | - | 70 |
| Security fund | 25 | - | - | - | - | 25 |
| | 26,340 | 94,932 | 31,706 | 103,349 | 1,553 | 257,880 |

| (Amounts in thousands) | Neither past due nor impaired (1-30 days) | Past due but not impaired 31-180 days | 181-360 days | More than 360 days | Overdue and impaired | Gross carrying amount |
|---|---|---|---|---|---|---|
| **December 31, 2013** | | | | | | |
| Receivable arising from insurance contracts | | | | | | |
| Premium receivable | 23,211 | 20,481 | 5,731 | 2,364 | 1,553 | 53,340 |
| Reinsurance recoverable on paid losses | 16,518 | 45,855 | 13,616 | 30,041 | - | 106,030 |
| Due from reinsurers and ceding companies | 58 | 314 | 860 | 2,726 | - | 3,958 |
| Funds held by ceding companies | 49 | 88 | - | 4,783 | - | 4,920 |
| Other loans and receivables | | | | | | |
| Accounts receivable | 10,313 | 136 | 327 | 4,345 | - | 15,121 |
| Accrued interest income | 149 | 4,971 | - | - | - | 5,120 |
| Accrued Rental Income | 819 | - | - | - | - | 819 |
| Refundable deposits | 70 | - | - | - | - | 70 |
| Security fund | 25 | - | - | - | - | 25 |
| | 51,212 | 71,845 | 20,534 | 44,259 | 1,553 | 189,403 |

The credit quality of receivables can be assessed by reference to historical information about the counterparties' default rates. Currently, there is no history of default for these counterparties, and, hence, no impairment needs to be recognized on these receivables, other than those receivables which were classified under overdue and impaired category which have been fully provided for.

Insurance contracts and receivables which are neither past due nor impaired are assessed to be collectible and that no impairment indicators exist for such items.

As at December 31, 2014, receivables arising from insurance contracts and other loans and receivables of P229,987 (2013 - P136,638) are past due but not impaired. These relate to a number of independent counterparties for whom there is no history of default.

As at December 31, 2014 and 2013, allowance for impairment on premium receivable amounts to P1,553,000.

*Credit quality of cash and cash equivalents, available-for-sale and held-to-maturity securities*

| | A+ to AAA* | BBB- to BB+** | Unrated*** | Total |
|---|---|---|---|---|
| **December 31, 2014** | | | | |
| Available-for-sale securities | | | | |
| Debt securities-US Dollars | - | 51,841,628 | - | 51,841,628 |
| Held-to-maturity securities | | | | |
| Treasury bonds and notes | | | | |
| Philippine Peso | - | 111,794,379 | - | 111,794,379 |
| US Dollar | - | 183,831,894 | 7,800,036 | 191,631,930 |
| Corporate bonds | 24,999,024 | 12,987,634 | - | 37,986,658 |
| Short-term time deposits | - | - | 121,383,618 | 121,383,618 |
| | 24,999,024 | 308,613,907 | 129,183,654 | 462,796,585 |
| Cash and cash equivalents | | | | |
| Universal bank | | | | 146,297,594 |
| Commercial bank | | | | 28,812,874 |
| Thrift bank | | | | 33,903,038 |
| Rural bank | | | | 589,711 |
| | | | | 209,603,217 |

| | A+ to AAA* | BB- to BB+** | Unrated*** | Total |
|---|---|---|---|---|
| **December 31, 2013** | | | | |
| Available-for-sale securities | | | | |
| Debt securities-US Dollars | - | 52,251,448 | - | 52,251,448 |
| Held-to-maturity securities | | | | |
| Treasury bonds and notes | | | | |
| Philippine Peso | - | 105,103,768 | - | 105,103,768 |
| US Dollar | | 185,153,671 | 7,665,428 | 192,819,099 |
| Corporate bonds | 22,000,000 | 10,984,245 | - | 32,984,245 |
| Short-term time deposits | - | - | 103,911,290 | 103,911,290 |
| | 22,000,000 | 301,241,684 | 111,576,718 | 434,818,402 |
| Cash and cash equivalents | | | | |
| Universal bank | | | | 159,777,371 |
| Commercial bank | | | | 28,809,827 |
| Thrift bank | | | | 36,771,859 |
| Rural Bank | | | | 295,088 |
| | | | | 225,654,145 |

** Based on Philratings*
*** Based on Standard & Poor's rating*
****Unrated short term deposits and corporate bonds are issued by local commercial and universal banks.*

The credit quality of cash and cash equivalents is based on the Bangko Sentral ng Pilipinas classification of banks operating in the Philippines. To minimize credit risk, the Company invests only in financial institutions which are reputable and in good credit standing.

Philratings and Standard & Poor's are reputable credit rating agencies used in the market to determine credit risk of local and international companies, respectively.

Unrated counterparties have no history of default and hence, no provisions are required.

### 4.2.3 Liquidity risk

The Company is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The IC as well as the Board of Directors have issued certain guidelines to comply with to ensure that the Company maintains liquidity at all times.

The amounts disclosed in the table are the expected undiscounted cash flows of assets and liabilities, which the Company uses to manage the inherent liquidity risk.

| Amounts in thousands | Up to one year | Over one year | No term | Total |
|---|---|---|---|---|
| **December 31, 2014** | | | | |
| Assets | | | | |
| Cash and cash equivalents | 238,102 | - | - | 238,102 |
| Receivables arising from insurance contracts | | | | |
| Premium receivable | 81,570 | - | - | 81,570 |
| Reinsurance recoverable on paid losses | 139,569 | - | - | 139,569 |
| Due from reinsurers and ceding companies | 5,749 | - | - | 5,749 |
| Funds held by ceding companies | 6,506 | - | - | 6,506 |
| Other loans and receivables | | | | |
| Accounts receivable | 17,975 | - | - | 17,975 |
| Accrued interest income | 5,517 | - | - | 5,517 |
| Accrued rental income | 900 | - | - | 900 |
| Refundable deposits | 70 | - | - | 70 |
| Security fund | 25 | - | - | 25 |
| Available-for-sale securities | 5,473 | 54,686 | 26,852 | 87,011 |
| Held-to-maturity securities | 140,167 | 363,086 | - | 503,253 |
| | 641,623 | 417,772 | 26,852 | 1,086,247 |
| Liabilities | | | | |
| Due to reinsurers and ceding companies | 79,723 | 24,767 | - | 104,490 |
| Funds held for reinsurers | 24,630 | - | - | 24,630 |
| Commissions payable | 20,009 | - | - | 20,009 |
| Accounts payable and other liabilities (excluding taxes payable and retirement liability) | 47,690 | - | - | 47,690 |
| | 172,052 | 24,767 | - | 196,819 |
| Net assets | 469,571 | 393,005 | 26,852 | 889,428 |

