

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, 2013 and 2012, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the yearsthen ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mapfre Insular Insurance Corporation as at December 31, 2013 and 2012, and its financial performance and its cash flows for the yearsthen endedin accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 34 and 35 to the financial statements, respectively, 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.

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January 23, 2014

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	January 1	
	2013	2012 (As restated - Note 2)	2012 (As restated - Note 2)
ASSETS			
Cash and Cash Equivalents (Notes 4 and 29)	₱ 234,719,056	₱ 286,502,753	₱ 370,428,847
Insurance Receivables-net (Notes 5 and 29)	549,623,846	593,189,515	359,017,145
Financial Assets (Notes 6 and 29)			
Available-for-sale financial assets	1,700,113,694	1,570,370,003	1,629,568,787
Loans and receivables- net	143,152,051	137,851,851	133,867,693
Accrued Income (Notes 7 and 29)	23,492,721	29,399,801	30,125,066
Reinsurance Assets (Notes 8, 15 and 17)	2,069,689,369	1,047,806,241	890,254,692
Deferred Acquisition Costs (Note 9)	244,059,102	241,905,762	197,537,168
Investment Property (Note 10)	22,938,644	23,529,233	24,119,822
Property and Equipment-net (Note 11)	184,229,443	160,738,391	103,818,406
Goodwill (Note 152)	33,794,284	33,794,284	33,794,284
Other Assets (Notes 13 and 29)	79,092,640	75,862,345	57,729,605
	₱5,284,904,850	₱4,200,950,179	₱3,830,261,515
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LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 15 and 29)	₱3,306,435,534	₱2,171,195,649	₱1,889,301,113
Other insurance contract liabilities (Notes 16 and 29)	264,446,613	168,324,065	142,755,418
Trade and other liabilities (Notes 14 and 29)	182,634,746	175,442,987	148,463,590
Net pension obligation (Note 25)	7,243,744	29,407,689	67,570,343
Deferred tax liabilities - net (Note 27)	25,865,091	32,880,422	3,243,372
Total Liabilities	3,786,625,728	2,577,250,812	2,251,333,836
Equity			
Capital stock (Note 18)	500,000,000	500,000,000	500,000,000
Additional paid-in capital	200,446,070	200,446,070	200,446,070
Contributed surplus	100,000,000	100,000,000	100,000,000
Other comprehensive income (Note 6)	126,587,211	175,712,549	139,628,584
Retained earnings (Note 18)	571,245,841	647,540,748	638,853,025
Total Equity	1,498,279,122	1,623,699,367	1,578,927,679
	₱5,284,904,850	₱4,200,950,179	₱3,830,261,515

See accompanying Notes to Financial Statements.

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2013	2012
		(As restated - Note 2)
Gross earned premiums on insurance contracts	₱2,095,664,024	₱1,791,377,242
Reinsurers' share of gross earned premiums on insurance contracts	(628,399,281)	(447,402,624)
Net earned insurance premiums (Notes 15 and 19)	1,467,264,743	1,343,974,618
Investment income - net (Note 20)	110,362,701	129,699,713
Commission income (Note 9)	88,072,306	86,931,988
Gain on sale of AFS financial assets (Note 6)	33,500,222	58,470,370
Foreign exchange gain - net	21,875,496	-
Gain on sale of property and equipment (Note 11)	417,926	1,397,152
Other income	10,870,412	3,278,258
Other income	265,099,063	279,777,481
Total Income	1,732,363,806	1,623,752,099
Gross insurance contract benefits and claims paid	736,911,104	625,900,889
Reinsurers' share of gross insurance contract benefits and claims paid	(165,956,284)	(145,871,526)
Gross change in insurance contract liabilities	1,130,347,515	158,443,990
Reinsurers' share of gross change in insurance contract liabilities	(989,635,516)	(152,161,002)
Net insurance benefits and claims (Notes 15 and 21)	711,666,819	486,312,351
Expenses		
Commission expense (Note 9)	550,027,491	504,806,780
General and administrative expenses (Note 23)	399,110,532	400,838,032
Finance costs (Note 22)	4,086,801	3,904,376
Foreign exchange loss - net	-	1,726,610
Other expenses (Note 24)	29,112,574	18,867,290
Other expenses	982,337,398	930,143,088
Total Benefits, Claims and Other Expenses	1,694,004,217	1,416,455,439
Income before income tax	38,359,589	207,296,660
Current	21,512,282	24,333,822
Deferred	(12,968,067)	20,528,469
Income tax expense (Note 27)	8,544,215	44,862,291
NET INCOME	₱ 29,815,374	₱ 162,434,369

See accompanying Notes to Financial Statements.

