

# MAPFRE Insular Insurance Corporation

Financial Statements  
December 31, 2014 and 2013

and

Independent Auditors' Report

**COVER SHEET**  
for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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Company Name

M	A	P	F	R	E		I	N	S	U	L	A	R		I	N	S	U	R	A	N	C	E					
C	O	R	P	O	R	A	T	I	O	N																		

Principal Office (No./Street/Barangay/City/Town/Province)

M	a	p	f	r	e		I	n	s	u	l	a	r		C	o	r	p	o	r	a	t	e					
C	e	n	t	e	r	,		A	c	a	c	i	a		A	v	e	n	u	e								
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Form Type

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Department requiring the report

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Secondary License Type, If  
Applicable

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**COMPANY INFORMATION**

Company's Email Address

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Company's Telephone Number/s

--

Mobile Number

--

No. of Stockholders

--

Annual Meeting  
Month/Day

--

Calendar Year  
Month/Day

12/31
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**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

--

Email Address

--

Telephone Number/s

--

Mobile Number

--

Contact Person's Address

--

**Note:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

\*SGVFS012268\*

## **INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors  
Mapfre Insular Insurance Corporation

### **Report on the Financial Statements**

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

**\* SGVFS012268 \***

*Opinion*

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulation No.15-2010 in Note 34 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Mapfre Insular Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos  
Partner  
CPA Certificate No. 0091096  
SEC Accreditation No. 0926-AR-1 (Group A),  
April 15, 2013, valid until April 14, 2016  
Tax Identification No. 178-486-666  
BIR Accreditation No. 08-001998-81-2012,  
June 19, 2012, valid until June 18, 2015  
PTR No. 4751347, January 6, 2015, Makati City

January 22, 2015

\*SGVFS012268\*

## **INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors  
Mapfre Insular Insurance Corporation  
Mapfre Insular Corporate Center  
Acacia Avenue, Madrigal Business Park  
Ayala Alabang, Muntinlupa City

### **Report on the Financial Statements**

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

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January 22, 2015

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## **INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors  
Mapfre Insular Insurance Corporation  
Mapfre Insular Corporate Center  
Acacia Avenue, Madrigal Business Park  
Ayala Alabang, Muntinlupa City

We have audited the financial statements of Mapfre Insular Insurance Corporation as at and for the year ended December 31, 2014, on which we have rendered the attached report dated January 22, 2015.

In compliance with Securities Regulation Code Rule No. 68, As Amended (2011), we are stating that the above Company has sixteen (16) stockholders owning one hundred (100) or more shares each.

**SYCIP GORRES VELAYO & CO.**

Bernalette L. Ramos  
Partner  
CPA Certificate No. 0091096  
SEC Accreditation No. 0926-AR-1 (Group A),  
April 15, 2013, valid until April 14, 2016  
Tax Identification No. 178-486-666  
BIR Accreditation No. 08-001998-81-2012,  
June 19, 2012, valid until June 18, 2015  
PTR No. 4751347, January 6, 2015, Makati City

January 22, 2015

**\*SGVFS012268\***

## **INDEPENDENT AUDITORS' REPORT TO ACCOMPANY INCOME TAX RETURN**

The Stockholders and the Board of Directors  
Mapfre Insular Insurance Corporation  
Mapfre Insular Corporate Center  
Acacia Avenue, Madrigal Business Park  
Ayala Alabang, Muntinlupa City

We have audited the financial statements of Mapfre Insular Insurance Corporation for the year ended December 31, 2014, on which we have rendered the attached report dated January 22, 2015.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

**SYCIP GORRES VELAYO & CO.**

Bernalette L. Ramos  
Partner  
CPA Certificate No. 0091096  
SEC Accreditation No. 0926-AR-1 (Group A),  
April 15, 2013, valid until April 14, 2016  
Tax Identification No. 178-486-666  
BIR Accreditation No. 08-001998-81-2012,  
June 19, 2012, valid until June 18, 2015  
PTR No. 4751347, January 6, 2015, Makati City

January 22, 2015

**\*SGVFS012268\***



## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Mapfre Insular Insurance Corporation  
Mapfre Insular Corporate Center  
Acacia Avenue, Madrigal Business Park  
Ayala Alabang, Muntinlupa City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Mapfre Insular Insurance Corporation (the Company) as at and for the years ended December 31, 2014 and 2013 and have issued our report thereon dated January 22, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of all the effective standards and interpretations under Philippine Financial Reporting Standards and reconciliation of retained earnings available for dividend declaration as of December 31, 2014 are the responsibility of the Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

**SYCIP GORRES VELAYO & CO.**

Bernalette L. Ramos  
Partner  
CPA Certificate No. 0091096  
SEC Accreditation No. 0926-AR-1 (Group A),  
April 15, 2013, valid until April 14, 2016  
Tax Identification No. 178-486-666  
BIR Accreditation No. 08-001998-81-2012,  
June 19, 2012, valid until June 18, 2015  
PTR No. 4751347, January 6, 2015, Makati City

January 22, 2015

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**MAPFRE INSULAR INSURANCE CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>Cash and Cash Equivalents</b> (Notes 4 and 29)	<b>P536,137,614</b>	<b>P234,719,056</b>
<b>Insurance Receivables - net</b> (Notes 5 and 29)	<b>825,374,446</b>	<b>549,623,846</b>
<b>Financial Assets</b> (Notes 6 and 29)		
Available-for-sale financial assets	<b>1,397,669,567</b>	<b>1,700,113,694</b>
Loans and receivables - net	<b>207,266,245</b>	<b>143,152,051</b>
<b>Accrued Income</b> (Notes 7 and 29)	<b>22,788,206</b>	<b>23,492,721</b>
<b>Reinsurance Assets</b> (Notes 8, 15 and 17)	<b>2,153,383,238</b>	<b>2,069,689,369</b>
<b>Deferred Acquisition Costs</b> (Note 9)	<b>201,902,038</b>	<b>277,205,135</b>
<b>Deferred Tax Assets - net</b> (Note 27)	<b>22,898,843</b>	<b>–</b>
<b>Investment Property - net</b> (Note 10)	<b>16,585,884</b>	<b>17,020,784</b>
<b>Property and Equipment - net</b> (Note 11)	<b>181,679,062</b>	<b>190,147,303</b>
<b>Goodwill</b> (Note 12)	<b>33,794,284</b>	<b>33,794,284</b>
<b>Other Assets</b> (Notes 13 and 29)	<b>130,520,095</b>	<b>79,092,640</b>
	<b>P5,729,999,522</b>	<b>P5,318,050,883</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Insurance contract liabilities (Notes 15 and 17)	<b>P3,277,180,810</b>	<b>P3,306,435,534</b>
Insurance payables (Notes 16 and 29)	<b>534,538,237</b>	<b>264,446,613</b>
Trade and other liabilities (Notes 14 and 29)	<b>232,163,185</b>	<b>182,634,746</b>
Net pension obligation (Note 25)	<b>8,827,696</b>	<b>7,243,744</b>
Deferred reinsurance commissions (Note 9)	<b>46,970,063</b>	<b>33,146,033</b>
Deferred tax liabilities - net (Note 27)	<b>–</b>	<b>25,865,091</b>
<b>Total Liabilities</b>	<b>4,099,679,991</b>	<b>3,819,771,761</b>
<b>Equity</b>		
Capital stock (Note 18)	<b>500,000,000</b>	<b>500,000,000</b>
Additional paid-in capital	<b>200,446,070</b>	<b>200,446,070</b>
Contributed surplus	<b>100,000,000</b>	<b>100,000,000</b>
Other comprehensive income (Note 6)	<b>142,661,062</b>	<b>126,587,211</b>
Retained earnings (Note 18)	<b>687,212,399</b>	<b>571,245,841</b>
<b>Total Equity</b>	<b>1,630,319,531</b>	<b>1,498,279,122</b>
	<b>P5,729,999,522</b>	<b>P5,318,050,883</b>

*See accompanying Notes to Financial Statements.*

**\* SGVFS012268 \***

**MAPFRE INSULAR INSURANCE CORPORATION**  
**STATEMENTS OF INCOME**

	<b>Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Gross earned premiums on insurance contracts	<b>₱2,089,077,228</b>	₱2,002,974,547
Reinsurers' share of gross earned premiums on insurance contracts	<b>(670,286,294)</b>	(535,709,804)
<b>Net earned insurance premiums</b> (Notes 15, 19 and 30)	<b>1,418,790,934</b>	1,467,264,743
Investment income - net (Note 20)	<b>129,130,196</b>	143,430,200
Commission income (Notes 9 and 30)	<b>102,474,338</b>	88,072,306
Profit commission (Note 6)	<b>65,360,533</b>	—
Foreign exchange gain - net	<b>2,927,352</b>	21,875,496
Gain on sale of property and equipment (Note 11)	<b>123,816</b>	417,926
Other income	<b>17,894,091</b>	11,303,135
<b>Other income</b>	<b>317,910,326</b>	265,099,063
<b>Total Income</b>	<b>1,736,701,260</b>	1,732,363,806
Gross insurance contract benefits and claims paid	<b>2,615,525,567</b>	736,911,104
Reinsurers' share of gross insurance contract benefits and claims paid	<b>(2,007,794,404)</b>	(165,956,284)
Gross change in insurance contract liabilities	<b>(105,022,978)</b>	1,130,347,515
Reinsurers' share of gross change in insurance contract liabilities	<b>39,481,694</b>	(989,635,516)
<b>Net insurance benefits and claims</b> (Notes 15 and 21)	<b>542,189,879</b>	711,666,819
<b>Expenses</b>		
Commission expense (Note 9)	<b>583,828,741</b>	550,027,491
General and administrative expenses (Note 23)	<b>459,986,473</b>	397,546,043
Service fees (Note 24)	<b>22,264,503</b>	29,112,574
Finance costs (Note 22)	<b>2,935,563</b>	5,651,290
<b>Other expenses</b>	<b>1,069,015,280</b>	982,337,398
<b>Total Benefits, Claims and Other Expenses</b>	<b>1,611,205,159</b>	1,694,004,217
<b>Income before income tax</b>	<b>125,496,101</b>	38,359,589
Current	<b>28,454,650</b>	21,512,282
Deferred	<b>(46,562,286)</b>	(12,968,067)
<b>Provision for (benefit from) income tax</b> (Note 27)	<b>(18,107,636)</b>	8,544,215
<b>NET INCOME</b>	<b>₱143,603,737</b>	₱29,815,374

*See accompanying Notes to Financial Statements.*

**\* SGVFS012268 \***

**MAPFRE INSULAR INSURANCE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>NET INCOME</b>	<b>P143,603,737</b>	<b>P29,815,374</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
Net changes in the revaluation reserve on AFS financial assets (Note 6)	<b>16,073,851</b>	<b>(49,125,338)</b>
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Actuarial gain (loss) on net pension obligation (Note 25)	<b>(7,338,827)</b>	<b>19,842,456</b>
Income tax effect	<b>2,201,648</b>	<b>(5,952,737)</b>
	<b>10,936,672</b>	<b>(35,235,619)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P154,540,409</b>	<b>(P5,420,245)</b>

*See accompanying Notes to Financial Statements.*

**\* SGVFS012268 \***

**MAPFRE INSULAR INSURANCE CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**

	Capital Stock (Note 18)	Additional Paid- In Capital	Contributed Surplus	Revaluation Reserve on AFS Financial Assets (Note 6)	Retained Earnings	Total
<b>As at January 1, 2014</b>	<b>P500,000,000</b>	<b>P200,446,070</b>	<b>P100,000,000</b>	<b>P126,587,211</b>	<b>P571,245,841</b>	<b>P1,498,279,122</b>
Cash dividends (Note 18)	—	—	—	—	(22,500,000)	(22,500,000)
Net income	—	—	—	—	143,603,737	143,603,737
Other comprehensive income (loss), net of tax effect (Notes 6 and 25)	—	—	—	16,073,851	(5,137,179)	10,936,672
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>16,073,851</b>	<b>138,466,558</b>	<b>154,540,409</b>
<b>As at December 31, 2014</b>	<b>P500,000,000</b>	<b>P200,446,070</b>	<b>P100,000,000</b>	<b>P142,661,062</b>	<b>P687,212,399</b>	<b>P1,630,319,531</b>
As at January 1, 2013	500,000,000	200,446,070	100,000,000	175,712,549	647,540,748	1,623,699,367
Cash dividends (Note 18)	—	—	—	—	(120,000,000)	(120,000,000)
Net income	—	—	—	—	29,815,374	29,815,374
Other comprehensive income (loss), net of tax effect (Notes 6 and 25)	—	—	—	(49,125,338)	13,889,719	(35,235,619)
<b>Total comprehensive income (loss) for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(49,125,338)</b>	<b>43,705,093</b>	<b>(5,420,245)</b>
<b>As at December 31, 2013</b>	<b>P500,000,000</b>	<b>P200,446,070</b>	<b>P100,000,000</b>	<b>P126,587,211</b>	<b>P571,245,841</b>	<b>P1,498,279,122</b>

*See accompanying Notes to Financial Statements.*

\*SGVFS012268\*

**MAPFRE INSULAR INSURANCE CORPORATION**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>P125,496,101</b>	<b>P38,359,589</b>
Adjustments for:		
Provision for impairment losses (Notes 5, 6 and 23)	<b>10,000,000</b>	–
Depreciation and amortization (Notes 10, 11 and 23)	<b>43,192,134</b>	37,918,571
Interest expense (Note 22)	<b>2,594,383</b>	4,086,801
Gain on sale of property and equipment	<b>(123,816)</b>	(417,926)
Dividend income (Note 20)	<b>(9,323,923)</b>	(16,250,217)
Gain on sale of AFS financial assets (Note 6)	<b>(22,738,443)</b>	(33,500,222)
Interest income (Note 20)	<b>(95,565,992)</b>	(92,167,703)
Operating income (loss) before changes in working capital	<b>53,530,444</b>	(61,971,107)
Decrease (increase) in:		
Insurance receivables	<b>(285,750,600)</b>	43,565,669
Reinsurance assets	<b>(83,693,869)</b>	(1,021,883,128)
Deferred acquisition costs	<b>75,303,097</b>	563,418
Increase (decrease) in:		
Insurance contract liabilities	<b>(29,254,724)</b>	1,135,239,885
Insurance payables	<b>270,091,624</b>	96,122,548
Trade and other liabilities	<b>27,028,439</b>	7,117,923
Deferred reinsurance commissions	<b>13,824,030</b>	(2,716,758)
Pension benefit obligation	<b>(3,553,227)</b>	(2,321,489)
Net cash generated from operations	<b>37,525,214</b>	193,716,961
Payments for:		
Interest expense (Note 22)	<b>(2,594,383)</b>	(4,086,801)
Income tax	<b>(30,656,298)</b>	(21,512,282)
Net cash provided by operating activities	<b>4,274,533</b>	168,117,878
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<b>96,270,507</b>	98,074,783
Dividends received (Note 20)	<b>9,323,923</b>	16,250,217
Proceeds from sale/maturities of:		
AFS financial assets (Note 6)	<b>817,389,550</b>	772,310,242
Property and equipment (Note 11)	<b>748,187</b>	417,926
Acquisitions of:		
AFS financial assets (Note 6)	<b>(476,133,129)</b>	(917,679,050)
Property and equipment (Note 11)	<b>(34,913,364)</b>	(60,819,034)
Increase in:		
Loans and receivables	<b>(64,114,194)</b>	(5,300,200)
Other assets (Note 13)	<b>(51,427,455)</b>	(3,230,295)
Net cash provided (used in) by investing activities	<b>297,144,025</b>	(99,975,411)

(Forward)

**\* SGVFS012268 \***

	<b>Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Cash dividends paid (Note 18)	<b>₱—</b>	<b>(₱119,926,164)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>301,418,558</b>	<b>(51,783,697)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>234,719,056</b>	<b>286,502,753</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱536,137,614</b>	<b>₱234,719,056</b>

*See accompanying Notes to Financial Statements.*

# MAPFRE INSULAR INSURANCE CORPORATION

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## NOTES TO FINANCIAL STATEMENTS

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### 1. Corporate Information

Mapfre Insular Insurance Corporation (the Company) was incorporated in the Philippines. The Company is 74.94%-owned by Mapfre Internacional of Spain (Mapfre Internacional) and 24.99%-owned by Insular Life Assurance Company, Ltd. The Company is a subsidiary of Mapfre Internacional. The Company is engaged in the business of motor car, fire, marine, fidelity and surety insurance, and on all other kinds of insurance business of any nature. The registered office address of the Company is Mapfre Insular Corporate Center, Acacia Avenue, Madrigal Business Park, Ayala Alabang, Muntinlupa City.