| Amounts in thousands | Up to one year | Over one year | No term | Total |
|---|---|---|---|---|
| **December 31, 2013** | | | | |
| Assets | | | | |
| Cash and cash equivalents | 281,072 | - | - | 281,072 |
| Receivables arising from insurance contracts | | | | |
| Premium receivable | 53,340 | - | - | 53,340 |
| Reinsurance recoverable on paid losses | 106,030 | - | - | 106,030 |
| Due from reinsurers and ceding companies | 3,958 | - | - | 3,958 |
| Funds held by ceding companies | 4,920 | - | - | 4,920 |
| Other loans and receivables | | | | |
| Accounts receivable | 15,121 | - | - | 15,121 |
| Accrued interest income | 5,120 | - | - | 5,120 |
| Accrued rental income | 819 | - | - | 819 |
| Refundable deposits | 70 | - | - | 70 |
| Security fund | 25 | - | - | 25 |
| Available-for-sale securities | 10,119 | 50,674 | 29,863 | 90,656 |
| Held-to-maturity securities | 118,649 | 441,318 | - | 559,967 |
| | 599,243 | 491,992 | 29,863 | 1,121,098 |
| Liabilities | | | | |
| Due to reinsurers and ceding companies | 34,006 | 37,854 | - | 71,860 |
| Funds held for reinsurers | 8,375 | 24,688 | - | 33,063 |
| Commissions payable | 10,133 | - | - | 10,133 |
| Accounts payable and other liabilities (excluding taxes payable and retirement liability) | 43,110 | - | - | 43,110 |
| | 95,624 | 62,542 | - | 158,166 |
| Net assets | 503,619 | 429,450 | 29,863 | 962,932 |

## 4.3 Fair value of financial assets and financial liabilities

The aggregate fair value of the Company's available-for-sale securities at December 31, 2014 amounting to P78.69 million (2013 - P82.11 million) is determined based on market prices of securities traded in an active market. Such valuation technique falls under Level 1 of the fair value hierarchy.

There are no other financial instruments measured at fair value at December 31, 2014 and 2013.

The carrying amounts of the Company's financial assets, except held-to maturity securities, and liabilities not carried at fair value, approximate their fair values as at December 31, 2014 and 2013 as the impact of discounting is deemed to be insignificant.

As at December 31, 2014, the fair value of held-to-maturity securities amounts to P486,072,953 (2013 - P458,516,203). Such valuation falls under Level 1 of the fair value hierarchy.

As at reporting dates, there are no financial instruments that fall under the Level 3 of the fair value hierarchy. There were also no transfers between categories during the reporting period.

The method and assumptions used by the Company in estimating the fair value of financial instruments are as follows:

*Cash in banks and cash equivalents*

The estimated fair value of interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. The carrying values of interest bearing deposits in which the interest rates are repriced approximate their fair values.

*Receivables*

The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Due to short term nature of the receivables, the carrying amount approximates fair value.

*Held-to-maturity and available-for-sale securities*

Fair values of held-to-maturity and available-for-sale securities are based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

*Financial liabilities*

The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. Due to the short-term nature of the liabilities, the carrying values already approximate their fair values at reporting date.

### 4.4 Capital management

The Company's objectives when managing capital are:

- to comply with the minimum net worth requirement, Risk-Based Capital (RBC) model, and Margin of Solvency (MOS) set by the IC;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide security for its policyholders, returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

The Company calculates its capital as equity as shown in the statement of financial position.

The Company maintains a certain level of capital to ensure solvency margin in excess of regulatory requirements, which in turn, protects its policyholders.

To ensure compliance with these externally imposed capital requirements, it is the Company's policy to assess its position, at least on a quarterly basis, against set minimum capital requirements. The Company elevates any requirement for additional capital infusion to its shareholders to address any foreseen capital deficiency.

The level of MOS is monitored by the Company's management, employing the procedures based on the guidelines developed by the IC.

### 4.4.1 Margin of solvency requirements

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

Reserve for unearned premiums determined in accordance with the Insurance Code for purposes of MOS amounts to P103,067,270 (2013 - P109,931,696).

The Company complies with the MOS requirement of the IC as at reporting dates.

### 4.4.2 Minimum statutory net worth

The Company also manages its capital through its compliance with Republic Act No. 10607 - Amended Insurance Code, effective September 20, 2013. Under this Act, the requirement for domestic insurance companies to maintain a minimum statutory net worth amounts to:

| | |
|---|---|
| June 30, 2013 | P250 million |
| December 31, 2016 | P550 million |
| December 31, 2019 | P900 million |
| December 31, 2022 | P1,300 million |

The Company is compliant with the minimum statutory net worth as at December 31, 2014 and 2013.

### 4.4.3 Risk-based capital

In October 2006, the IC issued Insurance Memorandum Circular No.7-2006 adopting the risk-based capital framework for non-life insurance industry to establish the required amounts of capital to be maintained by insurance companies in relation to their investment and insurance risks. Every non-life insurance company is required to maintain annually a minimum RBC ratio of 100% and not fail the trend test. The insurance company will be subjected to the corresponding regulatory intervention upon its failure to meet the minimum RBC ratio.

The RBC ratio of a company 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 Insurance Commissioner. The RBC requirement is calculated as various percentages of exposures to investments and insurance risks of the company. These risks are basically based on five (5) categories - Fixed Income Securities, Equity Securities, Credit Risk, Loss Reserves and Net Premiums Written.

As at December 31, 2014, the Company’s RBC ratio of 250% (2013 - 294.24%) complies with the RBCA requirement of the Insurance Commission.

**Note 5 - Additional information on the results of operations by line of business**

The following information shows the financial information by line of business for the years ended December 31:

| | Fire | Marine | Motor Car | Casualty | Bond | Total |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| UNDERWRITING INCOME | | | | | | |
| Premiums written, net of returns | 165,379,644 | 12,433,928 | 269,395,711 | 46,565,211 | 20,021,869 | 513,796,363 |
| Reinsurance premiums ceded | (154,351,042) | (8,378,552) | (3,403,752) | (38,613,936) | (7,384,503) | (212,131,785) |
| Premiums retained | 11,028,602 | 4,055,376 | 265,991,959 | 7,951,275 | 12,637,366 | 301,664,578 |
| (Increase) decrease in reserve for unearned premiums | 943,240 | 100,154 | (18,252,984) | 43,534 | 930,725 | (16,235,331) |
| Premiums earned | 11,971,842 | 4,155,530 | 247,738,975 | 7,994,809 | 13,568,091 | 285,429,247 |
| Commissions earned | 28,297,388 | 3,057,770 | 325,348 | 9,173,280 | 3,398,560 | 44,252,346 |
| Other underwriting income | 8,871 | - | 19,598 | 5,146,152 | 258,980 | 5,433,601 |
| GROSS UNDERWRITING INCOME | 40,278,101 | 7,213,300 | 248,083,921 | 22,314,241 | 17,225,631 | 335,115,194 |
| UNDERWRITING EXPENSES | | | | | | |
| Commissions and other underwriting expenses | 29,459,960 | 3,742,604 | 82,462,170 | 12,240,325 | 8,094,468 | 135,999,527 |
| Losses and claims, net | 8,681,367 | 304,802 | 95,522,733 | 1,098,875 | 51,918 | 105,659,695 |
| | 38,141,327 | 4,047,406 | 177,984,903 | 13,339,200 | 8,146,386 | 241,659,222 |
| NET UNDERWRITING INCOME | 2,136,774 | 3,165,894 | 70,099,018 | 8,975,041 | 9,079,245 | 93,455,972 |
| INVESTMENT AND OTHER INCOME | | | | | | 34,361,938 |
| NET UNDERWRITING AND INVESTMENT INCOME | | | | | | 127,817,910 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | | | | | 61,467,219 |
| INCOME BEFORE INCOME TAX | | | | | | 66,350,691 |
| PROVISION FOR INCOME TAX | | | | | | 24,039,714 |
| NET INCOME FOR THE YEAR | | | | | | 42,310,977 |
| OTHER COMPREHENSIVE LOSS | | | | | | 2,209,047 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | | | | | 40,101,930 |