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2012	(As restated - Note 2)
	2013	
NET INCOME	₱29,815,374	₱162,434,369
OTHER COMPREHENSIVE INCOME		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
Changes in fair value of AFS financial assets (Note 6)	(49,125,338)	36,083,965
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement gains on net pension obligation, net of tax effect (Note 25)	13,889,719	21,253,354
	(35,235,619)	57,337,319
TOTAL COMPREHENSIVE INCOME	(₱ 5,420,245)	₱219,771,688

See accompanying Notes to Financial Statements.

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 (Note 18)	Total
As at January 1, 2013, as previously reported	₱500,000,000	₱200,446,070	₱100,000,000	₱175,712,549	₱672,485,677	₱1,648,644,296
Effect of change in accounting policy (Note 2)	—	—	—	—	(24,944,929)	(24,944,929)
As at January 1, 2013, as restated	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 (Note 6)	—	—	—	(49,125,338)	13,889,719	(35,235,619)
Total comprehensive income	—	—	—	(49,125,338)	43,705,093	(5,420,245)
As at December 31, 2013	₱500,000,000	₱200,446,070	₱100,000,000	₱126,587,211	₱571,245,841	₱1,498,279,122
 As at January 1, 2012, as previously reported	 ₱500,000,000	 ₱200,446,070	 ₱100,000,000	 ₱139,628,584	 ₱686,642,751	 ₱1,626,717,405
Effect of change in accounting policy (Note 2)	—	—	—	—	(47,789,726)	(47,789,726)
As at January 1, 2012, as restated	500,000,000	200,446,070	100,000,000	139,628,584	638,853,025	1,578,927,679
Cash dividends (Note 18)	—	—	—	—	(175,000,000)	(175,000,000)
Net income	—	—	—	—	162,434,369	162,434,369
Other comprehensive income (Note 6)	—	—	—	36,083,965	21,253,354	57,337,319
Total comprehensive income	—	—	—	36,083,965	183,687,723	219,771,689
As at December 31, 2012	₱500,000,000	₱200,446,070	₱100,000,000	₱175,712,549	₱647,540,748	₱1,623,699,367

See accompanying Notes to Financial Statements.

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2012 (As restated - Note 2)	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱ 38,359,589	₱ 207,296,660
Adjustments for:		
Depreciation and amortization (Notes 10, 11 and 23)	37,918,571	26,595,850
Interest expense (Note 22)	4,086,801	3,666,876
Gain on sale of property and equipment	(417,926)	(1,397,154)
Dividend income (Note 20)	(16,250,217)	(21,772,810)
Gain on sale of AFS financial assets (Note 6)	(33,500,222)	(58,470,370)
Interest income (Note 20)	(92,167,703)	(106,616,262)
Operating income (loss) before changes in working capital	(61,971,107)	49,302,790
Decrease (increase) in:		
Insurance receivables	43,565,669	(234,172,370)
Reinsurance assets	(1,021,883,128)	(157,551,549)
Deferred acquisition costs	(2,153,340)	(44,368,594)
Increase (decrease) in:		
Insurance contract liabilities	1,135,239,885	281,894,536
Other insurance contract liabilities	96,122,548	25,568,647
Trade and other liabilities	7,117,923	26,871,824
Pension benefit obligation	(2,321,489)	(7,800,719)
Net cash generated from (used in) operations	193,716,961	(60,255,435)
Payments for:		
Interest expense (Note 22)	(4,086,801)	(3,666,876)
Income tax	(21,512,282)	(24,333,822)
Net cash provided by (used in) operating activities	168,117,878	(88,256,133)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	98,074,783	107,341,527
Dividends received (Note 20)	16,250,217	21,772,810
Proceeds from sale/maturities of:		
AFS financial assets (Note 6)	772,310,242	1,242,274,321
Property and equipment (Note 11)	417,926	1,397,152
Acquisitions of:		
AFS financial assets (Note 6)	(917,679,050)	(1,088,521,200)
Property and equipment (Note 11)	(60,819,034)	(82,925,246)
Decrease (increase) in:		
Loans and receivables	(5,300,200)	(3,984,158)
Other assets (Note 13)	(3,230,295)	(18,132,740)
Net cash provided (used in) by investing activities	(99,975,411)	179,222,466