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on January 22, 2015.

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### 2. Summary of Significant Accounting Policies

#### Basis of Preparation

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

#### Statement of Compliance

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

#### Changes in Accounting Policies

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

The nature and impact of each new standard and amendment is described below:

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)  
These amendments provided an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. These amendments are not relevant to the Company since it has no subsidiary.



- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)

These amendments clarified the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. These amendments have no impact on the Company.
- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)

These amendments provided relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company since it has no hedge accounting.
- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)

These amendments removed the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments required disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments affect disclosures only and have no impact on the Company’s position or performance.
- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)

Philippine Interpretation IFRIC 21 clarified that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, this Philippine Interpretation clarified that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This Philippine Interpretation has no impact on the Company as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of Philippine Interpretation IFRIC 21 in prior years.
- *Annual Improvements to PFRSs (2010 - 2012 cycle)*

In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarified that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Company.
- *Annual Improvements to PFRSs (2011 - 2013 cycle)*

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

#### Future Changes Accounting Policies

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

#### *New standards issued and effective after December 31, 2014*

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

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

- **Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate***  
This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

*The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA:*

*Effective in 2015*

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

*Annual Improvements to PFRSs (2010 - 2012 cycle)*

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

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*  
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:  
A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*  
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Company shall consider this amendment for future business combinations.
- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*  
The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*  
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- *PAS 24, Related Party Disclosures - Key Management Personnel*  
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

*Annual Improvements to PFRSs (2011-2013 cycle)*

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

- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*  
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- *PFRS 13, Fair Value Measurement - Portfolio Exception*  
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).
- *PAS 40, Investment Property*  
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

*Effective in 2016*

- *PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*  
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are

effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

- **PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)**  
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.
- **PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)**  
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company.
- **PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***  
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after 1 January 2016.
- **PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)**  
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

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

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

*Annual Improvements to PFRSs (2012 - 2014 cycle)*

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

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*  
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*  
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*  
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits - regional market issue regarding discount rate*  
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*  
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

*Effective in 2018*

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

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

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will have no impact on the classification and measurement of the Company's financial liabilities.

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

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities.

*New standard issued by the IASB but has not yet been adopted by the FRSC*

*IFRS 15, Revenue from Contracts with Customers*

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

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

Use of Estimates, Assumptions and Judgments

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

Product Classification

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

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

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



### Fair Value Measurement

The Company measures financial instrument at fair value at each reporting period. Also, fair values of financial assets measured at amortized cost and non-financial assets measured at cost are disclosed in Note 29.

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

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

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

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

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

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

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

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

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

### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and that are subject to an insignificant risk of changes in value.

### Insurance Receivables

Insurance receivables are recognized when due. The carrying values of insurance receivables are reviewed for impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable, with the impairment loss recorded in the statement of income.

Insurance receivables are derecognized following the derecognition criteria of financial assets.

#### Financial Instruments

##### *Date of recognition*

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

#### Financial Instruments

##### *Date of recognition*

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

##### *Initial recognition of financial instruments*

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

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

##### *Day 1 difference*

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

##### *Loans and receivables*

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

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

#### *AFS financial assets*

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

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

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

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

#### Offsetting

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

#### Impairment of Financial Assets

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

#### *Financial assets carried at amortized cost*

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

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

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

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

#### *AFS investments carried at fair value*

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

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

#### *AFS investments carried at cost*

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial Asset*

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

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

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

##### *Financial Liability*

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

##### Reinsurance

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

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

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

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

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

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

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

#### Deferred Acquisition Costs (DAC)

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

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

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

#### Investment Property

Property held for long term rental yields or for capital appreciation or for both, is classified as investment property. These properties are initially measured at cost, which includes transaction cost, but excludes day-to-day service cost. Replacement cost is capitalized if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Subsequently, at each reporting date, such properties are carried at cost less accumulated depreciation and impairment in value, if any.

Depreciation is computed using the straight-line method over the estimated useful life (EUL) of fifty (50) years of the investment property, regardless of utilization. The EUL and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic activity.

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

Rental income from investment property is recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives are recognized as an integral part of the total rental income.

#### Property and Equipment

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

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

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

	Years
Building and building improvements	50
Office furniture and equipment	5
Transportation equipment	5
Leasehold improvements	5

Leasehold improvements are amortized over the EUL of the improvements or the term of the lease, whichever is shorter.

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

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

#### Creditable Withholding Taxes (CWTs)

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

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

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

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. A previously recorded impairment loss for goodwill can never be reversed.

#### Impairment of Non-financial Assets

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

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



#### Value-added Tax (VAT)

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

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

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

#### Insurance Contract Liabilities

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

#### *Provision for Unearned Premiums*

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

#### *Claims Provision and Incurred But Not Reported (IBNR) Losses*

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

#### *Liability Adequacy Test*

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

### Pension Cost

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

### Equity

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. When the shares are sold at a premium, the

difference between the proceeds and the par value is credited to Additional Paid-in Capital account. Share issuance costs incurred as necessary part of completing an equity transaction are accounted for as part of that transaction and are treated as a deduction from Additional Paid-in Capital from previous share issuance. If the Additional Paid-in Capital account is not sufficient, the excess is deducted from retained earnings.

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

Contributed surplus represents the original contribution of the stockholders of the Parent Company, in addition to the paid-in capital stock, in order to comply with the pre-licensing requirements as provided under the Code.

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

#### Revenue

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

##### *Premiums revenue*

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

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

##### *Reinsurance commissions*

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

##### *Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes

into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as "Interest income".

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

*Dividend income*

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

*Rental income*

Rental income from investment property is accounted for on a straight-line basis over the lease term.

*Other income*

Income from other sources is recognized when earned.

*Benefits and claims*

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

*Commission expense*

Commissions are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as "Deferred acquisition cost" in the assets section of the statement of financial position.

*General and administrative expenses*

General and administrative expenses, except for lease agreements, are recognized as expense as they are incurred.

*Other expense*

Other expense pertains to the costs incurred by the Company prior to the issuance of policies to its policyholders. These costs include expenses for technical inspections, actuarial reviews and other work that is deemed necessary to determine whether or not to accept the risks to be written. These costs are recognized as expense as they are incurred.

*Finance costs*

Finance cost is charged against operations and is calculated using the effective interest method.

### Leases

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

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

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

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

### Foreign Exchange Transactions

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

### Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

## Income Tax

### *Current tax*

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

### *Deferred income tax*

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

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

The carrying amount of deferred income tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

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

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

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

### Events after the Reporting Period

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

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### 3. Significant Accounting Judgments and Estimates

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

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

#### Judgments

##### *Impairment of AFS financial assets*

The Company determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

The carrying value of AFS financial assets amounted to ₱1,397,669,567 and ₱1,700,113,694 as of December 31, 2014 and 2013, respectively (Note 6). There was no impairment loss on AFS financial assets recognized in 2014 and 2013 (Notes 6 and 20).

##### *Operating leases -Company as lessor*

The Company has entered into operating leases on the investment property portfolio. The Company has determined that it retains all the significant risks and rewards of ownership of these properties and accounts for them as operating leases. The future minimum rentals receivable under noncancelable operating leases amounted to ₱1,202,018 and ₱3,606,053 as of December 31, 2014 and 2013, respectively (Note 32).

##### *Operating leases - Company as lessee*

The Company has entered into property leases. Substantially, all the risks and benefits incidental to ownership of the leased item are not transferred to the Company. The future minimum rentals payable under noncancelable operating leases amounted to ₱50,470,964 and ₱58,058,893 as of December 31, 2014 and 2013, respectively (Note 32).

#### Estimates

##### *Claims liability arising from insurance contracts*

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate costs of the IBNR claims as of reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. The primary technique adopted by management in estimating the cost of notified and IBNR claims is that of using past claims settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Insurance claims provisions are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years, but

can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or projected separately in order to reflect their future development. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future (i.e., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The carrying value of gross claims payable amounted to ₱2,221,214,940 and ₱2,326,237,918 as of December 31, 2014 and 2013, respectively (Note 15).

*Estimated allowance for impairment losses*

The Company maintains the allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a regular basis.

For specific assessment of impairment, the Company individually identifies which account should be provided with allowance. For collective assessment, historical cancellation rates for the past three (3) years were used to determine the provision for the current year.

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

As of December 31, 2014 and 2013, loans and receivables, net of allowance for impairment losses, amounted to ₱207,266,245 and ₱143,152,051, respectively (Note 6). Insurance receivables, net of allowance for impairment losses, amounted to ₱825,374,446 and ₱549,623,846 as of December 31, 2014 and 2013, respectively (Note 5).

*Impairment of nonfinancial assets*

The Company assesses impairment on Property, Plant and Equipment, Investment Property and Goodwill whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

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



In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.

No impairment loss has been recognized for the Company's nonfinancial assets in 2014 and 2013.

As of December 31, 2014 and 2013, the balances of the Company's nonfinancial assets, net of accumulated depreciation and amortization follow:

	2014	2013
Investment property (Note 10)	<b>₱16,585,884</b>	₱17,020,784
Property and equipment (Note 11)	<b>181,679,062</b>	190,147,303
Goodwill (Note 12)	<b>33,794,284</b>	33,794,284

#### *Fair values of financial instruments*

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

As of December 31, 2014 and 2013, the fair value of financial instruments follows (Note 29):

	2014	2013
Financial assets	<b>₱3,002,293,106</b>	₱2,681,289,812
Financial liabilities	<b>650,556,849</b>	363,295,563

#### *EUL of property and equipment and investment property*

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

As of December 31, 2014 and 2013, related balances follow:

	2014	2013
Investment property (Note 10)	<b>₱16,585,884</b>	₱17,020,784
Property and equipment (Note 11)	<b>181,679,062</b>	190,147,303

#### *Pension and other employee benefits*

The determination of obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately as other comprehensive

income in the statements of comprehensive income. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations. Please refer to Note 25 for the related balances.

The Company's net pension obligation as of December 31, 2014 and 2013 amounted to ₱8,827,696 and ₱7,243,744, respectively (Note 25).

The Company also estimates other employee benefit obligations and expenses, including costs of paid leaves based on historical leave availments of employees subject to the Company's policies. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

The accrued balance of other employee benefits included as accrued expenses in 'Trade and other liabilities' account as of December 31, 2014 and 2013 amounted to nil and ₱14,993,492, respectively (Note 14).

#### *Deferred tax assets*

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

The Company's deferred tax assets amounted to ₱83,478,249 and ₱58,073,931 as of December 31, 2014 and 2013, respectively (Note 27).

#### *Contingencies*

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

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#### 4. Cash and Cash Equivalents

This account consists of:

	2014	2013
Cash on hand and in banks	<b>₱68,069,197</b>	₱135,322,043
Cash equivalents	<b>468,068,417</b>	99,397,013
	<b>₱536,137,614</b>	₱234,719,056

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of between one (1) day and three (3) months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates.

Interest income earned on cash and cash equivalents amounted to ₱3,497,857 and ₱5,792,123 in 2014 and 2013, respectively (Note 20).

## 5. Insurance Receivables

This account consists of:

	2014	2013
Premiums receivable - net	<b>P638,128,925</b>	P388,106,884
Reinsurance recoverable on paid losses	<b>140,214,051</b>	119,204,304
Due from ceding companies	<b>18,972,147</b>	22,492,849
Due from brokers - net	<b>57,938,440</b>	40,698,926
	<b>855,253,563</b>	570,502,963
Less allowance for impairment losses	<b>29,879,117</b>	20,879,117
	<b>P825,374,446</b>	P549,623,846

Premiums receivable and due from brokers pertain to amounts receivable from the Company's agents, dealers and brokers net of commissions payable amounting to P58,631,316 and P13,401,860, respectively, for 2014 and P51,514,660 and P18,482,476 respectively, for 2013.

Reinsurance recoverable on paid losses pertains to amounts recoverable from the reinsurers in respect of claims already paid by the Company.

Due from ceding companies pertains to amounts receivable from facultative and treaty reinsurance panels of the Company.

The carrying amounts disclosed above reasonably approximate fair values at year-end.