| | Fire | Marine | Motor Car | Casualty | Bond | Total |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| UNDERWRITING INCOME | | | | | | |
| Premiums written, net of returns | 165,867,705 | 9,872,841 | 242,051,277 | 45,368,591 | 21,818,198 | 484,978,612 |
| Reinsurance premiums ceded | (153,457,933) | (5,966,090) | (3,033,626) | (37,269,992) | (8,111,614) | (207,839,255) |
| Premiums retained | 12,409,772 | 3,906,751 | 239,017,651 | 8,098,599 | 13,706,584 | 277,139,357 |
| (Increase) decrease in reserve for unearned premiums | (89,155) | (177,653) | (10,468,889) | 2,544,183 | 1,770,590 | (6,420,924) |
| Premiums earned | 12,320,617 | 3,729,098 | 228,548,762 | 10,642,782 | 15,477,174 | 270,718,433 |
| Commissions earned | 29,604,415 | 2,179,421 | 986,002 | 11,069,498 | 3,731,638 | 47,570,974 |
| Other underwriting income | 1,892 | - | 39,444 | 6,724,509 | 306,612 | 7,072,457 |
| GROSS UNDERWRITING INCOME | 41,926,924 | 5,908,519 | 229,574,208 | 28,436,789 | 19,515,424 | 325,361,864 |
| UNDERWRITING EXPENSES | | | | | | |
| Commission and other underwriting expenses | 30,107,822 | 3,704,152 | 72,808,251 | 15,590,179 | 9,976,446 | 132,186,850 |
| Losses and claims, net | 9,375,109 | 79,413 | 98,047,126 | 2,181,486 | 1,415,639 | 111,098,773 |
| | 39,482,931 | 3,783,565 | 170,855,377 | 17,771,665 | 11,392,085 | 243,285,623 |
| NET UNDERWRITING INCOME | 2,443,993 | 2,124,954 | 58,718,831 | 10,665,124 | 8,123,339 | 82,076,241 |
| INVESTMENT AND OTHER INCOME | | | | | | 67,426,727 |
| NET UNDERWRITING AND INVESTMENT INCOME | | | | | | 149,502,968 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | | | | | 63,105,008 |
| INCOME BEFORE INCOME TAX | | | | | | 86,397,960 |
| PROVISION FOR INCOME TAX | | | | | | 20,189,285 |
| NET INCOME FOR THE YEAR | | | | | | 66,208,675 |
| OTHER COMPREHENSIVE LOSS | | | | | | (8,927,242) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | | | | | 57,281,433 |

## Note 6 - Cash and cash equivalents

The details of the account at December 31 are as follows:

| | Interest rate (%) | | Amount | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Cash on hand | - | - | 26,784,129 | 33,266,162 |
| Cash in banks | | | | |
| US Dollar | 0.01 - 0.25 | 0.01 - 0.25 | 20,577,775 | 16,828,607 |
| Philippine Peso | 0.13 - 2.00 | 0.13 - 2.00 | 52,811,377 | 47,491,644 |
| Time deposits | | | | |
| US Dollar | 0.16 - 2.50 | 0.16-2.63 | 15,285,284 | 24,500,691 |
| Philippine Peso | 0.75 - 2.75 | 0.50-2.63 | 120,928,781 | 136,833,203 |
| | | | 236,387,346 | 258,920,307 |

The maturities of cash equivalents which consist of time deposits from reporting dates are as follows:

| | 2014 | 2013 |
|---|---|---|
| US Dollar | 37-38 days | 30-41 days |
| Philippine Peso | 15-90 days | 30-90 days |

The related interest earned on cash and cash equivalents is presented in Note 15.

Cash on hand represents undeposited cash collections and various cash funds as at December 31, 2014 and 2013.

## Note 7 - Receivables, net

The account at December 31 consists of:

| | Note | 2014 | 2013 |
|---|---|---|---|
| Receivables arising from insurance contracts | | | |
| Premium receivable | | 81,570,448 | 53,339,685 |
| Reinsurance recoverable on paid losses | 20 | 139,569,179 | 106,030,187 |
| Due from reinsurers and ceding companies | | 5,748,552 | 3,958,277 |
| Funds held by ceding companies | | 6,505,773 | 4,919,996 |
| | | 233,393,952 | 168,248,145 |
| Other receivables | | | |
| Accounts receivable | | 17,974,558 | 15,120,837 |
| Accrued interest income | | 5,517,160 | 5,119,568 |
| Accrued rental income | | 900,116 | 818,700 |
| Refundable deposits | | 69,700 | 69,700 |
| Security fund | | 24,929 | 24,929 |
| | | 24,486,463 | 21,153,734 |
| Total Receivables | | 257,880,415 | 189,401,879 |
| Allowance for impairment losses | | (1,553,000) | (1,553,000) |
| | | 256,327,415 | 187,848,879 |

The Company's receivables above are all current except for refundable deposits and security fund.

Accounts receivable is mainly composed of advances to employees.

The security fund is maintained in compliance with Sections 365 and 367 of the Insurance Code. The amount of security fund is determined by and deposited with the IC to pay valid claims against insolvent insurance companies.

There are no movements in allowance for impairment on premium receivable during 2014 and 2013.

There is no concentration of credit risk to a single counterparty with respect to receivables arising from insurance contracts.

## Note 8 - Investments

Details and classification of the Company's investments at December 31 follow:

| | 2014 | 2013 |
|---|---|---|
| Available-for-sale securities | 78,694,058 | 82,114,141 |
| Held-to-maturity securities | 462,796,585 | 434,818,402 |
| | 541,490,643 | 516,932,543 |

The movements in investments are summarized as follows:

| | Available-for-sale securities | Held-to-maturity securities |
|---|---|---|
| Balances at January 1, 2013 | 92,231,585 | 382,623,710 |
| Additions | 2,204,020 | 117,830,098 |
| Disposals | (4,286,760) | - |
| Maturities | - | (80,406,740) |
| Fair value adjustment | (11,751,179) | - |
| Foreign currency revaluation | 3,790,570 | 15,304,526 |
| Amortization of bond premium, net | (74,095) | (533,192) |
| Balances at December 31, 2013 | 82,114,141 | 434,818,402 |
| Additions | 14,545 | 147,054,383 |
| Disposals | (233,530) | - |
| Maturities | - | (119,782,336) |
| Fair value adjustment | (3,353,128) | - |
| Foreign currency revaluation | 235,872 | 887,964 |
| Amortization of bond premium, net | (83,842) | (181,828) |
| Balances at December 31, 2014 | 78,694,058 | 462,796,585 |

Proceeds from the disposals of available-for-sale securities for the year ended December 31, 2014 amounted to P410,704 (2013 - P15,139,855). Gain on sale of available-for-sale securities for the year ended December 31, 2014 amounted to P177,174 (2013 - P10,853,095).