(Forward)

	Years Ended December 31	
	2012	
	(As restated - Note 2)	
CASH FLOWS FROM FINANCING ACTIVITY		
Cash dividends paid (Note 18)	(₱119,926,164)	(₱174,892,427)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(51,783,697)	(83,926,094)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	286,502,753	370,428,847
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱234,719,056	₱286,502,753

See accompanying Notes to Financial Statements.

MAPFRE INSULAR INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Mapfre Insular Insurance Corporation (the Company) was incorporated in the Philippines and is a subsidiary of Mapfre Internacional of Spain. 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 23, 2014.

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 and certain property and equipment 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.

The Company's financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of Philippine Accounting Standard (PAS) 19, *Employee Benefits*, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in the Company's financial statements due to retrospective application of PAS 19.

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, 2013. Except as otherwise stated, the adoption of these new and amended standards and Philippine Interpretations did not have any impact on the financial statements.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are offset in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are offset in accordance with

PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendments are applied retrospectively.

- **PFRS 10, *Consolidated Financial Statements***

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

- **PFRS 11, *Joint Arrangements***

PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

- **PFRS 12, *Disclosure of Involvement with Other Entities***

PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- **PFRS 13, *Fair Value Measurement***

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- Amendments to PAS 1, *Financial Statement Presentation, Presentation of Items of Other Comprehensive Income or OCI*

The amendments to PAS 1 changed the grouping of items presented in OCI. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be recycled. The amendments are applied retrospectively and resulted to the modification of the presentation of items of OCI.

- Amendments to PAS 19, *Employee Benefits*

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The Company has applied the amendments retroactively to the earliest period presented.

On January 1, 2013, the Company adopted the Revised PAS 19.

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Company recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised PAS 19, the Company changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee’s entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Company’s financial position and financial performance.

The Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

Statements of financial position

	As at December 31, 2013	As at December 31, 2012	As at January 1, 2012
Increase in deferred tax asset	₱ 4,038,487	₱10,690,685	₱20,481,313
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Increase (decrease) in:			
Pension obligation	₱13,461,623	₱35,635,614	₱68,271,038
Other comprehensive income	(13,575,475)	(27,465,194)	(48,718,548)
Retained earnings	4,152,339	2,520,265	928,823
	₱ 4,038,487	₱10,690,685	₱20,481,313

Statement of comprehensive income

	For the year ended December 31, 2013	For the year ended December 31, 2012
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Increase (decrease) in:		
Pension expense	(₱2,331,535)	(₱2,273,489)
Income tax expense	699,461	682,047
Increase in profit for the year	(₱1,632,074)	(₱1,591,442)

Statement of comprehensive income

	For the year ended December 31, 2013	For the year ended December 31, 2012
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Increase in:		
Remeasurement gain on pension obligation	₱19,842,456	30,361,935
Tax effect	(5,952,737)	(9,108,581)
	13,889,719	21,253,354
Increase in profit for the year	1,632,074	1,591,442
Net increase in other comprehensive income	₱15,521,793	₱22,844,796

• PAS 27 (Revised), *Separate Financial Statements*

As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

• PAS 28 (Revised), *Investments in Associates and Joint Ventures*

As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This Philippine Interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met (“stripping activity asset”). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. This new interpretation is not relevant to the Company.