The following table shows aging information of insurance receivables:

### 2014

	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total
Premiums receivable	<b>P407,100,005</b>	<b>P53,273,952</b>	<b>P44,101,550</b>	<b>P67,253,804</b>	<b>P66,399,614</b>	<b>P-</b>	<b>P638,128,925</b>
Reinsurance recoverable on paid losses	<b>123,905,145</b>	<b>5,584,261</b>	<b>1,884,335</b>	<b>5,454,023</b>	<b>-</b>	<b>3,386,287</b>	<b>140,214,051</b>
Due from ceding companies	<b>189,374</b>	<b>1,082,765</b>	<b>7,208,856</b>	<b>7,621,772</b>	<b>314,435</b>	<b>2,554,945</b>	<b>18,972,147</b>
Due from brokers	<b>24,102,962</b>	<b>10,109,127</b>	<b>7,636,246</b>	<b>8,689,195</b>	<b>7,400,910</b>	<b>-</b>	<b>57,938,440</b>
	<b>P555,297,486</b>	<b>P70,050,105</b>	<b>P60,830,987</b>	<b>P89,018,794</b>	<b>P74,114,959</b>	<b>P5,941,232</b>	<b>P855,253,563</b>

### 2013

	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total
Premiums receivable	<b>P181,349,298</b>	<b>P56,900,052</b>	<b>P42,351,350</b>	<b>P76,268,859</b>	<b>P31,237,325</b>	<b>P-</b>	<b>P388,106,884</b>
Reinsurance recoverable on paid losses	<b>107,900,807</b>	<b>1,772,880</b>	<b>241,481</b>	<b>6,068,767</b>	<b>289,210</b>	<b>2,931,159</b>	<b>119,204,304</b>
Due from ceding companies	<b>45,526</b>	<b>2,240,249</b>	<b>3,185,916</b>	<b>13,938,140</b>	<b>325,211</b>	<b>2,757,807</b>	<b>22,492,849</b>
Due from brokers	<b>12,819,532</b>	<b>15,618,551</b>	<b>4,472,985</b>	<b>7,577,236</b>	<b>210,622</b>	<b>-</b>	<b>40,698,926</b>
	<b>P302,115,163</b>	<b>P76,531,732</b>	<b>P50,251,732</b>	<b>P103,853,002</b>	<b>P32,062,368</b>	<b>P5,688,966</b>	<b>P570,502,963</b>

\* SGVFS012268 \*

The following is a reconciliation of the changes in allowance for impairment losses for insurance receivables:

## **2014**

	Premiums Receivable	Due from Ceding Companies	Reinsurance Recoverable on Paid Losses	Due from Brokers	Total
At January 1, 2014	<b>P13,012,644</b>	<b>P3,257,681</b>	<b>P3,625,180</b>	<b>P983,612</b>	<b>P20,879,117</b>
Charge for the year (Note 23)	<b>9,000,000</b>	–	–	–	<b>9,000,000</b>
<b>At December 31, 2014</b>	<b>P22,012,644</b>	<b>P3,257,681</b>	<b>P3,625,180</b>	<b>P983,612</b>	<b>P29,879,117</b>
Individually impaired	<b>P21,905,655</b>	<b>P3,257,681</b>	<b>P3,625,180</b>	<b>P71,457</b>	<b>P28,859,973</b>
Collectively impaired	<b>106,989</b>	–	–	<b>912,155</b>	<b>1,019,144</b>
	<b>P22,012,644</b>	<b>P3,257,681</b>	<b>P3,625,180</b>	<b>P983,612</b>	<b>P29,879,117</b>

## **2013**

	Premiums Receivable	Due from Ceding Companies	Reinsurance Recoverable on Paid Losses	Due from Brokers	Total
At January 1, 2013	<b>P8,216,860</b>	<b>P3,125,066</b>	<b>P3,757,795</b>	<b>P983,612</b>	<b>P16,083,333</b>
Charge (reversal) for the year (Note 23)	<b>4,795,784</b>	<b>132,615</b>	<b>(132,615)</b>	–	<b>4,795,784</b>
<b>At December 31, 2013</b>	<b>P13,012,644</b>	<b>P3,257,681</b>	<b>P3,625,180</b>	<b>P983,612</b>	<b>P20,879,117</b>
Individually impaired	<b>P12,905,655</b>	<b>P3,257,681</b>	<b>P3,625,180</b>	<b>P71,457</b>	<b>P19,859,973</b>
Collectively impaired	<b>106,989</b>	–	–	<b>912,155</b>	<b>1,019,144</b>
	<b>P13,012,644</b>	<b>P3,257,681</b>	<b>P3,625,180</b>	<b>P983,612</b>	<b>P20,879,117</b>

## **6. Financial Assets**

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

	<b>2014</b>	<b>2013</b>
AFS financial assets	<b>P1,397,669,567</b>	<b>P1,700,113,694</b>
Loans and receivables - net	<b>207,266,245</b>	<b>143,152,051</b>
	<b>P1,604,935,812</b>	<b>P1,843,265,745</b>

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

### *a) AFS financial assets*

	<b>2014</b>	<b>2013</b>
<b>Securities at fair value</b>		
Equity securities		
Listed and club shares	<b>P215,832,282</b>	<b>P205,195,310</b>
Unlisted	<b>222,000</b>	<b>519,738</b>
	<b>216,054,282</b>	<b>205,715,048</b>

(Forward)

**\* SGVFS012268 \***

	2014	2013
Government debt securities		
Local currency	<b>₱673,092,861</b>	₱792,897,071
Bonds and notes		
Local currency	<b>475,489,594</b>	669,010,384
Foreign currency	<b>33,032,830</b>	32,491,191
	<b>1,181,615,285</b>	1,494,398,646
	<b>₱1,397,669,567</b>	₱1,700,113,694

The costs or amortized costs of AFS financial assets are as follows:

	2014	2013
<b>Securities at cost or amortized cost</b>		
Equity securities		
Listed and club shares	<b>₱211,550,106</b>	₱233,741,225
Unlisted	<b>222,000</b>	519,738
	<b>211,772,106</b>	234,260,963
Government debt securities		
Local currency	<b>536,665,757</b>	652,132,389
Bonds and notes		
Local currency	<b>475,293,208</b>	656,091,908
Foreign currency	<b>31,277,434</b>	31,041,223
	<b>1,043,236,399</b>	1,339,265,520
	<b>₱1,255,008,505</b>	₱1,573,526,483

The following tables present the breakdown of investments in bonds, government and other securities by contractual maturity dates as of December 31, 2014 and 2013 classified under AFS financial assets:

#### 2014

	Due Within One Year	Due Beyond One Year	Total
Government debt securities	₱–	<b>₱673,092,861</b>	<b>₱673,092,861</b>
Bonds and notes	<b>97,747,772</b>	<b>410,774,652</b>	<b>508,522,424</b>
	<b>₱97,747,772</b>	<b>₱1,083,867,513</b>	<b>₱1,181,615,285</b>

#### 2013

	Due Within One Year	Due Beyond One Year	Total
Government debt securities	₱–	₱792,897,071	₱792,897,071
Bonds and notes	174,148,775	527,352,800	701,501,575
	<b>₱174,148,775</b>	<b>₱1,320,249,871</b>	<b>₱1,494,398,646</b>

The AFS financial assets earn interest at rates that ranged from 5.38% to 9.00% and 4.88% to 11.25% in 2014 and 2013, respectively.

As of December 31, 2014 and 2013, government securities amounting to ₱125,400,000 are deposited with the Insurance Commission (IC) in accordance with the provisions of the Insurance Code (the Code) as security for the benefit of policyholders and creditors of the Company.

**\* SGVFS012268 \***

The rollforward of revaluation reserve on AFS financial assets follows:

	2014	2013
<b>As of January 1</b>	<b>₱126,587,211</b>	₱175,712,549
<b>Other comprehensive income:</b>		
Changes in fair value of AFS financial assets	<b>38,812,294</b>	(15,625,116)
Transfer to statements of comprehensive income	<b>(22,738,443)</b>	(33,500,222)
	<b>16,073,851</b>	(49,125,338)
<b>As of December 31</b>	<b>₱142,661,062</b>	₱126,587,211

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

	2014	2013
At January 1	<b>₱1,700,113,694</b>	₱1,570,370,002
Additions	<b>476,133,129</b>	917,679,050
Disposals and maturities	<b>(817,389,550)</b>	(772,310,242)
Fair value gain (loss) reported as other comprehensive income	<b>38,812,294</b>	(15,625,116)
At December 31	<b>₱1,397,669,567</b>	₱1,700,113,694

*b) Loans and receivables-net*

	2014	2013
Accounts receivable	<b>₱157,741,663</b>	₱56,026,626
Car financing loans	<b>21,989,143</b>	15,579,268
Mortgage loans	<b>18,801,455</b>	15,389,942
Long-term investments	<b>10,000,000</b>	10,000,000
Short-term investments	<b>2,583,512</b>	1,505,743
Long-term notes	–	47,500,000
	<b>211,115,773</b>	146,001,579
Less allowance for impairment losses	<b>3,849,528</b>	2,849,528
	<b>₱207,266,245</b>	₱143,152,051

Accounts receivable are non-interest bearing and all due within one (1) year.

In 2014, the Company recorded an accrual of profit commission under ‘Accounts receivable’ amounting to ₱65,360,533 from Insular Life Assurance Company (‘Insular Life’) as a result of their Memorandum of Agreement (MOA) on policies issued for migrant workers. Under the said MOA, at the end of each policy year, Insular Life and the Company shall compute for the share in net profit based on the separately-computed net profit (loss) of each entity based on the formula provided in the MOA. The amount of share in the net profit shall be the amount which will be available to provide deficit recovery to other company if necessary. If both parties are in a net profit or net loss position, no share in net profit will be computed. However, if one of the parties has incurred a loss and the other a profit, the entity who has a profit will be the one to reimburse the entity for its deficiency. The amount to be transferred shall not exceed the net profit of the entity who will reimburse the loss. Likewise, the amount that may be received by the negative account shall only be to the extent of such deficit that may be fully recovered.

Mortgage and car financing loans earn interest at rates ranging from 1.00% to 9.00% per annum and with maturities of two (2) to twenty five (25) years.

**\* SGVFS012268 \***

Long-term investments pertain to time deposits with maturity of ten (10) years with interest rate of 10.00% in 2014 and 2013.

On November 24, 2008, the Company granted long-term notes to International Container Terminal Services, Inc. (ICTSI) amounting ₱50,000,000. It bears annual interest of 10.25% based on a seven (7)-year fixed coupon note.

On November 28, 2014, ICTSI pre-terminated its long-term notes with the Company in light of the prepayment provisions in the contract.

The following is a reconciliation of the changes in allowance for impairment losses for accounts receivable:

	2014	2013
As of January 1	<b>₱2,849,528</b>	₱7,645,312
Charge (reversal) for the year (Note 23)	<b>1,000,000</b>	(4,795,784)
As of December 31	<b>₱3,849,528</b>	₱2,849,528

The following table presents the breakdown of loans and receivables by contractual maturity dates as of December 31, 2014 and 2013:

	2014				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Accounts receivable	<b>₱101,616,926</b>	<b>₱56,124,737</b>	<b>₱-</b>	<b>₱-</b>	<b>₱157,741,663</b>
Car financing loans	<b>2,388,454</b>	<b>4,140,558</b>	<b>1,466,198</b>	<b>13,993,933</b>	<b>21,989,143</b>
Mortgage loans	<b>134,328</b>	<b>189,755</b>	<b>3,919,991</b>	<b>14,557,381</b>	<b>18,801,455</b>
Long-term investments	-	<b>10,000,000</b>	-	-	<b>10,000,000</b>
Short-term investments	<b>2,583,512</b>	-	-	-	<b>2,583,512</b>
Total	<b>₱106,723,220</b>	<b>₱70,455,050</b>	<b>₱5,386,189</b>	<b>₱28,551,314</b>	<b>₱211,115,773</b>

  

	2013				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Accounts receivable	₱52,907,282	₱3,119,344	₱-	₱-	₱56,026,626
Long-term notes	500,000	47,000,000	-	-	47,500,000
Car financing loans	83,846	2,706,986	5,773,843	7,014,593	15,579,268
Mortgage loans	-	-	3,127,525	12,262,417	15,389,942
Long-term investments	-	-	10,000,000	-	10,000,000
Short-term investments	1,505,743	-	-	-	1,505,743
Total	₱54,996,871	₱52,826,330	₱18,901,368	₱19,277,010	₱146,001,579

## 7. Accrued Income

This account consists of:

	2014	2013
Accrued interest income	<b>₱20,175,556</b>	₱20,880,071
Accrued dividends	<b>2,583,334</b>	2,583,334
Accrued rent	<b>29,316</b>	29,316
	<b>₱22,788,206</b>	₱23,492,721

Accrued interest income pertains mainly to interest accrued arising from cash equivalents, long-term investments, long-term notes, investments in government securities, corporate bonds and notes.

\* SGVFS012268 \*

Accrued dividends pertain to dividends accruing from its investments in preferred shares. The preferred shares earn dividends ranging from 8.00% to 8.88% in 2014 and 2013.

Accrued rent pertains to adjustments on rentals from tenants on office spaces which are normally on 30-day terms.

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## 8. Reinsurance Assets

This account consists of:

	2014	2013
Reinsurance recoverable on unpaid losses (Note 15)	<b>P1,837,276,991</b>	P1,876,758,685
Reinsurance premiums reserve (Note 15)	<b>316,106,247</b>	192,930,684
	<b>P2,153,383,238</b>	P2,069,689,369

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## 9. Deferred Acquisition Costs and Deferred Reinsurance Commissions

### *Deferred Acquisition Costs*

The rollforward analysis of this account follows:

	2014	2013
At beginning of the year	<b>P277,205,135</b>	P277,768,553
Cost deferred during the year	<b>508,525,644</b>	549,464,073
Amortization during the year	<b>(583,828,741)</b>	(550,027,491)
At end of the year	<b>P201,902,038</b>	P277,205,135

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### *Deferred Reinsurance Commissions*

The rollforward analysis of this account follows:

	2014	2013
At beginning of the year	<b>P33,146,033</b>	P35,862,791
Income deferred during the year	<b>116,298,368</b>	85,355,548
Amortization during the year	<b>(102,474,338)</b>	(88,072,306)
At end of the year	<b>P46,970,063</b>	P33,146,033

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# 10. Investment Property - net

The rollforward analysis of this account follows:

	2014	2013
Acquisition cost	<b>₱21,742,307</b>	₱21,742,307
Accumulated depreciation:		
At beginning of year	<b>4,721,523</b>	4,286,623
Depreciation (Note 23)	<b>434,900</b>	434,900
At end of year	<b>5,156,423</b>	4,721,523
Net book value	<b>₱16,585,884</b>	₱17,020,784

Rental income earned from investment property amounted to ₱2,404,035 and ₱2,290,748 in 2014 and 2013, which is included in investment income (Notes 20 and 32).

As of December 31, 2014, the estimated fair value of this property amounted to ₱17,194,000.

The valuation was performed by an independent appraiser.

The value of the property was arrived at by the *Market Data Approach*. In this approach, the value of the property was based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was 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 of the subject property. Our comparison was premised on the factors of location, size and shape of the condominium unit, facilities offered, architectural quality, and time element.

The Company classifies its investment property under level 3 of the fair value hierarchy.