The assets included in each of the categories as at December 31 are detailed as follows:

*Available-for-sale securities*

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Cost | Fair value | Cost | Fair value |
| Debt securities (US Dollar) | 45,238,442 | 51,841,628 | 45,268,491 | 52,251,448 |
| Equity securities | 23,117,825 | 26,852,429 | 23,336,829 | 29,862,693 |
| | 68,356,267 | 78,694,057 | 68,605,320 | 82,114,141 |

Interest rates of available-for-sale debt securities range from 8.0% to 9.4% in 2014 and 2013.

Interest income earned from these securities is presented in Note 15.

Dividend income on equity securities for the years ended December 31, 2014 amounts to P940,785 (2013 - P1,380,992).

*Held-to-maturity securities*

| | 2014 | 2013 |
|---|---|---|
| Listed debt securities (in treasury bonds and notes) | | |
| US Dollar | 190,726,274 | 192,087,150 |
| Philippine Peso | 110,265,000 | 103,265,000 |
| Corporate bonds | 38,000,000 | 33,000,000 |
| Time deposits | 121,383,617 | 103,911,290 |
| | 460,374,891 | 432,263,440 |
| Unamortized bond premiums, net | 2,421,694 | 2,554,962 |
| | 462,796,585 | 434,818,402 |

The Company's held-to-maturity securities earn interest rates (in %) as follows:

| | 2014 | 2013 |
|---|---|---|
| Listed debt securities (in Treasury bonds and notes) | | |
| Philippine Peso | 2.88 - 14.38 | 3.25 - 14.38 |
| US Dollar | 2.75 - 7.23 | 2.75 - 8.25 |
| Corporate bonds | 4.39 - 7.22 | 4.40 - 9.10 |
| Time deposits | 0.65 - 2.50 | 1.00 - 2.13 |

Interest income earned from held-to-maturity securities is presented in Note 15.

The maturities of the Company's investments in debt securities are as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Available-for-sale | Held-to-maturity | Available-for-sale | Held-to-Maturity |
| Short-term (within one year) | - | 118,852,590 | - | 17,220,700 |
| Medium-term (more than one year to five years) | 51,841,628 | 92,743,758 | 52,251,448 | 83,808,530 |
| Long-term (more than five years) | - | 251,200,237 | - | 333,789,172 |
| | 51,841,628 | 462,796,585 | 52,251,448 | 434,818,402 |

As at reporting dates, government securities, classified as held to maturity securities with face amount of P108,265,000 are deposited with the IC in accordance with the provisions of the Insurance Code of the Philippines (Insurance Code) for the benefit of policyholders and creditors of the Company.

## **Note 9 - Insurance liabilities and reinsurance assets**

The account at December 31 consists of:

| | 2014 | 2013 |
|---|---|---|
| Reserve for outstanding losses | | |
| Reported claims | 218,186,065 | 341,983,136 |
| IBNR claims, gross of reinsurance | 3,650,378 | 7,191,212 |
| Losses and claims payable | 221,836,443 | 349,174,348 |
| Reserve for unearned premiums | 211,462,935 | 189,593,736 |
| Total insurance liabilities | 433,299,378 | 538,768,084 |
| | | |
| Reinsurance recoverable on unpaid losses | 112,169,133 | 240,837,416 |
| Deferred reinsurance premiums | 87,809,813 | 82,175,946 |
| Total reinsurance assets | 199,978,946 | 323,013,362 |
| Insurance liabilities, net | 233,320,432 | 215,754,722 |

The movements in these insurance liabilities and reinsurance assets are shown below:

*Losses and claims payable, net*

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| (Amounts in thousands) | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| Reported claims | 341,983 | 240,295 | 101,688 | 455,184 | 361,789 | 93,395 |
| IBNR claims | 7,191 | 542 | 6,649 | 7,447 | 44 | 7,403 |
| Balances at January 1 | 349,174 | 240,837 | 108,337 | 462,631 | 361,833 | 100,798 |
| Claims and loss adjustment expenses | | | | | | |
| Cash paid for claims settled during the year | 233,475 | 129,146 | 104,329 | 137,863 | 139,886 | (2,023) |
| (Decrease) increase in liabilities arising from current year claims | (360,813) | (257,814) | (102,999) | (251,320) | (260,882) | 9,562 |
| | (127,338) | (128,668) | 1,330 | (113,457) | (120,996) | 7,539 |
| Balances at December 31 | 221,836 | 112,169 | 109,667 | 349,174 | 240,837 | 108,337 |

The Company utilizes reinsurance agreements to minimize its exposure to large losses in all aspects of its insurance business. Reinsurance permits recovery of a portion of losses from the reinsurer. However, it does not discharge the primary liability of the Company as the direct insurer of the risk assumed.

As discussed in Note 2.7.8, the Company sells damaged property (salvage) or pursues third parties for some or all of the costs (subrogation). These are deducted from claims and losses. The Company's total salvage and subrogation reimbursements, recorded under the loss recoverable account, for the year ended December 31, 2014 amount to P6,437,719 (2013 - P5,411,395) and is offset against the amount of losses and claims in the statements of total comprehensive income.

*Reserve for unearned premiums, net*

Movements in reserve for unearned premiums follow:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| (Amounts in thousands) | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| Balances at January 1 | 189,594 | 82,176 | 107,418 | 188,974 | 87,977 | 100,997 |
| Increase (decrease) during the year | 21,869 | 5,634 | 16,235 | 620 | (5,801) | 6,421 |
| Balances at December 31 | 211,463 | 87,810 | 123,653 | 189,594 | 82,176 | 107,418 |

*Deferred acquisition costs, net*

Movements in deferred acquisition costs follow:

| | 2014 | 2013 |
|---|---|---|
| Balances at January 1 | 69,259,573 | 84,849,495 |
| Costs deferred during the year | 88,830,870 | 65,838,735 |
| Amortization during the year | (84,961,801) | (81,428,657) |
| Balances at December 31 | 73,128,642 | 69,259,573 |

Amortization of deferred acquisition costs is presented as part of commissions and other underwriting expenses in the statement of total comprehensive income.