# 11. Property and Equipment - net

The rollforward analysis of this account follows:

## 2014

	Building and Building Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Total
<b>Cost</b>					
As of January 1, 2014	<b>₱118,701,948</b>	<b>₱142,909,605</b>	<b>₱31,279,875</b>	<b>₱53,421,575</b>	<b>₱346,313,003</b>
Additions	1,671,296	19,056,518	7,376,473	6,809,077	34,913,364
Disposals	—	(1,180,295)	(4,047,208)	(738,926)	(5,966,429)
<b>As of December 31, 2014</b>	<b>120,373,244</b>	<b>160,785,828</b>	<b>34,609,140</b>	<b>59,491,726</b>	<b>375,259,938</b>
<b>Accumulated Depreciation and Amortization</b>					
As of January 1, 2014	<b>46,460,572</b>	<b>75,571,872</b>	<b>12,010,648</b>	<b>22,122,608</b>	<b>156,165,700</b>
Depreciation and amortization (Note 23)	4,291,023	21,080,483	8,888,034	8,497,694	42,757,234
Disposals	—	(1,180,295)	(3,422,837)	(738,926)	(5,342,058)
<b>As of December 31, 2014</b>	<b>50,751,595</b>	<b>95,472,060</b>	<b>17,475,845</b>	<b>29,881,376</b>	<b>193,580,876</b>
<b>Net Book Value as of December 31, 2014</b>	<b>₱69,621,649</b>	<b>₱65,313,768</b>	<b>₱17,133,295</b>	<b>₱29,610,350</b>	<b>₱181,679,062</b>

\* SGVFS012268 \*

## 2013

	Building and Building Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Total
<b>Cost</b>					
As of January 1, 2013	P117,091,416	P132,749,842	P30,115,776	P35,673,336	P315,630,370
Additions	1,610,532	32,849,641	8,610,622	17,748,239	60,819,034
Disposals	—	(22,689,878)	(7,446,523)	—	(30,136,401)
<b>As of December 31, 2013</b>	<b>118,701,948</b>	<b>142,909,605</b>	<b>31,279,875</b>	<b>53,421,575</b>	<b>346,313,003</b>
<b>Accumulated Depreciation and Amortization</b>					
As of January 1, 2013	42,174,666	81,193,063	10,412,479	15,038,223	148,818,431
Depreciation and amortization (Note 23)	4,285,906	17,068,685	9,044,694	7,084,385	37,483,670
Disposals	—	(22,689,876)	(7,446,525)	—	(30,136,401)
<b>As of December 31, 2013</b>	<b>46,460,572</b>	<b>75,571,872</b>	<b>12,010,648</b>	<b>22,122,608</b>	<b>156,165,700</b>
<b>Net Book Value as of December 31, 2013</b>	<b>P72,241,376</b>	<b>P67,337,733</b>	<b>P19,269,227</b>	<b>P31,298,967</b>	<b>P190,147,303</b>

Fully depreciated assets that are still actively used amounted to P29,925,481 and P22,675,321 as of December 31, 2014 and 2013, respectively.

## 12. Goodwill

The goodwill arose from the merger of the Company with Insular General Insurance Co., Inc. (Insular General) in 2005. The recoverable amount of goodwill has been determined using the value in use approach. Value in use was based on the cash flow projections on the most recent financial forecasts approved by senior management which are management's best estimate of the ranges of economic conditions covering a five (5)-year period. The pre-tax discount rate applied to cash flow projections is 4.95% and 5.65% in 2014 and 2013, respectively, plus return on equity and cash flows beyond the five (5)-year period are extrapolated using a steady growth rate. As of December 31, 2014 and 2013, the recoverable amount is higher than the carrying amount of the cash-generating unit (Insular General). As such, no impairment is recognized as of December 31, 2014 and 2013.

## 13. Other Assets

This account consists of:

	2014	2013
Prepaid assets	<b>P56,585,189</b>	P12,664,024
Input value-added tax (VAT)	<b>33,504,868</b>	34,270,638
Creditable withholding taxes	<b>18,503,943</b>	13,349,102
Security deposits (Note 29)	<b>7,923,478</b>	7,822,495
Documentary stamps inventory	<b>4,741,277</b>	4,392,650
Others	<b>9,261,340</b>	6,593,731
	<b>P130,520,095</b>	P79,092,640

The prepaid assets pertain to advance payments to various suppliers and service providers.

The input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Creditable withholding taxes represent the taxes withheld at source by the counterparty which can be applied against future income tax liability.

**\* SGVFS012268 \***

The security deposits represent advance rentals on operating leases and will be refunded to the Company within thirty (30) to sixty (60) days upon termination of the corresponding lease contracts (Note 32).

The other assets pertain to deposits for electricity, water and telephone utilities.

#### 14. Trade and Other Liabilities

This account consists of:

	2014	2013
Accounts payable	<b>P90,891,001</b>	P81,697,040
Other taxes payable	<b>67,545,013</b>	38,577,056
Output VAT	<b>48,599,560</b>	45,175,919
Dividends payable (Note 18)	<b>22,970,318</b>	470,318
Accrued expenses	<b>2,157,293</b>	16,681,592
Others	–	32,821
	<b>P232,163,185</b>	P182,634,746

All liabilities are expected to be settled within twelve (12) months after the reporting date.

Other taxes payable consists primarily of documentary stamp tax, expanded withholding tax and local government tax.

Accounts payable consists of collateral bonds from policyholders, rental deposits, unpaid utility bills and fees.

Accrued expenses mainly include unpaid employee benefits and accrued rentals.

#### 15. Insurance Contract Liabilities and Reinsurance Assets

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

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2014	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2013
Provision for claims reported	<b>P1,392,014,226</b>	<b>P1,049,377,341</b>	<b>P342,636,885</b>	P2,230,417,145	P1,841,366,419	P389,050,726
Provision for IBNR claims	<b>829,200,714</b>	<b>787,899,650</b>	<b>41,301,064</b>	95,820,773	35,392,266	60,428,507
Total claims reported and IBNR	<b>2,221,214,940</b>	<b>1,837,276,991</b>	<b>383,937,949</b>	2,326,237,918	1,876,758,685	449,479,233
Provision for unearned premiums	<b>1,055,965,870</b>	<b>316,106,247</b>	<b>739,859,623</b>	980,197,616	192,930,684	787,266,932
<b>Total insurance contract liabilities</b>	<b>P3,277,180,810</b>	<b>P2,153,383,238</b>	<b>P1,123,797,572</b>	<b>P3,306,435,534</b>	<b>P2,069,689,369</b>	<b>P1,236,746,165</b>

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

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2014	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2013
At beginning of the year	<b>P2,326,237,918</b>	<b>P1,876,758,685</b>	<b>P449,479,233</b>	P1,195,890,404	P887,123,169	P308,767,235
Claims incurred during the year	<b>1,777,122,648</b>	<b>1,215,805,326</b>	<b>561,317,322</b>	1,840,150,368	1,153,850,827	686,299,541
Claims paid - net of recoveries (Note 21)	<b>(2,615,525,567)</b>	<b>(2,007,794,404)</b>	<b>(607,731,163)</b>	(736,911,104)	(165,956,284)	(570,954,820)
Increase in IBNR (Note 21)	<b>733,379,941</b>	<b>752,507,384</b>	<b>(19,127,443)</b>	27,108,250	1,740,973	25,367,277
<b>At end of the year</b>	<b>P2,221,214,940</b>	<b>P1,837,276,991</b>	<b>P383,937,949</b>	<b>P2,326,237,918</b>	<b>P1,876,758,685</b>	<b>P449,479,233</b>

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Provision for unearned premiums may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2014	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2013
At beginning of the year	<b>P980,197,616</b>	<b>P192,930,684</b>	<b>P787,266,932</b>	P975,305,245	P160,683,072	P814,622,173
New policies written during the year (Note 19)	<b>2,164,845,482</b>	<b>793,461,857</b>	<b>1,371,383,625</b>	2,007,866,918	567,957,416	1,439,909,502
Premiums earned during the year (Note 19)	<b>(2,089,077,228)</b>	<b>(670,286,294)</b>	<b>(1,418,790,934)</b>	(2,002,974,547)	(535,709,804)	(1,467,264,743)
<b>At end of the year</b>	<b>P1,055,965,870</b>	<b>P316,106,247</b>	<b>P739,859,623</b>	P980,197,616	P192,930,684	P787,266,932

## 16. Insurance Payables

This account consists of:

	2014	2013
Due to reinsurers (Note 30)	<b>P431,994,746</b>	P169,205,228
Funds held for reinsurers	<b>102,543,491</b>	95,241,385
	<b>P534,538,237</b>	P264,446,613

The rollforward analysis of insurance payables follows:

	Due to Reinsurers	Funds held for reinsurers	Total
At January 1, 2013	P89,346,045	P78,978,020	P168,324,065
Arising during the year	279,623,065	95,241,385	374,864,450
Utilized	(199,763,882)	(78,978,020)	(278,741,902)
At December 31, 2013	169,205,228	95,241,385	264,446,613
Arising during the year	554,071,573	102,543,491	656,615,064
Utilized	(291,282,055)	(95,241,385)	(386,523,440)
<b>At December 31, 2014</b>	<b>P431,994,746</b>	<b>P102,543,491</b>	<b>P534,538,237</b>

## 17. Insurance Contract Liabilities and Reinsurance Assets - Terms, Assumptions and Sensitivities

### Terms and Conditions

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

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

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

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

#### *Assumptions*

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include variation in interest, delays in settlement and changes in foreign currency rates.

#### *Sensitivities*

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain variables such as legislative change and uncertainty in the estimation process 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 claim 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 table below indicates the impact of changes in certain key assumptions in respect of general insurance business while other assumptions remain unchanged.

#### **2014**

	<b>Change in Assumption %</b>	<b>Impact on Insurance Contract Liabilities (net of Reinsurance Assets)</b>	<b>Impact on Profit Before Tax</b>
Average claim costs	5.62%	₱26,973,943	(₱26,973,943)
Average number of claims	(0.17%)	(624,556)	624,556
Period of settlement	Within 12 months		

#### **2013**

	<b>Change in Assumption %</b>	<b>Impact on Insurance Contract Liabilities (net of Reinsurance Assets)</b>	<b>Impact on Profit Before Tax</b>
Average claim costs	13.30%	₱49,484,393	(₱49,484,393)
Average number of claims	9.58%	35,660,113	(35,660,113)
Period of settlement	Within 12 months		

*Loss Development Tables*

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis:

Accident year	2002 and prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Estimate of ultimate claim costs														
At the end of accident year	P159,855,276	P185,719,867	P344,687,223	P277,461,829	P682,536,056	P491,237,990	P555,641,559	P659,479,570	P515,391,998	P642,863,378	P728,854,274	P1,858,997,896	P1,572,774,474	P1,572,774,474
One year later	257,955,362	287,332,810	497,717,383	370,955,414	647,103,592	435,912,000	466,986,924	1,128,760,022	892,833,942	1,239,747,137	752,809,387	3,304,397,744	–	3,304,397,744
Two years later	267,510,523	297,577,702	503,415,553	354,773,590	611,671,129	442,286,674	473,543,194	1,138,970,687	1,802,697,282	1,205,732,582	670,064,893	–	–	670,064,893
Three years later	267,954,394	296,947,238	500,872,498	338,591,767	594,923,713	442,473,542	526,907,413	1,125,912,547	1,800,951,056	1,208,426,445	–	–	–	1,208,426,445
Four years later	267,328,143	298,027,330	498,329,442	313,948,446	596,066,445	422,926,881	526,885,869	1,143,511,740	1,797,587,290	–	–	–	–	1,797,587,290
Five years later	149,030,058	297,524,095	498,383,528	313,944,081	594,990,142	421,168,354	527,652,988	735,052,347	–	–	–	–	–	735,052,347
Six years later	101,079,661	297,967,390	498,178,267	304,101,091	594,925,866	421,283,185	514,874,333	–	–	–	–	–	–	514,874,333
Seven years later	101,214,020	298,394,591	498,427,267	302,189,085	595,417,149	421,158,686	–	–	–	–	–	–	–	421,158,686
Eight years later	101,411,085	298,420,367	498,436,387	303,275,751	594,395,375	–	–	–	–	–	–	–	–	594,395,375
Nine years later	101,416,085	298,334,957	498,436,387	301,375,751	–	–	–	–	–	–	–	–	–	301,375,751
Ten years later	101,416,085	298,334,957	498,463,371	–	–	–	–	–	–	–	–	–	–	498,463,371
Eleven years later	101,423,385	298,334,957	–	–	–	–	–	–	–	–	–	–	–	298,334,957
Twelve years later	101,423,385	–	–	–	–	–	–	–	–	–	–	–	–	101,423,385
Current estimate of cumulative claims	101,423,385	298,334,957	498,463,371	301,375,751	594,395,375	421,158,686	514,874,333	735,052,347	1,797,587,290	1,208,426,445	670,064,893	3,304,397,744	1,572,774,474	12,018,329,052
Cumulative payments to date	101,423,385	298,334,957	498,463,371	292,401,905	583,287,510	419,511,770	447,708,238	720,181,085	1,751,211,867	1,173,991,585	601,439,895	2,534,463,792	374,694,751	9,797,114,112
Total gross insurance liability in the statement of financial position	P–	P–	P–	P8,973,846	P11,107,865	P1,646,916	P67,166,095	P14,871,262	P46,375,423	P34,434,860	P68,624,998	P769,933,952	P1,198,079,723	P2,221,214,940

At Net

Accident year	2002 and prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Estimate of ultimate claim costs														
At the end of accident year	P141,295,488	P136,278,902	P179,302,653	P249,364,691	P312,325,941	P361,595,928	P398,113,064	P414,109,113	P372,190,374	P479,922,860	P424,939,841	P666,565,556	P593,362,848	P593,362,848
One year later	137,291,078	130,790,709	288,234,334	251,125,479	283,328,675	324,283,112	356,764,683	472,130,317	351,581,420	997,538,801	478,751,084	594,595,312	–	594,595,312
Two years later	140,614,138	135,076,060	290,225,203	251,723,513	277,957,678	332,700,341	363,501,880	485,845,050	353,518,766	990,902,331	440,452,474	–	–	440,452,474
Three years later	140,699,206	135,412,652	289,324,779	252,905,960	278,656,607	337,642,087	373,730,900	491,791,878	353,776,795	995,202,360	–	–	–	995,202,360
Four years later	86,459,901	136,283,085	288,380,905	248,053,085	279,648,203	338,856,291	373,853,997	487,467,157	354,021,083	–	–	–	–	354,021,083
Five years later	55,789,748	136,765,271	288,384,494	248,048,720	280,021,683	338,313,036	374,761,255	478,205,318	–	–	–	–	–	478,205,318
Six years later	43,206,528	137,082,677	288,402,796	238,194,631	279,998,658	338,356,287	374,374,830	–	–	–	–	–	–	374,374,830
Seven years later	43,278,979	137,179,504	288,651,796	237,355,069	280,482,823	337,964,645	–	–	–	–	–	–	–	337,964,645
Eight years later	43,254,773	137,205,280	288,660,916	237,906,277	280,169,962	–	–	–	–	–	–	–	–	280,169,962
Nine years later	43,279,444	137,290,690	288,660,916	237,876,277	–	–	–	–	–	–	–	–	–	237,876,277
Ten years later	43,279,444	137,290,690	288,687,900	–	–	–	–	–	–	–	–	–	–	288,687,900
Eleven years later	43,286,744	137,290,690	–	–	–	–	–	–	–	–	–	–	–	137,290,690
Twelve years later	43,286,744	–	–	–	–	–	–	–	–	–	–	–	–	43,286,744
Current estimate of cumulative claims	43,286,744	137,290,690	288,687,900	237,876,277	280,169,962	337,964,645	374,374,830	478,205,318	354,021,083	995,202,360	440,452,474	594,595,312	593,362,848	5,155,490,442
Cumulative payments to date	43,286,744	137,290,690	288,687,900	229,040,344	277,608,879	337,351,898	356,031,067	475,629,927	351,532,052	991,800,979	432,931,388	529,687,959	320,672,666	4,771,552,493
Total net insurance liability in the statement of financial position	P–	P–	P–	P8,835,933	P2,561,083	P612,747	P18,343,763	P2,575,391	P2,489,031	P3,401,381	P7,521,086	P64,907,353	P272,690,182	P383,937,949

## 18. Equity

### Capital stock

The Company has 10,000,000 shares of authorized capital stock at ₱50 par value, all of which are issued and outstanding as of December 31, 2014 and 2013.

### Cash Dividends

The Company's BOD approved and ratified the declaration of cash dividends as follows:

	2014	2013
Date of approval	March 24	March 25
Date of declaration	March 24	March 25
Number of stockholders as of dividend declaration	16	16
Dividend per share	₱2.25	₱12.00
Total amount	₱22,500,000	₱120,000,000
Dividends paid	₱-	₱119,926,164
Dividends payable (Note 14)	₱22,970,318	₱470,318

### *Policy on dividends*

The Company intends to declare annual cash dividends subject to availability of retained earnings and operational requirements and approval from the Office of the Insurance Commission.

## 19. Net Earned Insurance Premiums

Details of gross earned premiums on insurance contracts follow:

	2014	2013
Insurance contract premiums revenue:		
Direct insurance	₱2,050,311,584	₱1,792,395,624
Assumed reinsurance	114,533,898	215,471,294
Total insurance contract premiums revenue (Note 15)	2,164,845,482	2,007,866,918
Gross change in unearned premiums provision	(75,768,254)	(4,892,371)
<b>Total gross earned premiums on insurance contracts (Note 15)</b>	<b>₱2,089,077,228</b>	<b>₱2,002,974,547</b>

Details of reinsurers' share of gross earned premiums on insurance contracts follow:

	2014	2013
Reinsurers' share of insurance contract premiums revenue:		
Direct insurance	₱700,836,745	₱481,210,458
Assumed reinsurance	92,625,112	86,746,958
Total reinsurers' share of insurance contract premiums revenue (Notes 15 and 30)	793,461,857	567,957,416
Reinsurers' share of gross change in unearned premiums provision	(123,175,563)	(32,247,612)
<b>Total reinsurers' share of gross earned premiums on insurance contracts (Note 15)</b>	<b>670,286,294</b>	<b>535,709,804</b>
<b>Net earned insurance premiums</b>	<b>₱1,418,790,934</b>	<b>₱1,467,264,743</b>

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## 20. Investment Income - net

This account consists of:

	2014	2013
Interest income on:		
Debt securities	<b>P83,507,701</b>	P78,747,902
Loans and receivables	<b>7,909,997</b>	6,998,158
Cash and cash equivalents (Note 4)	<b>3,497,857</b>	5,792,123
Funds held by ceding companies	<b>650,437</b>	629,520
Gain on sale of AFS financial assets (Note 6)	<b>22,738,443</b>	33,500,222
Dividend income	<b>9,323,923</b>	16,250,217
Rental income (Notes 10 and 32)	<b>2,404,035</b>	2,290,748
Other expenses - net	<b>(902,197)</b>	(778,690)
	<b>P129,130,196</b>	P143,430,200

## 21. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid:

	2014	2013
Direct insurance	<b>P2,546,029,688</b>	P642,681,268
Assumed reinsurance	<b>69,495,879</b>	94,229,836
<b>Total insurance contract benefits and claims paid (Note 15)</b>	<b>P2,615,525,567</b>	P736,911,104

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

	2014	2013
Direct insurance	<b>P1,957,746,375</b>	P119,458,645
Assumed reinsurance	<b>50,048,029</b>	46,497,639
<b>Total reinsurers' share of insurance contract benefits and claims paid (Note 15)</b>	<b>P2,007,794,404</b>	P165,956,284

Gross change in insurance contract liabilities:

	2014	2013
Direct insurance	<b>(P814,001,670)</b>	P1,127,936,231
Assumed reinsurance	<b>(24,401,249)</b>	(24,696,967)
Change in provision for IBNR claims (Note 15)	<b>733,379,941</b>	27,108,250
<b>Total gross change in insurance contract liabilities</b>	<b>(P105,022,978)</b>	P1,130,347,514

Reinsurers' share of gross change in insurance contract liabilities:

	2014	2013
Direct insurance	(P758,764,928)	P1,006,127,398
Assumed reinsurance	(33,224,150)	(18,232,855)
Change in provision for IBNR (Note 15)	752,507,384	1,740,973
<b>Total reinsurers' share of gross change in insurance contract liabilities</b>	<b>(P39,481,694)</b>	<b>P989,635,516</b>

## 22. Finance Costs

This account consists of:

	2014	2013
Interest expense on bank accounts	P2,594,383	P4,086,801
Net interest cost on pension obligation (Note 25)	341,180	1,564,489
	<b>P2,935,563</b>	<b>P5,651,290</b>

## 23. General and Administrative Expenses

This account consists of:

	2014	2013
Salaries and benefits (Note 26)	P231,477,797	P206,977,971
Depreciation and amortization (Notes 10 and 11)	43,192,134	37,918,571
Professional and other fees	27,286,186	21,947,224
Rent (Note 32)	27,070,200	24,543,310
Advertising and promotions	22,114,646	9,871,420
Current service cost on pension obligation (Notes 25 and 26)	17,903,945	20,114,022
Communications	17,758,395	19,346,303
Transportation and travel	15,053,966	15,030,662
Repairs and maintenance	12,642,715	9,916,973
Provision for impairment losses (Notes 5 and 6)	10,000,000	–
Scholarship and training	9,963,288	5,804,563
Light and water	9,134,436	9,986,041
Stationery and supplies	6,624,209	7,328,813
Taxes and licenses	4,156,792	2,367,042
Entertainment, amusement and recreation	1,925,597	1,536,506
Insurance	1,657,825	2,845,766
Books and periodicals	1,123,440	746,170
Donations	792,023	1,207,852
Others	108,879	56,834
	<b>P459,986,473</b>	<b>P397,546,043</b>

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## 24. Service Fees

This account consists mainly of road assistance service fees from Ibero Asistencia amounting to ₱22,264,503 and ₱29,112,574 as of December 31, 2014 and 2013, respectively.

## 25. Pension Benefit Obligation

The Company has a funded defined benefit plan, covering substantially all of its employees, which requires contribution to be made to administered funds. The plan is administered by a local bank as trustee.

The following tables summarize the components of benefit expense recognized in the statements of income and the unfunded status recognized in the statement of financial position for the plan:

Benefits expense included under general and administrative expenses and finance costs follow:

	2014	2013
Current service cost (Note 23)	<b>₱17,903,945</b>	₱20,114,022
Net interest cost (Note 22)	<b>341,180</b>	1,564,489
Benefits expense	<b>₱18,245,125</b>	₱21,678,511
Actual return on plan assets	<b>₱6,013,666</b>	₱15,619,287

Actuarial loss (gain) to be recognized in OCI:

	2014	2013
Due to change in financial assumptions	<b>₱1,804,018</b>	(₱23,626,210)
Due to experience	<b>4,725,812</b>	13,483,145
Actuarial loss (gain) on obligation	<b>₱6,529,830</b>	(₱10,143,065)
Return on assets (excluding amount included in net interest cost)	<b>808,997</b>	(9,699,391)
Total amount to be recognized in OCI	<b>₱7,338,827</b>	(₱19,842,456)

The amounts of net pension obligation recognized in the statements of financial position follow:

	2014	2013
Present value of benefit obligation	<b>₱160,076,369</b>	₱152,098,583
Fair value of plan assets	<b>151,248,673</b>	144,854,839
Net pension obligation	<b>₱8,827,696</b>	₱7,243,744

The movements in net pension obligation follow:

	2014	2013
At beginning of year	<b>₱7,243,744</b>	₱29,407,689
Benefits expense	<b>18,245,125</b>	21,678,511
Actuarial loss (gain) recognized in OCI	<b>7,338,827</b>	(19,842,456)
Contribution	<b>(24,000,000)</b>	(24,000,000)
At end of year	<b>₱8,827,696</b>	₱7,243,744

Changes in the present value of the defined benefit obligation follow:

	2014	2013
At beginning of year	<b>₱152,098,583</b>	₱140,683,931
Current service cost	<b>17,903,945</b>	20,114,022
Interest cost	<b>7,163,843</b>	7,484,385
Benefits paid	<b>(23,619,832)</b>	(6,040,690)
Actuarial loss (gain) on obligation	<b>6,529,830</b>	(10,143,065)
At end of year	<b>₱160,076,369</b>	₱152,098,583

Changes in the fair value of plan assets follow:

	2014	2013
At beginning of year	<b>₱144,854,839</b>	₱111,276,242
Interest income	<b>6,822,663</b>	5,919,896
Contributions by employer	<b>24,000,000</b>	24,000,000
Benefits paid	<b>(23,619,832)</b>	(6,040,690)
Actuarial gain (loss) on plan assets	<b>(808,997)</b>	9,699,391
At end of year	<b>₱151,248,673</b>	₱144,854,839

The Company expects to contribute ₱20,000,000 to its retirement fund in 2015.

The distribution of the plan assets at year end follows:

	2014	2013
<b>Assets</b>		
Cash	<b>₱88</b>	₱128
Investments	<b>167,853,595</b>	144,964,328
Receivables	<b>–</b>	74,582
	<b>167,853,683</b>	145,039,038
<b>Liabilities</b>		
Trust fee payable	<b>211,284</b>	184,199
Other payable	<b>16,393,726</b>	–
	<b>16,605,010</b>	184,199
	<b>₱151,248,673</b>	₱144,854,839

The carrying amounts disclosed above reasonably approximate fair value at year-end.

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

	2014	2013
Discount rate	<b>4.50%</b>	4.71%
Rate of salary increase	<b>4.09%</b>	4.20%

Below shows the sensitivity analysis, determined based on reasonably possible changes of each significant assumptions stated above, assuming all other assumptions were held constant:

	December 31, 2014			
	Discount Rate		Salary Increase Rate	
	+0.5%	-0.5%	+1.0%	-1.0%
<b>Increase (decrease) in net pension obligation</b>	<b>(P8,059,245)</b>	<b>P9,691,251</b>	<b>P20,295,645</b>	<b>(P14,165,607)</b>

  

	December 31, 2013			
	Discount Rate		Salary Increase Rate	
	+0.5%	-0.5%	+1.0%	-1.0%
<b>Increase (decrease) in net pension obligation</b>	<b>(P7,359,898)</b>	<b>P9,373,756</b>	<b>P19,641,106</b>	<b>(P12,761,933)</b>

#### *Maturity profile*

Shown below is the maturity analysis of the undiscounted benefits payments as of the end of the reporting period:

Less than one (1) year	P-
More than one (1) year to five (5) years	6,227,664
More than five (5) years to 10 years	69,815,181
More than 10 years to 15 years	64,552,431
More than 15 years to 20 years	201,965,677
More than 20 years	2,589,330,266
<b>Total</b>	<b>P2,931,891,219</b>

The average duration of the defined benefit obligation at the end of the reporting period is 24 years.

## 26. Personnel Expenses

	2014	2013
Salaries and wages	<b>P160,532,280</b>	P141,668,546
Others benefits and allowances	<b>70,945,517</b>	65,309,425
Total salaries and benefits (Note 23)	<b>231,477,797</b>	206,977,971
Current service cost on pension obligation (Notes 23 and 25)	<b>17,903,945</b>	20,114,022
	<b>P249,381,742</b>	P227,091,993

## 27. Income Tax

The provision for (benefit from) income tax consists of:

	2014	2013
Final tax	<b>P18,763,493</b>	P17,173,447
Corporate income tax	<b>9,691,157</b>	4,338,835
Current tax	<b>28,454,650</b>	21,512,282
Deferred tax	<b>(46,562,286)</b>	(12,968,067)
	<b>(P18,107,636)</b>	P8,544,215

\* SGVFS012268 \*

### Deferred Tax

The Company's net deferred tax assets (liabilities) consist of:

	2014	2013
Deferred tax assets on:		
Excess of unearned premiums per tax over per books basis – net	<b>P21,274,525</b>	<b>P–</b>
Deferred reinsurance commissions	<b>14,091,019</b>	9,943,810
Provision for IBNR claims	<b>12,390,319</b>	18,128,552
Allowance for impairment losses	<b>10,118,594</b>	7,118,594
Unamortized past service cost	<b>7,457,694</b>	6,938,225
Pension obligation	<b>2,648,309</b>	2,173,123
Accrued rent expense	<b>647,188</b>	506,430
Excess MCIT	<b>14,850,601</b>	8,767,149
Accrued long-term employee benefits	–	4,498,048
	<b>83,478,249</b>	58,073,931
Deferred tax liabilities on:		
Deferred acquisition costs	<b>60,570,611</b>	83,161,541
Accrued rent income	<b>8,795</b>	8,795
Excess of unearned premiums per tax over per books basis - net	–	768,686
	<b>60,579,406</b>	83,939,022
Net deferred tax assets (liabilities)	<b>P22,898,843</b>	(P25,865,091)

Movements in net deferred tax assets (liabilities) comprise of:

	2014	2013
At beginning of the year	(P25,865,091)	(P32,880,421)
Amounts credited to statements of income	<b>46,652,286</b>	12,968,067
Amounts credited to (charged against) statement of comprehensive income	<b>2,201,648</b>	(5,952,737)
At end of the year	<b>P22,988,843</b>	(P25,865,091)

As of December 31, 2014, details of Excess MCIT which can be claimed as deduction from future taxable income follow:

Year incurred	Year of expiry	Excess MCIT
2014	2017	P6,083,452
2013	2016	4,338,835
2012	2015	4,428,314
		<b>P14,850,601</b>

The movements in recognized Excess MCIT are as follows:

	2014	2013
At January 1	<b>P8,767,149</b>	P4,428,314
Additions	<b>4,328,101</b>	4,338,835
At December 31	<b>P13,095,250</b>	P8,767,149

\* SGVFS012268 \*

The movements in unrecognized NOLCO are as follows:

	2014	2013
At January 1	<b>₱127,688,656</b>	₱60,496,361
Addition	–	67,192,295
Application	<b>(127,688,656)</b>	–
At December 31	<b>₱–</b>	₱127,688,656

The reconciliation of statutory income tax rate to effective income tax rate is as follows:

	2014	2013
Statutory income tax rate	<b>30.00%</b>	30.00%
Tax effects of:		
Unrecognized deferred tax assets	<b>(30.52)</b>	52.55
Nondeductible expense	–	–
Dividend income	<b>(2.23)</b>	(12.71)
Income already subjected to final tax	<b>(7.25)</b>	(21.37)
Nontaxable income	<b>(6.24)</b>	(26.20)
Effective income tax rate	<b>(14.43%)</b>	22.27%

## 28. Capital Management

The primary objective of the Company's capital management is to ensure that it complies with the IC requirements. The Company also manages its capital structures and promptly makes adjustments to it in light of changes in economic conditions and risk characteristics of the Company's activities.