**Note 10 - Investment properties, net**

The movements of the account are as follows:

| | Land | Condominium Units and Parking Lots | Total |
|---|---|---|---|
| Cost | | | |
| Balances at December 31, 2013 and 2014 | 2,288,822 | 43,890,250 | 46,179,072 |
| Accumulated depreciation | | | |
| Balances at January 1, 2013 | - | 17,316,701 | 17,316,701 |
| Depreciation | - | 1,755,610 | 1,755,610 |
| Balances at December 31, 2013 | - | 19,072,311 | 19,072,311 |
| Depreciation | - | 1,755,610 | 1,755,610 |
| Balances at December 31, 2014 | - | 20,827,921 | 20,827,921 |
| Net book value | | | |
| December 31, 2013 | 2,288,822 | 24,817,939 | 27,106,761 |
| December 31, 2014 | 2,288,822 | 23,062,329 | 25,351,151 |

Rental income derived from these properties for the years ended December 31, 2014 amounts to P4,281,394 (2013 - P4,105,848). Expenses incurred in relation to the Company's investment properties in 2014 amounts to P1,220,904 (2013 - P1,035,905) and included under association dues in the statements of total comprehensive income.

Based on the latest appraisal in 2014, the investment properties have a current market value of P65,141,822 (2013 - P63,528,822). The valuation was estimated using the market data approach based on sales and listings of comparable properties. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity or at different floor levels of the same building.

The above fair values fall under Level 2 of the fair value hierarchy.

## Note 11 - Property and equipment, net

The account consists of:

| | Building | EDP equipment | Leasehold improvements | Transportation equipment | Furniture, fixture and office equipment | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balances at January 1, 2013 | 25,510,250 | 11,274,463 | 4,303,848 | 6,208,227 | 2,439,268 | 49,736,056 |
| Additions | - | 274,694 | - | 139,714 | 647,604 | 1,062,012 |
| Disposals | - | - | - | (1,304,547) | - | (1,304,547) |
| Balances at December 31, 2013 | 25,510,250 | 11,549,157 | 4,303,848 | 5,043,394 | 3,086,872 | 49,493,521 |
| Additions | - | 285,760 | 732,755 | 1,780,200 | 344,797 | 3,143,512 |
| Disposals | - | - | - | (49,536) | - | (49,536) |
| Balances at December 31, 2014 | 25,510,250 | 11,834,917 | 5,036,603 | 6,774,058 | 3,431,669 | 52,587,497 |
| Accumulated depreciation | | | | | | |
| Balances at January 1, 2013 | 17,043,431 | 9,184,283 | 3,676,736 | 3,166,046 | 1,030,900 | 34,101,396 |
| Depreciation and amortization | 940,741 | 680,058 | 162,507 | 706,380 | 274,867 | 2,764,553 |
| Disposals | - | - | - | (1,304,545) | - | (1,304,545) |
| Balances at December 31, 2013 | 17,984,172 | 9,864,341 | 3,839,243 | 2,567,881 | 1,305,767 | 35,561,404 |
| Depreciation and amortization | 940,741 | 692,900 | 22,338 | 825,529 | 459,571 | 2,941,079 |
| Disposals | - | - | - | (49,536) | - | (49,536) |
| Balances at December 31, 2014 | 18,924,913 | 10,557,241 | 3,861,581 | 3,343,874 | 1,765,338 | 38,452,947 |
| Net book value | | | | | | |
| December 31, 2013 | 7,526,078 | 1,684,816 | 464,605 | 2,475,513 | 1,781,105 | 13,932,117 |
| December 31, 2014 | 6,585,337 | 1,277,676 | 1,175,022 | 3,430,184 | 1,666,331 | 14,134,550 |

Proceeds from the sale of fully depreciated transportation equipment for the year ended December 31, 2014 amount to P56,321 (2013 - P285,840), resulting to a gain on sale amounting to P6,785 (2013 - P285,838). Gain on sale of property and equipment is included as part of miscellaneous income in the statements of total comprehensive income.

Depreciation and amortization is included as part of occupancy and equipment-related costs in the statements of total comprehensive income.

## Note 12 - Deferred income taxes

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Deferred income tax assets | | |
| Allowance for impairment | 465,900 | 465,900 |
| Retirement liability | 633,003 | 1,447,712 |
| Reserve for unearned premiums, net | 37,095,937 | 32,225,338 |
| Unrealized foreign exchange loss | 6,829,758 | 6,829,758 |
| Unrealized fair value loss in AFS | 1,005,938 | - |
| Incurred but not reported losses | 1,095,113 | 2,157,363 |
| Total deferred income tax assets | 47,125,649 | 43,126,071 |
| Deferred income tax liabilities | | |
| Deferred acquisition costs | 19,617,150 | 20,777,871 |
| Unrealized foreign exchange gain | 10,844,223 | 6,033,165 |
| Accrued rental income | 270,035 | 245,610 |
| Total deferred income tax liabilities | 30,731,408 | 27,056,646 |
| | 16,394,241 | 16,069,425 |

The movements in the deferred income tax account are summarized below:

| | 2014 | 2013 |
|---|---|---|
| At January 1 | 16,069,425 | 17,774,235 |
| Amounts charged against profit or loss | (621,918) | (494,551) |
| Amounts credited to (charged against) other comprehensive income | 946,734 | (1,210,259) |
| At December 31 | 16,394,241 | 16,069,425 |

The deferred tax (charge) credit in the statement of income comprises the following temporary differences:

| | 2014 | 2013 |
|---|---|---|
| Retirement liability | (755,505) | (1,094,012) |
| Reserve for unearned premium | 4,870,599 | 1,926,277 |
| Incurred but not reported losses | (1,062,250) | (76,758) |
| Deferred acquisition cost | 1,160,721 | 4,676,977 |
| Unrealized foreign exchange gain | (4,811,058) | (5,761,391) |
| Accrued rental income | (24,425) | (165,644) |
| | (621,918) | (494,551) |

The analysis of the recoverability and settlement of DIT assets and liabilities at December 31 is as follows:

| | 2014 | 2013 |
|---|---|---|
| DIT assets | | |
| Expected to be recovered within 12 months | 38,191,050 | 34,382,701 |
| Expected to be recovered beyond 12 months | 8,934,599 | 8,743,370 |
| | 47,125,649 | 43,126,071 |
| DIT liabilities | | |
| Expected to be recovered within 12 months | 19,887,185 | 21,023,481 |
| Expected to be recovered beyond 12 months | 10,844,223 | 6,033,165 |
| | 30,731,408 | 27,056,646 |
| DIT assets, net | 16,394,241 | 16,069,425 |

## Note 13 - Accounts payable and other liabilities

The account at December 31 consists of:

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Taxes payable | | 20,508,470 | 23,187,014 |
| Accounts payable | | 26,298,112 | 20,228,663 |
| Dividend payable | 14 | 16,982,581 | 18,298,090 |
| Retirement liability | 17 | 2,110,010 | 4,825,706 |
| Accrued expenses | | 1,744,563 | 1,352,296 |
| Other | | 2,664,707 | 3,231,287 |
| | | 70,308,443 | 71,123,056 |

Taxes payable is composed of documentary stamp taxes payable, output VAT, withholding taxes payable and local and national taxes due.

Accounts payable as at December 31, 2014 and 2013 include advances from policyholders and agents and overpayment of premium receivables. Other accounts payable pertain to employee-related benefit payables such as contributions to SSS, Philhealth and HDMF. As at reporting dates, all of the accounts payable and other liabilities are due within one year except for retirement liability. The terms for payment arrangements of the Company's retirement liability are disclosed in Note 17.