The IC capital requirements are put in place to ensure sufficient solvency margins. Under existing rules and regulations of the IC, the Company must meet the following requirements: Minimum Statutory Networth Requirements and Risk-Based Capital (RBC).

The Company regularly assesses and changes its level of capital to ensure sufficient solvency margins and to adequately protect the policyholders in accordance with the regulations set by IC.

The BOD, through its Executive Committee, promptly adjusts and considers strategies in order for the Company to maintain the minimum statutory networth requirements.

The BOD also sees to it that the Company complies with the RBC. The Company reports its capital and compliance with IC requirements to the Executive Committee on a monthly basis and to the BOD on a quarterly basis.

During the years 2014 and 2013, the Company fully complied with the IC-imposed Minimum Statutory Networth and RBC requirements; however, it is subject to IC examination.

**Minimum Statutory Network**

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

<b>Networth</b>	<b>Compliance Date</b>
P250,000,000	June 30, 2013
550,000,000	December 31 ,2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

On January 13, 2015, the IC issued the Circular Letter (CL) No. 2015-02-A which provides for the clarification of minimum capital requirements under Sections 194, 197, 200 and 289 of the New Insurance Code. The said circular supersedes the Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008.

The minimum network requirement must remain unimpaired for the continuance of the license.

As of December 31, 2014 and 2013, the estimated statutory net worth of the Company amounted to ₱1,159,756,679 and ₱1,025,050,477, respectively.

**Risk-based Capital Requirements**

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

The RBC ratio shall be calculated as Networth divided by the RBC requirement. Networth shall include the company’s paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of networth only to the extent authorized by the IC. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC Hurdle Rate requirement for a given year to the total number of insurers in the industry.

As of December 31, 2014 and 2013, the Company’s estimated RBC ratio is 93% and 64%, respectively, based on RBC requirements of ₱1,253,750,766 and ₱1,612,889,957, respectively.

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

**\* SGVFS012268 \***



## 29. Financial Risk Management Objectives and Policies and Insurance Risk

The primary objective of the Company's risk management framework is to ensure the sustainable achievement of its financial performance goals and objectives.

The Company, through the quarterly BOD and the monthly Executive Committee meetings, reviews and assesses the different financial risks it is exposed to. It promptly aligns its management strategies to properly manage these risk exposures. These normally include identification of related risks and their interpretation, and setting up of appropriate limit structures to ensure the suitable quality and diversification of assets.

The main risks arising from the use of financial instruments are market risk (consisting of foreign currency risk, interest rate risk, and price risk), credit risk and liquidity risk. The Chief Financial Officer is tasked to identify, monitor, analyze, control, and report financial risks.

### Fair Value Financial Assets and Liabilities

The following table sets forth the carrying values and estimated fair values of financial assets recognized as of December 31, 2014 and 2013. There are no material unrecognized financial assets as of December 31, 2014 and 2013.

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>FINANCIAL ASSETS</b>				
<b>Cash and cash equivalents</b>	<b>₱536,137,614</b>	<b>₱536,137,614</b>	₱234,719,056	₱234,719,056
<b>Insurance receivables – net</b>				
Premiums receivable	616,116,281	616,116,281	375,094,240	375,094,240
Reinsurance recoverable on paid losses	136,588,871	136,588,871	115,579,124	115,579,124
Due from ceding companies	15,714,466	15,714,466	19,235,168	19,235,168
Due from brokers	56,954,828	56,954,828	39,715,314	39,715,314
	<b>825,374,446</b>	<b>825,374,446</b>	549,623,846	549,623,846
<b>AFS financial assets</b>				
Equity securities				
Listed and club shares	215,832,282	215,832,282	205,195,310	205,195,310
Unlisted	222,000	222,000	519,738	519,738
Government debt securities				
Local currency	673,092,861	673,092,861	792,897,071	792,897,071
Bonds and notes				
Local currency	475,489,594	475,489,594	669,010,384	669,010,384
Foreign currency	33,032,830	33,032,830	32,491,191	32,491,191
	<b>1,397,669,567</b>	<b>1,397,669,567</b>	1,700,113,694	1,700,113,694
<b>Loans and receivables - net</b>				
Accounts receivable	153,892,135	153,892,135	53,177,098	53,177,098
Long-term notes	–	–	47,500,000	57,831,535
Mortgage loans	18,801,455	22,356,231	15,389,942	20,496,523
Car financing loans	21,989,143	18,243,232	15,579,268	17,182,416
Long-term investments	10,000,000	15,324,685	10,000,000	15,324,685
Short-term investments	2,583,512	2,583,512	1,505,743	1,505,743
	<b>207,266,245</b>	<b>212,399,795</b>	143,152,051	165,518,000

\* SGVFS012268 \*

<b>Accrued income</b>				
Accrued interest income	<b>P20,175,556</b>	<b>P20,175,556</b>	P20,880,071	P20,880,071
Accrued dividends	<b>2,583,334</b>	<b>2,583,334</b>	2,583,334	2,583,334
Accrued rent	<b>29,316</b>	<b>29,316</b>	29,316	29,316
	<b>22,788,206</b>	<b>22,788,206</b>	23,492,721	23,492,721
<b>Other assets</b>				
Security deposits	<b>7,923,478</b>	<b>7,923,478</b>	7,822,495	7,822,495
<b>Total</b>	<b>P2,997,159,556</b>	<b>P3,002,293,106</b>	P2,658,923,863	P2,681,289,812
<b>OTHER FINANCIAL LIABILITIES</b>				
<b>Insurance Payables</b>				
Due to reinsurer	<b>431,994,746</b>	<b>431,994,746</b>	169,205,228	169,205,228
Funds held for reinsurer	<b>102,543,491</b>	<b>102,543,491</b>	95,241,385	95,241,385
	<b>534,538,237</b>	<b>534,538,237</b>	264,446,613	264,446,613
<b>Trade and other liabilities</b>				
Accounts payable	<b>90,891,001</b>	<b>90,891,001</b>	81,697,040	81,697,040
Accrued expenses	<b>2,157,293</b>	<b>2,157,293</b>	16,681,592	16,681,592
Dividends payable	<b>22,970,318</b>	<b>22,970,318</b>	470,318	470,318
	<b>116,018,612</b>	<b>116,018,612</b>	98,848,950	98,848,950
<b>Total</b>	<b>P650,556,849</b>	<b>P650,556,849</b>	P363,295,563	P363,295,563

Fair values of financial assets are estimated as follows:

	Methods and Assumptions
Cash and cash equivalents, accounts receivables, insurance receivables, short-term investments (shown under loans and receivables), accrued income, security deposits and other financial liabilities	Due to the short-term nature of the instruments, the fair value approximates the carrying amount as of reporting date.
Equity and debt securities (shown under AFS financial assets)	Fair values are based on quoted prices within the bid-offer price range. For unquoted securities, carrying amounts (cost less allowance for impairment losses) approximate fair values due to the unpredictable nature of future cash flows and lack of suitable methods of arriving at reliable fair values.
Mortgage and car financing loans (shown under loans and receivables)	Fair values are estimated using the discounted cash flow technique that makes use of PDS Treasury-Fixing rates. Interest used in the calculations range from 0.52% to 3.19% and from 0.49% to 3.69% in 2014 and 2013, respectively.
Long-term investments (shown under loans and receivables)	Fair values are determined using the discounted cash flow methodology that makes use of PDS Treasury-Fixing rates. Interest used in the calculations range from 0.55% to 4.11% and from 0.52% to 3.09% in 2014 and 2013, respectively.
Long-term notes (shown under loans and receivables)	Fair value is determined using the discounted cash flow methodology that makes use of PDS Treasury-Fixing rates. Interest used in the calculations range from 0.56% to 2.88% in 2013.

*Fair Value Hierarchy*

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of December 31, 2014 and 2013:

**2014**

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Assets measured at fair value:</b>				
<b>AFS financial assets</b>				
Equity securities	<b>P216,054,282</b>	<b>P-</b>	<b>P-</b>	<b>P216,054,282</b>
Debt securities	<b>1,181,615,285</b>	-	-	<b>1,181,615,285</b>
	<b>1,397,669,567</b>	-	-	<b>1,397,669,567</b>
<b>Assets for which fair values are disclosed:</b>				
<b>Loans and receivables</b>				
Mortgage loans	-	<b>22,356,231</b>	-	<b>22,356,231</b>
Car financing loans	-	<b>18,243,232</b>	-	<b>18,243,232</b>
Long-term investments	-	<b>15,324,685</b>	-	<b>15,324,685</b>
	-	<b>55,924,148</b>	-	<b>55,924,148</b>
	<b>P1,397,669,567</b>	<b>P55,924,148</b>	<b>P-</b>	<b>P1,453,593,715</b>

**2013**

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Assets measured at fair value:</b>				
<b>AFS financial assets</b>				
Equity securities	<b>P205,715,048</b>	<b>P-</b>	<b>P-</b>	<b>P205,715,048</b>
Debt securities	<b>1,494,398,646</b>	-	-	<b>1,494,398,646</b>
	<b>1,700,113,694</b>	-	-	<b>1,700,113,694</b>
<b>Assets for which fair values are disclosed:</b>				
<b>Loans and receivables</b>				
Mortgage loans	-	<b>20,496,523</b>	-	<b>20,496,523</b>
Car financing loans	-	<b>17,182,416</b>	-	<b>17,182,416</b>
Long-term investments	-	<b>15,324,685</b>	-	<b>15,324,685</b>
	-	<b>53,003,624</b>	-	<b>53,003,624</b>
	<b>P1,700,113,694</b>	<b>P53,003,624</b>	<b>P-</b>	<b>P1,753,117,318</b>

During the reporting period ended December 31, 2014 and 2013, there were no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

**\* SGVFS012268 \***

### Market Risk

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

Increasing market fluctuations may result in significant impact on the Company's equity, cash flows and profit. Its operating activities as well as its investing and financing activities are affected by changes in foreign exchange rates, interest rates and price risks. Market risks arise from foreign currency denominated financial instruments, AFS debt instruments, as well as from listed equity investments.

The Company manages market risk exposures by setting up limits structures and by promulgating specific investment guidelines and strategies (e.g., investing only in high grade securities and only with reputable foreign reinsurers). The Company only invests in financial institutions or corporate entities with acceptable ratings from domestic and international credit rating agencies, or is at least within the top 15 rank in case of banks. The Company also ensures that its investments shall comply with the guidelines and requirements set out by the IC.

### *Foreign Currency Risk*

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's principal transactions are carried out in Philippine Peso (PHP) and its exposure to foreign currency risk arise primarily with respect to the Company's dealings with foreign reinsurers in its settlement of obligations and receipt of any claim reimbursements, which is denominated in US Dollars (USD).

The table below summarizes the Company's exposure to currency risk on foreign currency-denominated financial assets and their PHP equivalents as follows:

	<b>December 31, 2014</b>	
Financial Assets	<b>USD</b>	<b>PHP</b>
Cash and cash equivalents	<b>\$77,050</b>	<b>₱3,726,038</b>
AFS financial assets		
Bonds and notes	<b>738,659</b>	<b>33,032,830</b>
Accrued interest income	<b>10,761</b>	<b>481,237</b>
<b>Total</b>	<b>\$826,470</b>	<b>₱37,240,105</b>

  

	December 31, 2013	
Financial Assets	USD	PHP
Cash and cash equivalents	\$512,769	₱22,764,391
AFS financial assets		
Bonds and notes	731,866	32,491,191
Accrued interest income	10,761	477,740
<b>Total</b>	<b>\$1,255,396</b>	<b>₱55,733,322</b>

**\* SGVFS012268 \***

The Company used the following foreign exchange rates:

	<b>2014</b>	2013
USD to Peso	<b>P44.72</b>	P44.40

The Company has no foreign currency-denominated financial liabilities as of December 31, 2014 and 2013.

The following table demonstrates the sensitivity to reasonably possible change in foreign exchange rate, with all other variables held constant, of the Company's income before tax and the relative impact on the Company's equity as of December 31, 2014 and 2013:

**2014**

	<b>Change in Exchange Rate</b>	<b>Effect on Income Before Tax</b>	<b>Equity</b>
USD	+5.00%	<b>P1,862,005</b>	<b>P1,303,404</b>
	-5.00%	<b>(1,862,005)</b>	<b>(1,303,404)</b>

**2013**

	<b>Change in Exchange Rate</b>	<b>Effect on Income Before Tax</b>	<b>Equity</b>
USD	+3.64%	P2,028,693	P1,420,085
	-3.64%	(2,028,693)	(1,420,085)

The Company determined the reasonably possible change in foreign currency using the one (1) year volatility of the USD and PHP as this will best represent the movement in foreign exchange rate until the next reporting date.

*Fair Value Interest Rate Risk*

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's floating rate investments and receivables in particular are exposed to fair value risk.

The Company manages its interest rate risk by investing in fixed rate instruments. It also manages the maturities of interest-bearing financial assets and financial liabilities.

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

**2014**

	<b>Range of Interest Rates</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<b>AFS - debt securities</b>					
Government debt securities	5.38% - 9.00%	P134,584,144	P-	P538,508,717	P673,092,861
Bonds and notes	4.88% - 6.75%	130,780,602	20,106,316	357,635,506	508,522,424
<b>Total</b>		<b>P265,364,746</b>	<b>P20,106,316</b>	<b>P896,144,223</b>	<b>P1,181,615,285</b>

\* SGVFS012268 \*

## 2013

	Range of Interest Rates	1-3 Years	3-5 Years	Over 5 Years	Total
AFS - debt securities					
Government debt securities	5.38% - 11.25%	₱129,211,138	₱11,329,336	₱652,356,597	₱792,897,071
Bonds and notes	4.88% - 8.50%	174,148,775	32,491,191	494,861,609	701,501,575
<b>Total</b>		<b>₱303,359,913</b>	<b>₱43,820,527</b>	<b>₱1,147,218,206</b>	<b>₱1,494,398,646</b>

The analysis below is performed for reasonably possible movement of the interest rates (due to changes in fair value of AFS financial assets) with all other variables held constant, showing the impact on equity.