## Note 14 - Share capital

Details of the account at December 31, 2014 and 2013 follow:

| | Amount | |
|---|---|---|
| | Number of shares | Amount |
| Authorized, at P100 par value per share | 4,000,000 | 400,000,000 |
| Issued and outstanding | | |
| Beginning of year | 3,500,000 | 350,000,000 |
| Issuance during the year | - | - |
| End of year | 3,500,000 | 350,000,000 |

Contributed surplus represents additional capital contribution in 1997 from shareholders to demonstrate the commitment and strong support of shareholders to the local operations. Such amount is presented as part of contributed surplus in accordance with the guidelines of the IC.

As discussed in Note 4.4, the Company is subject to externally imposed capital requirement by the IC. To comply with the minimum capitalization, the following transactions have occurred:

*Cash dividend*

- In 2012, the Company declared P10 million (P2.86 per share) cash dividend to its shareholders which was settled partially in 2013. No payments pertaining to the 2012 declaration was made during 2014. Outstanding dividends payable as at December 31, 2014 amount to P3,065,189.
- In 2013, the Company declared another cash dividend amounting to P17.5 million (P5.00 per share) to its shareholders which was settled partially in 2014. As at December 31, 2014, dividends payable amounting to P710,620 remained outstanding (Note 13).
- In 2014, the Company declared P15 million cash dividend (P5.00 per share) to its shareholders which is expected to be paid in 2015.

As at December 31, 2014 and 2013, the Company is compliant with the statutory net worth required by Republic Act 10607 or the Amended Insurance Code.

Movements in accumulated other comprehensive income as at December 31 are as follows:

| | Note | 2014 | 2013 |
|---|---|---|---|
| At January 1 | | 14,769,970 | 23,697,212 |
| Net change in fair value of available-for-sale securities | | (2,347,190) | 2,823,937 |
| Actuarial gains (losses) on pension liability, net of tax | 8 | 138,143 | (11,751,179) |
| At December 31 | | 12,560,923 | 14,769,970 |

## Note 15 - Interest income

Details of interest income for the years ended December 31 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | 4,203,354 | 5,921,187 |
| Held-to-maturity securities | | |
| Treasury bonds and notes | | |
| US Dollar | 6,907,578 | 9,141,577 |
| Philippine Peso | 6,576,039 | 5,770,248 |
| Corporate bonds | 2,519,771 | 2,661,021 |
| Short-term time deposits | 1,056,039 | 780,222 |
| Available-for-sale securities | | |
| Treasury bonds | 5,315,137 | 4,037,344 |
| | 26,577,918 | 28,311,599 |

## Note 16 - Salaries and employee benefits

The details of the account for the years ended December 31 are as follows:

| | Note | 2014 | 2013 |
|---|---|---|---|
| Salaries and wages | | 23,877,560 | 23,914,263 |
| Allowance and bonuses | | 5,798,063 | 5,088,820 |
| Retirement benefit liability | 17 | 2,499,151 | 3,353,293 |
| Social security contributions | | 1,266,251 | 1,187,213 |
| Other employee benefits | | 1,151,216 | 1,917,364 |
| | | 34,592,241 | 35,460,953 |

## Note 17 - Retirement benefit obligation

The Company has a funded, noncontributory defined benefit plan providing death, disability and retirement benefits for all its employees. The fund is being managed and administered by a financial institution on the basis of a duly executed trust agreement and governed by local regulations in the Philippines. Under the plan, qualified officers and employees are entitled to retirement benefits when they reach the normal retirement age of 60 years with an option for early retirement at 50 years of age provided that they have completed at least 10 years of continuous service. Normal and early retirement benefits consist of a lump sum benefit equivalent to one month's final pay for every year of service. The plan also provides late retirement, death, disability and voluntary separation benefits.

Retirement benefit cost recognized in the statement of total comprehensive income for the years ended December 31 is as follows:

| | 2014 | 2013 |
|---|---|---|
| Retirement benefit cost recognized in profit or loss | | |
| Current service cost | 2,287,303 | 2,527,857 |
| Net interest expense | 211,848 | 825,436 |
| | 2,499,151 | 3,353,293 |
| Retirement benefit cost recognized in other comprehensive income | | |
| Remeasurements - defined benefit obligation | (989,484) | (4,316,440) |
| Remeasurements - plan assets | 792,137 | 282,244 |
| | (197,347) | (4,034,196) |

Retirement benefit cost recognized in profit or loss is included under salaries and employee benefits in the statement of total comprehensive income.

Retirement benefit cost liability included as part of accounts payable and other liabilities recognized in the statement of financial position as at December 31 is determined as follows:

| | 2014 | 2013 |
|---|---|---|
| Present value of defined benefit obligation | 31,324,159 | 29,466,744 |
| Fair value of plan assets | (29,214,149) | (24,641,038) |
| Retirement liability | 2,110,010 | 4,825,706 |

The movements in the present value of defined benefit obligation during the years ended December 31 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Beginning of the year | 29,466,744 | 30,270,708 |
| Current service cost | 2,287,303 | 2,527,857 |
| Interest cost | 1,293,590 | 1,997,867 |
| Remeasurements | - | - |
| Effect of changes in financial assumptions | (989,484) | (4,316,440) |
| Benefits paid | (733,994) | (1,013,248) |
| End of the year | 31,324,159 | 29,466,744 |

The movements in the fair value of plan assets at December 31 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Beginning of the year | 24,641,038 | 17,764,099 |
| Contributions | 5,017,500 | 7,000,000 |
| Interest income | 1,081,742 | 1,172,431 |
| Remeasurements | | |
| Return on plan assets | (792,137) | (282,244) |
| Benefits paid | (733,994) | (1,013,248) |
| End of the year | 29,214,149 | 24,641,038 |

The Company has no other transactions with the plan other than the contributions and benefit payments presented above for the years ended December 31, 2014 and 2013.

The details of the plan assets at December 31 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Cash | 201 | 2,626 |
| Short-term deposits | 1,006,722 | 10,313,198 |
| Government securities | 8,593,090 | 11,046,874 |
| Mutual funds and unit investment trust funds | 14,635,122 | 3,316,170 |
| Trustee fee payable | (38,486) | (37,830) |
| | 24,196,649 | 24,641,038 |

The carrying value of plan assets as at December 31, 2014 and 2013 is the same as its fair value. There are no plan assets invested in debt or equity securities of the Company or its related entities.

The movements in the reserve for actuarial gains (losses) on retirement liability, net of tax, presented within equity for the years ended December 31 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Beginning of the year | 1,801,642 | (2,232,554) |
| Remeasurements - defined benefit obligation | 989,484 | 4,316,440 |
| Remeasurements - plan assets | (792,137) | (282,244) |
| Total | 1,998,989 | 1,801,642 |
| Deferred tax liability on reserve for actuarial gain | (599,697) | (540,493) |
| Reserve for actuarial gains on defined benefit plan, net of tax | 1,399,292 | 1,261,149 |

The principal actuarial assumptions used in determining the pension obligation for the years ended December 31 are shown below:

| | 2014 | 2013 |
|---|---|---|
| Discount rate | 4.66% | 4.39% |
| Salary increase rate | 4.75% | 4.75% |

*Discount rate*

The discount rate was determined in accordance with the PIC Q&A 2008-01(Revised), which mandates that discount rates reflect benefit cash flows and use of zero coupon rates, even though theoretically derived.

The reinvestment method was applied to the PDST-R2 benchmark government bonds to arrive at the theoretical zero coupon yield curve. These derived rates were then used to compute the present value of the expected future benefit cash flows across valuation years.

Finally, the single-weighted discount rate was calculated as the uniform discount rate that produced the same present value.

*Future salary increases*

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

*Demographic assumptions*

Assumptions regarding future mortality and disability rates are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the Company to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Company. However, the Company believes that due to the long-term nature of the pension liability and the strength of the Company itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Company's long term strategy to manage the plan efficiently.

The Company ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Company's main objective is to match assets to the defined benefit obligation by investing primarily long-term debt securities which offer the best returns over the long term with an acceptable level of risk. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustee bank, as necessary to better ensure the appropriate asset-liability matching.

The average remaining service life of employees as at December 31, 2014 is 10 years (2013 - 20 years). The expected contribution for the year ending December 31, 2014 amounts to P2,308,687.

The projected maturity analysis of undiscounted retirement benefit payments as at December 31, 2014 is as follows:

| | 2014 | 2013 |
|---|---|---|
| Less than 1 year | 9,076,448 | 10,049,738 |
| 1 - 5 years | 2,950,971 | 723,306 |
| 6 - 10 years | 16,633,404 | 11,658,335 |
| 11 - 20 years | 29,541,466 | 34,882,917 |
| Over 20 years | 155,473,344 | 145,603,609 |

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions in 2014 is as follows:

| At December 31, 2014 | Change in assumption | Impact on pension liability: Increase in assumption | Impact on pension liability: Decrease in assumption |
|---|---|---|---|
| Discount rate | 1% | Decrease by P328,337 | Increase by P510,066 |
| Salary increase rate | 1% | Increase by P1,224,740 | Decrease by P567,626 |

| At December 31, 2013 | Change in assumption | Impact on pension liability: Increase in assumption | Impact on pension liability: Decrease in assumption |
|---|---|---|---|
| Discount rate | 1% | Decrease by P659,959 | Increase by P1,415,221 |
| Salary increase rate | 1% | Increase by P1,315,267 | Decrease by P656,425 |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the statement of financial position.

## Note 18 - Provision for income tax

Provision for income tax for the years ended December 31 follows:

| | 2014 | 2013 |
|---|---|---|
| Current | 23,417,796 | 19,694,734 |
| Deferred | 621,918 | 494,551 |
| | 24,039,714 | 20,189,285 |

Current tax expense for the year ended December 31, 2014 includes final tax amounting to P3,900,707 (2013 - P4,217,011).

A reconciliation between the provision for income tax computed at the statutory rate and the actual provision for income tax for the years ended December 31 follows:

| | 2014 | 2013 |
|---|---|---|
| Tax calculated at 30% | 19,905,207 | 25,919,388 |
| Income subject to final tax rate, net | (4,072,668) | (4,276,469) |
| Tax-exempt income | (335,388) | (2,462,748) |
| Non-deductible expense | 8,542,563 | 1,009,114 |
| Actual provision for income tax | 24,039,714 | 20,189,285 |

**Note 19 - Cash generated from operations**

The details of cash generated from operations for the years ended December 31 are as follows:

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Income before income tax | | 66,350,691 | 86,397,960 |
| Adjustments for: | | | |
| Unrealized foreign exchange gain, net | | (3,004,942) | (19,204,636) |
| Depreciation | 10,11 | 4,696,689 | 4,520,163 |
| Gain on sale of available-for-sale securities | 8 | (177,174) | (10,853,095) |
| Gain on sale of property and equipment | 11 | (6,785) | (285,838) |
| Retirement benefit expense | 17 | 2,499,151 | 3,353,293 |
| Interest income | 15 | (26,577,918) | (28,311,599) |
| Dividend income | 8 | (940,785) | (1,380,992) |
| Operating income before changes in operating assets and liabilities | | 42,838,927 | 34,235,256 |
| Changes in operating assets and liabilities | | | |
| (Increase) decrease in: | | | |
| Receivables, net | | (68,478,536) | 27,223,820 |
| Reinsurance recoverable on unpaid losses | | 128,668,283 | 120,995,539 |
| Deferred reinsurance premiums | | (5,633,867) | 5,801,097 |
| Deferred acquisition costs, net | | (3,869,069) | 15,589,922 |
| Other assets | | (10,054,925) | (347,895) |
| Increase (decrease) in: | | | |
| Losses and claims payable | | (127,337,905) | (113,476,368) |
| Reserve for unearned premiums | | 21,869,198 | 619,826 |
| Due to reinsurers and ceding companies | | 32,629,995 | (50,121,922) |
| Funds held for reinsurers | | (8,433,587) | 6,037,197 |
| Commissions payable | | 9,876,432 | (24,229,921) |
| Accounts payable and other liabilities | | (814,612) | 8,358,475 |
| Cash generated from operations | | 11,260,334 | 30,685,026 |

## Note 20 - Related party transactions

In the ordinary course of business, the Company cedes reinsurance businesses under various reinsurance contracts (mainly treaty) with its related reinsurance companies.

Premiums paid to related party reinsurers are booked as reinsurance premiums ceded in profit or loss and the related payables are included as part of due to reinsurers and ceding companies in the statement of financial position. Commissions out of these reinsurance transactions are included as part of commissions earned and any outstanding uncollected commissions are offset with due to reinsurers and ceding companies.

The share of the related party reinsurer in incurred losses is included as part of reinsurance recoverable on unpaid losses or reinsurance recoverable on paid losses under net receivables in the statement of financial position.