## 2014

	Change in interest rate	Impact on Equity
<b>USD rate</b>	<b>+1.00%</b>	<b>(₱800,353)</b>
	<b>-1.00%</b>	<b>517,692</b>
<b>PHP rate</b>	<b>+1.00%</b>	<b>(₱56,530,207)</b>
	<b>-1.00%</b>	<b>94,753,755</b>

## 2013

	Change in interest rate	Impact on Equity
<b>USD rate</b>	<b>+4.44%</b>	<b>(₱1,127,694)</b>
	<b>-4.44%</b>	<b>185,795</b>
<b>PHP rate</b>	<b>+4.72%</b>	<b>(₱88,425,236)</b>
	<b>-4.72%</b>	<b>48,247,195</b>

### Equity Price Risk

Equity price risk is the risk that future cash flows will fluctuate because of changes in market prices of individual stocks and the changes in the level of Philippine Stock Exchange index (PSEi).

The Company's equity price risk exposure relates to quoted equity shares classified as AFS financial assets.

The table below shows the equity impact of reasonably possible change of PSEi as of December 31, 2014 and 2013.

	Percentage increase (decrease) in equity prices	Effect on Equity
<b>2014</b>	<b>18.50%</b>	<b>₱19,767,531</b>
	<b>-18.50%</b>	<b>(19,767,531)</b>
<b>2013</b>	<b>12.40%</b>	<b>₱16,518,478</b>
	<b>-12.40%</b>	<b>(16,518,478)</b>

The equity impact is arrived at using the reasonably possible change of PSEi and the specific adjusted beta of each stock the Company holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

**\* SGVFS012268 \***

### Credit Risk

Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to meet its contractual obligations. The Company is exposed to credit risk on its cash and cash equivalents, insurance receivables, AFS financial assets, loans and receivables, accrued income and security deposits.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to an annual review.

Guidelines on the level of credit risk are discussed and approved during weekly meetings of the Management Committee and/or monthly meetings of the Executive Committee.

With respect to investment securities, the Company ensures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer.

With regard to loans and receivables, the Company transacts only with recognized, accredited and creditworthy borrowers and counterparties. The Company's Credit and Collection Unit (CCU) manages credit exposure by ensuring that borrowers and counterparties undergo credit verification procedures and by setting standard business terms that are required to be met by all counterparties. CCU also monitors the loans and receivables on a regular basis to determine the Company's appropriate exposure to impairment losses.

The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

### *Maximum Credit Exposure*

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and items such as future commitments. The maximum exposure is shown net of impairment losses, before deducting collaterals.

	2014	2013
Cash and cash equivalents (excluding cash on hand)	<b>₱535,165,950</b>	₱233,613,890
Insurance receivables - net:		
Premiums receivable	<b>616,116,281</b>	375,094,240
Reinsurance recoverable on paid losses	<b>136,588,871</b>	115,579,124
Due from ceding companies	<b>15,714,466</b>	19,235,168
Due from brokers	<b>56,954,828</b>	39,715,314
AFS financial assets:		
Government debt securities		
Local currency	<b>673,092,861</b>	792,897,071
Bonds and notes		
Local currency	<b>475,489,594</b>	669,010,384
Foreign currency	<b>33,032,830</b>	32,491,191
Loans and receivables:		
Accounts receivable	<b>153,892,135</b>	53,177,098
Long-term notes	–	47,500,000
Car financing loans	<b>21,989,143</b>	15,579,268
Mortgage loans	<b>18,801,455</b>	15,389,942

(Forward)

**\* SGVFS012268 \***

	2014	2013
Long-term investments	<b>P10,000,000</b>	P10,000,000
Short-term investments	<b>2,583,512</b>	1,505,743
Accrued income:		
Accrued interest income	<b>20,175,556</b>	20,880,071
Accrued dividends	<b>2,583,334</b>	2,583,334
Accrued rent	<b>29,316</b>	29,316
Security deposits	<b>7,923,478</b>	7,822,495
<b>Total Credit Risk Exposure</b>	<b>P2,780,133,610</b>	P2,452,103,649

### *Credit Quality of Financial Assets*

The tables below provide information of the credit quality of the Company's financial assets that are neither past due nor impaired.

#### a) *AFS financial assets and cash and cash equivalents*

The tables below provide information on the credit quality of AFS financial assets, and cash and cash equivalents that are neither past due nor impaired as of December 31, 2014 and 2013 using the Philippine Rating Services Corporation (PhilRatings) credit ratings of the counterparties. PRS Aaa is the highest possible rating while PRS C is the lowest possible rating.

### **2014**

	PRS Aaa	PRS Ba	PRS B	Not Rated	Total
Cash and cash equivalents					
Cash in banks	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P67,097,533</b>	<b>P67,097,533</b>
Short-term deposits	-	-	-	<b>468,068,417</b>	<b>468,068,417</b>
AFS financial assets					
Government securities					
Local currency	-	<b>673,092,861*</b>	-	-	<b>673,092,861</b>
Bonds and notes					
Local currency		-	<b>475,489,594</b>		<b>475,489,594</b>
Foreign currency	<b>23,488,956</b>	-	-	<b>9,543,874</b>	<b>33,032,830</b>
<b>Total Credit Risk Exposure</b>	<b>P23,488,956</b>	<b>P673,092,861</b>	<b>P475,489,594</b>	<b>P544,709,824</b>	<b>P1,716,781,235</b>

\* The credit ratings are the equivalent to Moody's specific issue credit rating for the same debt securities as of December 31, 2014.

### **2013**

	PRS Aaa	PRS Ba	PRS B	Not Rated	Total
Cash and cash equivalents					
Cash in banks	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P134,216,877</b>	<b>P134,216,877</b>
Short-term deposits	-	-	-	<b>99,397,013</b>	<b>99,397,013</b>
AFS financial assets					
Government securities					
Local currency	-	<b>792,897,071*</b>	-	-	<b>792,897,071</b>
Bonds and notes					
Local currency	<b>608,802,582</b>	-	-	<b>60,207,802</b>	<b>669,010,384</b>
Foreign currency	<b>23,079,451</b>	-	-	<b>9,411,740</b>	<b>32,491,191</b>
<b>Total Credit Risk Exposure</b>	<b>P631,882,033</b>	<b>P792,897,071</b>	<b>P-</b>	<b>P303,233,432</b>	<b>P1,728,012,536</b>

\* The credit ratings are the equivalent to Moody's specific issue credit rating for the same debt securities as of December 31, 2013.

The Company uses a credit rating concept based on the obligors' capacity to pay, as follows:

PRS Aaa-This rating has a smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is secured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

**\* SGVFS012268 \***



PRS Ba- This rating is judged to have speculative elements. The issuer's capability to pay for such issues cannot be considered as well as assured. Often, the protection of interest and principal payments may be very moderate and thereby not well safeguarded during good and bad times over the future.

PRS B- This rating generally lacks characteristics of a desirable investment. Assurance of interest and principal payments or maintenance of other terms of contract over any long period of time may be small.

Bonds and notes that fall under the 'Not Rated column' includes long-term debt securities issued by local and multinational corporations belonging to the top fifty(50) corporations in the Philippines in terms of resources and profitability.

The Company's cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability.

b) *Loans and receivable*

The following table provides information on the credit quality of loans and receivables that are neither past due nor impaired as of December 31, 2014 and 2013.

**2014**

	Neither Past Due nor Impaired			Past Due or Impaired	Total
	Grade A	Grade B	Grade C		
Insurance receivables					
Due from ceding companies	P-	P-	P8,480,995	P10,491,152	P18,972,147
Premiums receivable	-	-	504,475,507	133,653,418	638,128,925
Due from brokers	-	-	41,848,335	16,090,105	57,938,440
Reinsurance recoverable on paid losses	-	-	131,134,848	9,079,203	140,214,051
Mortgage loans	18,801,455	-	-	-	18,801,455
Car financing loans	21,989,143	-	-	-	21,989,143
Long-term investments	-	10,000,000	-	-	10,000,000
Short-term investments	-	2,583,512	-	-	2,583,512
Accounts receivable	-	101,616,926	-	56,124,737	157,741,663
Accrued income					
Accrued interest income	-	20,175,556	-	-	20,175,556
Accrued dividends	-	2,583,334	-	-	2,583,334
Accrued rent	-	-	29,316	-	29,316
Security deposits	-	-	7,923,478	-	7,923,478
	<b>P40,790,598</b>	<b>P136,959,328</b>	<b>P693,892,479</b>	<b>P225,438,615</b>	<b>P1,097,081,020</b>

**2013**

	Neither Past Due nor Impaired			Past Due or Impaired	Total
	Grade A	Grade B	Grade C		
Insurance receivables					
Due from ceding companies	P-	P-	P5,471,691	P17,021,158	P22,492,849
Premiums receivable	-	-	280,600,700	107,506,184	388,106,884
Due from brokers	-	-	32,911,069	7,787,857	40,698,926
Reinsurance recoverable on paid losses	-	-	109,915,168	9,289,136	119,204,304
Long-term notes	-	47,500,000	-	-	47,500,000
Mortgage loans	15,389,942	-	-	-	15,389,942
Car financing loans	15,579,268	-	-	-	15,579,268
Long-term investments	-	10,000,000	-	-	10,000,000
Short-term investments	-	1,505,743	-	-	1,505,743
Accounts receivable	-	52,907,282	-	3,119,344	56,026,626
Accrued income					
Accrued interest income	-	20,880,071	-	-	20,880,071
Accrued dividends	-	2,583,334	-	-	2,583,334
Accrued rent	-	-	29,316	-	29,316
Security deposits	-	-	7,822,495	-	7,822,495
	<b>P30,969,210</b>	<b>P135,376,430</b>	<b>P436,750,439</b>	<b>P144,723,679</b>	<b>P747,819,758</b>

**\* SGVFS012268 \***

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

Grade A - This rating class is given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations.

Grade B - This rating class is given to borrowers and counterparties who possess above average capacity to meet its obligations. These counterparties are somewhat susceptible to adverse changes in business and economic conditions.

Grade C - This rating class is given to borrowers and counterparties who possess average capacity to meet its obligations. These borrowers and counterparties are more likely to have a significant deterioration of its capacity during adverse business and economic conditions relative to Classes A and B.

The above credit ratings are determined by considering the borrower and counterparty's credit payment history and financial condition with strong consideration given to cash flows, working capital and net worth.

The age analysis of past due but not impaired loans and receivables as of December 31, 2014 and 2013 follows:

#### 2014

	Past Due but not Impaired		Past Due and Impaired	Total
	< 90 days	91-180 days		
Accounts receivable	P52,275,209	P-	P3,849,528	P56,124,737
Insurance receivables				
Premium receivables	67,253,804	44,386,970	22,012,644	133,653,418
Due from brokers	8,689,195	6,417,298	983,612	16,090,105
Reinsurance recoverable on paid losses	5,454,023	-	3,625,180	9,079,203
Due from ceding companies	7,233,471	-	3,257,681	10,491,152
<b>Total</b>	<b>P140,905,702</b>	<b>P50,804,268</b>	<b>P33,728,645</b>	<b>P225,438,615</b>

#### 2013

	Past Due but not Impaired		Past Due and Impaired	Total
	< 90 days	91-180 days		
Accounts receivable	P269,816	P-	P2,849,528	P3,119,344
Insurance receivables				
Premium receivables	76,268,859	18,224,681	13,012,644	107,506,184
Due from brokers	6,804,245	-	983,612	7,787,857
Reinsurance recoverable on paid losses	5,663,956	-	3,625,180	9,289,136
Due from ceding companies	13,763,477	-	3,257,681	17,021,158
<b>Total</b>	<b>P102,770,353</b>	<b>P18,224,681</b>	<b>P23,728,645</b>	<b>P144,723,679</b>

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2013 and 2014.

\* SGVFS012268 \*

### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its contractual obligations and commitments. The major liquidity risk confronting the Company is the daily cash calls on its available cash resources with respect to claims arising from insurance contracts.

The Company monitors its cash position on a daily basis by preparing cash report wherein the disbursements and collections are monitored. This report also helps the Company in determining periods where it has excess cash or cash shortfall.

On November 27, 2014, the BOD authorized and approved the establishment and renewal of the Company's credit line facilities with the Bank of the Philippine Islands (BPI) as follows:

- Establishment of Foreign Exchange Line amounting to \$2,500,000;
- Renewal of Bills Purchase Line amounting to ₱50,000,000; and
- Renewal of Corporate Guarantee Line amounting ₱10,000,000

The table below shows the maturity profile of the financial instruments of the Company as of December 31, 2014 and 2013 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

### 2014

	On Demand	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
<b>Cash and cash equivalents</b>	<b>₱536,137,614</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱536,137,614</b>
<b>Insurance receivables – net</b>					
Premiums receivable	616,116,281	–	–	–	616,116,281
Reinsurance recoverable on paid losses	136,588,871	–	–	–	136,588,871
Due from ceding companies	15,714,466	–	–	–	15,714,466
Due from brokers	56,954,828	–	–	–	56,954,828
<b>AFS financial assets</b>					
Equity securities					
Listed and club shares	215,832,282	–	–	–	215,832,282
Unlisted	222,000	–	–	–	222,000
Government and debt securities					
Local currency	–	134,584,144	–	538,508,717	673,092,861
Bonds and notes					
Local currency	–	97,747,772	20,106,316	357,635,506	475,489,594
Foreign currency	–	33,032,830	–	–	33,032,830
<b>Loans and receivables- net</b>					
Accounts receivable	153,892,135	–	–	–	153,892,135
Long-term notes	–	–	–	–	–
Mortgage loans	–	324,083	3,919,991	14,557,381	18,801,455
Car financing loans	–	5,489,268	6,559,268	9,940,607	21,989,143
Long-term investments	–	10,000,000	–	–	10,000,000
Short-term investments	2,583,512	–	–	–	2,583,512
<b>Accrued income</b>					
Accrued interest income	20,175,556	–	–	–	20,175,556
Accrued dividends	2,583,334	–	–	–	2,583,334
Accrued rent	29,316	–	–	–	29,316
<b>Other assets</b>					
Security deposits	7,923,478	–	–	–	7,923,478
<b>Reinsurance assets</b>	<b>1,837,276,991</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,837,276,991</b>
<b>Financial assets</b>	<b>₱3,602,030,664</b>	<b>₱281,178,097</b>	<b>₱30,585,575</b>	<b>₱920,642,211</b>	<b>₱4,834,436,547</b>
<b>Insurance contract liabilities</b>	<b>₱2,221,214,940</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,221,214,940</b>
<b>Insurance payables</b>					
Due to reinsurer	431,994,746	–	–	–	431,994,746
Funds held for reinsurers	102,543,491	–	–	–	102,543,491
<b>Trade and other liabilities</b>					
Accounts payable	90,891,001	–	–	–	90,891,001
Accrued expenses	2,157,293	–	–	–	2,157,293
Dividends payable	22,970,318	–	–	–	22,970,318
<b>Other Financial liabilities</b>	<b>₱2,871,771,789</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,871,771,789</b>