Outstanding balances under treaty and facultative contracts with such related parties as at December 31 are as follows:

| | 2014 | 2013 | Terms and conditions |
|---|---|---|---|
| Shareholders | | | |
| Reinsurance recoverable on paid losses | 13,433,952 | 12,716,689 | - Unsecured and unguaranteed<br>- Non-interest bearing<br>- Collectible in cash within 15 days after reinsurer's confirmation or can be offset against any outstanding reinsurance premiums payable |
| Reinsurance recoverable on unpaid losses | 5,280,150 | 6,337,501 | - Unsecured and unguaranteed<br>- Non-interest bearing<br>- Collectible in cash or can be offset against any outstanding reinsurance premiums payable |
| | 18,714,102 | 19,054,190 | |
| Due to reinsurers and ceding companies | (18,238,032) | (11,344,495) | - Unsecured and unguaranteed<br>- Non-interest bearing<br>- Payable in cash within 15 days after reinsurer's confirmation or can be offset against receivables arising from reinsurance share in losses |
| Funds held for reinsurers | (682,662) | (709,793) | - Unsecured and unguaranteed<br>- Non-interest bearing<br>- Represents 40% of reinsurance premiums ceded to foreign reinsurers<br>- Payable in cash within one year after the end of the quarter |
| | (18,920,694) | (12,054,288) | |
| | (206,592) | 6,999,902 | |
| Contributions | | | |
| Retirement fund | 5,017,500 | 7,000,000 | - Represents contributions to the retirement fund |
| Benefit payments | | | |
| Retirement fund | (733,994) | (1,013,248) | - Represents benefit payments from the retirement fund |

Transactions under treaty and facultative contracts with such related parties for the years ended December 31 are as follows:

| | 2014 | 2013 | Terms and conditions |
|---|---|---|---|
| Shareholders | | | |
| Reinsurance premiums ceded | 1,706,654 | 1,774,483 | - Represents premiums ceded out to reinsurers |
| Losses and claims | 1,544,179 | 3,464,812 | - Represents share of reinsurers in incurred losses |
| Commissions earned | 401,087 | 403,805 | - Represents commissions earned from reinsurance |
| | 3,651,920 | 5,643,100 | |

The following table shows the transactions of the Company with its retirement fund for the years ended December 31:

| | 2014 | 2013 | Terms and conditions |
|---|---|---|---|
| Contribution to the retirement fund | 5,017,500 | 7,000,000 | - Represents contributions made and benefits paid by the Company to and from its retirement fund |
| Benefits paid from the retirement fund | (733,994) | (1,013,248) | |
| | 4,283,506 | 5,986,752 | |

The table below shows transactions and outstanding balances with the Company's key management personnel as at and for the years ended December 31:

| | 2014 | 2013 | Terms and conditions |
|---|---|---|---|
| Advances | 10,513,579 | 6,916,599 | - Secured and guaranteed up to the amount of the officer's retirement benefit<br>- Interest-bearing at 8% per annum<br>- Collectible in cash over a period of one year or more through salary deduction |
| Salaries and other benefits | 9,172,072 | 8,686,448 | - Represents salaries and other benefits paid to key management personnel during the year<br>- No provisions for termination, post-employment and other long-term benefits for key management personnel, except for such benefits to which they are entitled under the Company's retirement plan |
| | 9,172,072 | 8,686,448 | |
| Directors' fees | 217,791 | 155,904 | - Fees paid to directors during the year and payable annualy. |

There are no provisions for impairment recognized on due from related parties as at and for the years ended December 31, 2014 and 2013.

## Note 21 - Reconciliation of net income under PFRS and Statutory Accounting Practices (SAP)

PFRS varies in certain respects from SAP prescribed by the IC. A reconciliation of net income under PFRS and net income determined under SAP for the years ended December 31 follows:

| | 2014 | 2013 |
|---|---|---|
| PFRS net income | 42,310,977 | 66,208,675 |
| Add (deduct): | | |
| Difference in change in reserve for unearned premiums, net | 5,416,650 | 4,606,334 |
| Decrease (increase) in deferred acquisition costs, net | (3,869,069) | 15,589,922 |
| Unrealized foreign exchange (gain) loss, net | (3,004,942) | (19,204,636) |
| Net income under SAP | 40,853,616 | 67,200,295 |

In the accompanying financial statements, the PFRS net reserve for unearned premiums at December 31 follows:

| | 2014 | 2013 |
|---|---|---|
| Reserve for unearned premiums | 211,462,935 | 189,593,736 |
| Deferred reinsurance premiums | (87,809,813) | (82,175,946) |
| | 123,653,122 | 107,417,790 |

## Note 22 - Contingencies

In the ordinary course of business, the Company, as plaintiff, is currently pursuing a number of collection-related cases against certain customers. Any asset or income arising from the ultimate resolution of these cases will be recognized when actual settlement is received or when collection is virtually certain.

## Note 23 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Presented below are the relevant information required by Revenue Regulations No. 15-2010. These are presented for purpose of filing with the BIR and are not required as part of the basic financial statements.

*I. Output value-added tax (VAT)*

Output VAT declared for the year ended December 31, 2014 and the revenues upon which the same was based consist of:

| | Gross amount of revenues | Output VAT |
|---|---|---|
| Premiums (non-life) | 432,418,014 | 51,890,161 |
| Commission income | 34,197,664 | 4,103,720 |
| Rental income | 4,199,978 | 503,997 |
| | 470,815,656 | 56,497,878 |

The gross revenues shown above are based on gross receipts of the Company for VAT purposes while gross revenues presented in the statement of total comprehensive income are measured in accordance with the policy in Notes 2.16 and 2.17. Output VAT included as part of accounts payable and other liabilities (Note 13) amounts to P13,657,998.

*II. Input VAT*

Movements in input VAT for the year ended December 31, 2014 follow:

| | Amount |
|---|---|
| Beginning balance | 1,404,712 |
| Input tax on services | 22,033,228 |
| Deferred input tax | (22,015,678) |
| Ending balance | 1,422,262 |

The above input VAT is presented as part of other assets in the statement of financial position.

*III. Documentary stamp tax (DST)*

Documentary stamp taxes paid for the year ended December 31, 2014 amounts to P61,282,198.

There is no accrued DST as at December 31, 2014.

*IV. All other local and national taxes*

All other local and national taxes paid and accrued for the year ended December 31, 2014 consist of:

| | Paid | Accrued | Total |
|---|---|---|---|
| Fire service tax | 1,376,025 | 1,463,441 | 2,839,466 |
| Real property tax | 852,255 | - | 852,255 |
| Local government tax on premiums | - | 764,513 | 764,513 |
| Premium tax (non-life) | 48,108 | 104,566 | 152,674 |
| IC supervision/filing fees | 142,963 | - | 142,963 |
| IC Certificate of Authority renewal fees | 77,155 | - | 77,155 |
| Community tax | 10,500 | - | 10,500 |
| Municipal taxes | 103,034 | - | 103,034 |
| Others | 1,239,033 | - | 1,239,033 |
| | 3,849,073 | 2,332,520 | 6,181,593 |

The above local and national taxes are charged to taxes, licenses and fees in the statement of total comprehensive income, except for fire service tax, local government tax on premiums and premium tax (non-life) which are passed on to the policyholders.

*V. Withholding taxes*

Withholding taxes paid and accrued for the year ended December 31, 2014 consist of:

| | Paid | Accrued | Total |
|---|---|---|---|
| Expanded withholding tax | 13,363,969 | 1,335,576 | 14,699,545 |
| Final withholding tax | 213,828 | 1,858,222 | 2,072,050 |
| Withholding tax on compensation | 3,420,648 | 1,324,154 | 4,744,802 |
| | 16,998,445 | 4,517,952 | 21,516,397 |

Creditable withholding taxes as at December 31, 2014 amounting to P1,184,054 is included as part of other assets.

*VI. Tax assessments and cases*

As at reporting date, the Company's open tax years are 2013, 2012 and 2011.

There are no outstanding cases under preliminary investigation, litigation and/or prosecution in courts or besides outside the BIR as at December 31, 2014.