\* SGVFS012268 \*

## 2013

	On Demand	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Cash and cash equivalents	₱234,719,056	₱–	₱–	₱–	₱234,719,056
Insurance receivables – net					
Premiums receivable	375,094,240	–	–	–	375,094,240
Reinsurance recoverable on paid losses	115,579,124	–	–	–	115,579,124
Due from ceding companies	19,235,168	–	–	–	19,235,168
Due from brokers	39,715,314	–	–	–	39,715,314
AFS financial assets					
Equity securities					
Listed and club shares	205,195,310	–	–	–	205,195,310
Unlisted	519,738	–	–	–	519,738
Government and debt securities					
Local currency	–	129,211,138	11,329,336	652,356,597	792,897,071
Bonds and notes					
Local currency	–	174,148,775	–	494,861,609	669,010,384
Foreign currency	–	–	32,491,191	–	32,491,191
Loans and receivables – net					
Accounts receivable	53,177,098	–	–	–	53,177,098
Long-term notes	–	47,500,000	–	–	47,500,000
Mortgage loans	–	–	3,127,525	12,262,417	15,389,942
Car financing loans	–	2,790,832	5,773,843	7,014,593	15,579,268
Long-term investments	–	–	10,000,000	–	10,000,000
Short-term investments	1,505,743	–	–	–	1,505,743
Accrued income					
Accrued interest income	20,880,071	–	–	–	20,880,071
Accrued dividends	2,583,334	–	–	–	2,583,334
Accrued rent	29,317	–	–	–	29,317
Other assets					
Security deposits	7,822,495	–	–	–	7,822,495
Reinsurance assets	1,876,758,685	–	–	–	1,876,758,685
<b>Financial assets</b>	<b>₱2,952,814,693</b>	<b>₱353,650,745</b>	<b>₱62,721,895</b>	<b>₱1,166,495,216</b>	<b>₱4,535,682,549</b>
Insurance contract liabilities	₱2,326,237,918	₱–	₱–	₱–	₱2,326,237,918
Other insurance contract liabilities					
Due to reinsurer	169,205,228	–	–	–	169,205,228
Funds held for reinsurers	95,241,385	–	–	–	95,241,385
Trade and other liabilities					
Accounts payable	81,697,040	–	–	–	81,697,040
Accrued expenses	16,681,592	–	–	–	16,681,592
Dividends payable	470,318	–	–	–	470,318
<b>Other Financial liabilities</b>	<b>₱2,689,533,481</b>	<b>₱–</b>	<b>₱–</b>	<b>₱–</b>	<b>₱2,689,533,481</b>

The Company has no existing interest-bearing financial obligation as of December 31, 2014 and 2013.

### Insurance Risk

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

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

**2014**

	<b>Gross Claims Liabilities</b>	<b>Reinsurers' Share of Claims Liabilities</b>	<b>Net Claims Liabilities</b>
Fire	<b>₱1,791,600,444</b>	<b>₱1,690,323,134</b>	<b>₱101,277,310</b>
Motorcar	<b>210,018,019</b>	<b>7,536,987</b>	<b>202,481,032</b>
Accident	<b>46,320,421</b>	<b>1,059,214</b>	<b>45,261,207</b>
Surety	<b>79,440,569</b>	<b>50,832,044</b>	<b>28,608,525</b>
Engineering	<b>34,014,694</b>	<b>33,863,301</b>	<b>151,393</b>
Marine	<b>16,383,818</b>	<b>15,016,682</b>	<b>1,367,136</b>
Casualty	<b>40,816,975</b>	<b>36,025,629</b>	<b>4,791,346</b>
Aviation	<b>2,620,000</b>	<b>2,620,000</b>	<b>–</b>
	<b>₱2,221,214,940</b>	<b>₱1,837,276,991</b>	<b>₱383,937,949</b>

**2013**

	<b>Gross Claims Liabilities</b>	<b>Reinsurers' Share of Claims Liabilities</b>	<b>Net Claims Liabilities</b>
Fire	<b>₱1,873,659,696</b>	<b>₱1,714,788,693</b>	<b>₱158,871,003</b>
Motorcar	<b>212,700,291</b>	<b>25,733,911</b>	<b>186,966,380</b>
Surety	<b>72,329,840</b>	<b>510,725</b>	<b>71,819,115</b>
Marine	<b>66,198,388</b>	<b>45,449,251</b>	<b>20,749,137</b>
Accident	<b>51,349,280</b>	<b>51,010,745</b>	<b>338,535</b>
Engineering	<b>29,601,115</b>	<b>24,661,119</b>	<b>4,939,996</b>
Casualty	<b>18,379,308</b>	<b>12,584,241</b>	<b>5,795,067</b>
Aviation	<b>2,020,000</b>	<b>2,020,000</b>	<b>–</b>
	<b>₱2,326,237,918</b>	<b>₱1,876,758,685</b>	<b>₱449,479,233</b>

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. These risks vary significantly in relation to the location of the risk insured by the Company and types of risks insured.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategies, strict claims review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims. The Company also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's premiums retained.

The majority of reinsurance business ceded is placed on a surplus basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to the reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of the total reinsurance assets at the reporting date.

### 30. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Affiliates are related entities of the Company by virtue of common ownership and representation to management where significant influence is apparent.

Significant related party transactions are summarized below:

- a. Key management personnel of the Company include all supervisors, managers and executives. The summary of compensation of key management personnel is as follows:

	2014	2013
Salaries and other short-term employee benefits	<b>P105,176,035</b>	P86,618,449
Pension and other post-employment benefits	<b>22,553,788</b>	12,031,764
	<b>P127,729,823</b>	P98,650,213

- b. Transactions with related party consist mainly of the following activities:

#### **December 31, 2014**

	Amount/volume	Outstanding Balance	Terms	Conditions
<b>Entities under common control</b>				
Mapfre Re Compania de Reaseguros, S.A. (Mapfre Re)				Net of RI Recoverable, outward commission, premium reserve withheld Offset against Reinsurance premium ceded Foreign currency denominated payment
Reinsurance premiums ceded	<b>P247,701,692</b>	<b>P118,993,189</b>	Current, unsecured	
Inward commissions	<b>64,034,863</b>	<b>31,569,549</b>	Current, unsecured	
Insurance payables	<b>127,750,604</b>	<b>127,750,604</b>	Current, unsecured	
	<b>P439,487,159</b>	<b>P278,313,342</b>		

**\* SGVFS012268 \***

December 31, 2013

	Amount/volume	Outstanding Balance	Terms	Conditions
<b>Entities under common control</b>				
Mapfre Re Compañia de Reaseguros, S.A. (Mapfre Re)				
Reinsurance premiums ceded	<b>₱233,170,168</b>	<b>₱105,692,035</b>	Current, unsecured	Net of RI Recoverable, outward commission, premium reserve withheld
Inward commissions	<b>58,487,105</b>	<b>26,701,702</b>	Current, unsecured	Offset against Reinsurance premium ceded
Insurance payables	<b>88,209,367</b>	<b>88,209,367</b>	Current, unsecured	Foreign currency denominated payment
	<b>₱379,866,640</b>	<b>₱220,603,104</b>		

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

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

	2014	2013
Net income under PFRS	<b>₱143,603,737</b>	₱29,815,374
Add (deduct):		
Difference in change in provision for unearned premiums - net	<b>73,477,390</b>	(49,573)
Deferred acquisition costs - net	<b>89,127,126</b>	(2,153,340)
Provision for IBNR	<b>(19,127,443)</b>	25,367,277
Tax effects of PFRS differences	<b>(43,043,122)</b>	(6,949,279)
Statutory net income	<b>₱244,037,688</b>	₱46,030,459

### 32. Lease Commitments

#### The Company as Lessee

The Company has entered into noncancelable operating lease agreements for several of its branch offices with terms of one (1) to five (5) years. The lease agreements include escalation clauses that allow a reasonable increase in rates. The leases are renewable under certain terms and conditions.

Future minimum rentals payable under noncancelable operating leases as of December 31, 2014 and 2013 follow:

	2014	2013
Within one (1) year	<b>₱20,913,885</b>	₱22,127,196
After one (1) year but not more than five (5) years	<b>29,557,079</b>	35,931,697
	<b>₱50,470,964</b>	₱58,058,893

Rent expense included in the statements of income for the years ended December 31, 2014 and 2013 amounted to ₱27,070,200 and ₱24,543,310, respectively (Note 20).

\* SGVFS012268 \*

The Company as Lessor

The Company has entered into property leases on its investment property portfolio, consisting of the Company's surplus office spaces. These noncancelable leases have remaining lease terms of less than five (5) years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under noncancelable operating leases as of December 31, 2014 and 2013 follow:

	2014	2013
Within one (1) year	<b>P1,202,018</b>	P2,404,035
After one (1) year but not more than five (5) years	–	1,202,018
	<b>P1,202,018</b>	<b>P3,606,053</b>

Rental income included in the statements of income for the years ended December 31, 2014 and 2013 amounted to P2,404,035 and P2,290,748, respectively (Note 20).

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**33. Contingencies**

The Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. Provisions have been recognized in the financial statements to cover liabilities that may arise as a result of adverse decisions that may be rendered by the courts. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the Company's position with regard to the outcome of these claims.

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**34. Disclosures Required Under Revenue Regulations No. 15-2010**

The Company reported and/or paid the following types of taxes in 2014:

Value added tax

The Company's premiums written on direct business are subject to output VAT while its purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12%.

- a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns follows:

	Net Sales/ Receipts	Output VAT
Taxable sales		
Sales of services	P1,414,324,668	P169,718,960
Commissions	116,298,367	13,955,804
Leasing income	2,404,035	288,484
	<b>P1,533,027,070</b>	<b>P183,963,248</b>

The Company has premiums generated to entities that are registered in Philippine Economic Zone Authority (PEZA, SBMA, etc.) which is subject to zero-rated and/or exempt output VAT amounting P17,042,223 in 2014.



b. Details of Input VAT follow:

Balance at January 1, 2014		₱34,270,638
Current year's purchases/payments for:		
Services lodged under cost of service	₱70,775,340	
Goods other than for resale or manufacture	31,773,019	
Capital goods subject to amortization	723,500	
Capital goods not subject to amortization	326,308	103,598,167
		137,868,805
Claims for tax credit		(104,363,937)
Balance at December 31, 2014		₱33,504,868

c. Information on the Company's importations

The Company does not undertake importation activities.

d. Documentary Stamps Tax

Insurance premiums	₱238,068,148
Debt instruments	101,959
Agents' IC Certificate of Authority (CA) fees	370
	₱238,170,477

e. Fringe Benefits Tax

The Company paid fringe benefits tax amounting ₱3,428,286 in 2014.

f. Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the caption 'Taxes and Licenses' account under the 'General and Administrative Expenses' section in the Company's statement of income:

Details consist of the following:

Insurance Commission registration penalties and assessment	₱2,319,760
Real estate taxes	794,986
License and permit fees	583,268
Others	230,912
Documentary stamp taxes	227,866
	₱4,156,792

The Company has no other taxes, local and national, including real estate taxes, license and permit fees lodged under cost of service account. The Company has also no excise tax lodged under cost service account.

g. Withholding Taxes

Details of withholding taxes follow:

Expanded withholding taxes	₱70,428,581
Withholding taxes on compensation and benefits	55,159,493
Final withholding taxes	345,194
	₱125,933,268

h. Tax assessments and Cases

The Company received a letter of authority to examine the Company's books for the taxable year 2011. The Company has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.

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**MAPFRE INSULAR INSURANCE CORPORATION**

*Mapfre Insular Corporate Center  
Acacia Avenue, Madrigal Business Park  
Ayala Alabang, Muntinlupa City*

**Schedule of Reconciliation of Retained Earnings Available for Dividend Declaration  
As of December 31, 2014**

*(Figures based on functional currency audited financial statements)*

<b>Unappropriated Retained Earnings, beginning</b>	<b>₱571,245,841</b>
<b>Adjustments:</b>	
Deferred tax assets in previous year's reconciliation	(58,073,931)
Remeasurement gains on net pension obligation	(19,842,456)
<b>Unappropriated Retained Earnings, as adjusted, beginning</b>	<b>493,329,454</b>
<b>Net income based on the face of FS</b>	<b>143,603,737</b>
<b>Less: Non-actual/unrealized income net of tax</b>	
Equity in net income of associate/joint venture	—
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	—
Unrealized actuarial gain	—
Fair value adjustment (marked-to-market gains)	—
Fair value adjustment of investment property resulting to gain	—
Adjustment due to deviation from PFRS/GAAP - gain	—
Other unrealized gains or adjustments to the Retained Earnings as a result of certain transactions accounted for under the PFRS	5,137,159
Provision for deferred tax asset	(23,648,967)
<b>Add: Non-actual losses</b>	
Depreciation on revaluation increment (after tax)	—
Adjustment due to deviation from PFRS/GAAP - loss	—
Fair value adjustment (marked-to-market losses)	—
Loss on fair value adjustment of investment property (after tax)	—
<b>Net income actually earned during the year</b>	<b>125,091,929</b>
<b>Add (less):</b>	
Dividend declarations during the year	(22,500,000)
Appropriations of Retained Earnings during the year	—
Reversal of appropriations	—
Effects of prior period adjustments	—
Treasury shares	—
<b>TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION</b>	<b>₱595,921,383</b>

Note: The Company is subject to the regulatory requirements of the Insurance Commission such as Margin of Solvency, Fixed Capitalization Requirements and Risk-based Capital Requirements.

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# MAPFRE INSULAR INSURANCE CORPORATION

## Schedule of all the Effective Standards and Interpretations under Philippine Financial Reporting Standards as of December 31, 2014

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary			✓	
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of Effective PFRSs			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
<b>PFRS 4</b>	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		

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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2014</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
<b>PFRS 8</b>	Operating Segments			✓
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
<b>PFRS 9</b>	Financial Instruments	<b>Not Early Adopted</b>		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	<b>Not Early Adopted</b>		
	Amendments to PFRS 9: Financial Instruments: Classification and Measurements	<b>Not Early Adopted</b>		
<b>PFRS 10</b>	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Investment Entities			✓
<b>PFRS 11</b>	Joint Arrangements			✓
<b>PFRS 12</b>	Disclosure of Interests with Other Entities			✓
	Amendment to PFRS 12: Investment Entities			✓
<b>PFRS 13</b>	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		
	Amendments to PFRS 13: Portfolio Exception			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2014</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
<b>PAS 2</b>	Inventories			✓
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of servicing equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19 (Amended)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs			✓

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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2014</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27</b>	Consolidated and Separate Financial Statements			✓
<b>PAS 27 (Amended)</b>	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures			✓
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax effect of distribution to holders of equity instruments			✓
<b>PAS 33</b>	Earnings per Share			✓
<b>PAS 34</b>	Interim Financial Reporting			✓
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities			✓
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2014</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
<b>PAS 40</b>	Investment Property	✓		
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
<b>PAS 41</b>	Agriculture			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
<b>IFRIC 7</b>	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓

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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2014</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 10</b>	<i>Interim Financial Reporting and Impairment</i>			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 15</b>	Agreements for the Construction of Real Estate			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