Improvements to PFRSs 2009-2011 cycle

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

- *PFRS 1, First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.
- *PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company’s financial position or performance.
- *PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any impact on the Company’s financial statements since the Company’s policy is consistent with the revised PAS 16.
- *PAS 32, Financial Instruments: Presentation - Tax effect of Distribution to Holders of Equity Instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. This amendment does not have any impact on its financial position or

performance because the Company has no transaction involving equity instruments to shareholders.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

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.

Effective in 2014

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Company's financial position or performance.
- Investment Entities (*Amendments to PFRS 10, PFRS 12 and PAS 27*)
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company since it has no subsidiaries.
- Philippine Interpretation IFRIC 21, *Levies*
Philippine Interpretation IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This Philippine Interpretation is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that this Philippine Interpretation will have impact in future financial statements.
- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. This amendment will not have an impact since the Company has no hedge accounting.

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

The amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company’s financial position or performance.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Improvements to PFRSs 2010-2012 cycle

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to PFRSs.

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Company as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. 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 PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. 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 require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments’ assets to the entity’s assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments have no impact on the Company since it has no operating segments.

- **PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables***
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.
- **PAS 16, *Property, Plant and Equipment - Revaluation Method – Proportionate Restatement of Accumulated Depreciation***
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Company's financial position or performance.

- **PAS 24, *Related Party Disclosures - Key Management Personnel***
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.
- **PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization***
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b) The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Company's financial position or performance.

Improvements to PFRSs 2011-2013 cycle

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to PFRSs.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position or performance.

- PAS 40, *Investment Property*

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position or performance.

Effective in 2015

- PFRS 9, *Financial Instruments: Classification and Measurement*

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through 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.

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

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, 2013 and 2012, 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, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The 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 15% indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under "Other assets" account.

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

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

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.

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.

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 ₦1,700,113,694 and ₦1,570,370,003 as of December 31, 2013 and 2012, respectively (Note 6). Loss on impairment of AFS financial assets amounted to nil in 2013 and 2012 (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 rental receivables under noncancelable operating lease amounted to ₦3,606,053 and ₦890,623 as of December 31, 2013 and 2012, 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 rental payable under noncancelable operating lease amounted to ₦58,058,893 and ₦65,075,436 as of December 31, 2013 and 2012, 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 ₦2,326,237,918 and ₦1,195,890,404 as of December 31, 2013 and 2012, 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, 2013 and 2012, loans and receivables, net of allowance for impairment losses, amounted to ₦143,152,051 and ₦137,851,851, respectively (Note 6). Insurance receivables, net of allowance for impairment losses, amounted to ₦549,623,846 and ₦593,189,515 as of December 31, 2013 and 2012, 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 2013 and 2012.

As of December 31, 2013 and 2012, the balances of the Company's nonfinancial assets, net of accumulated depreciation and amortization follow:

	2013	2012
Investment property (Note 10)	₦22,938,644	₦23,529,233
Property and equipment (Note 11)	184,229,443	160,738,391
Goodwill (Note 12)	33,794,284	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, 2013 and 2012, the fair value of financial instruments follows (Note 29):

	2013	2012
Financial assets	₱2,424,160,009	₱2,654,343,967
Financial liabilities	3,669,731,097	2,409,584,979

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, 2013 and 2012, related balances follow:

	2013	2012
Investment property (Note 10)	₱22,938,644	₱23,529,233
Property and equipment (Note 11)	184,229,443	160,738,391

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 accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. 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 obligationas of December 31, 2013 and 2012 amounted to ₱7,243,744 and ₱29,407,689, 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, 2013 and 2012 amounted to ₱14,993,492 and ₱7,811,717 (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 ₱58,073,931 and ₱51,233,939 as of December 31, 2013 and 2012, 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.

4. Cash and Cash Equivalents

This account consists of:

	2013	2012
Cash on hand and in banks	₱135,322,043	₱114,856,097
Cash equivalents	99,397,013	171,646,656
	₱234,719,056	₱286,502,753

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 ₱5,792,123 and ₱4,430,645 in 2013 and 2012, respectively (Note 20).

5. Insurance Receivables

This account consists of:

	2013	2012
Premiums receivable	₱388,106,884	₱272,459,871
Reinsurance recoverable on paid losses	119,204,304	195,678,613
Due from ceding companies	22,492,849	74,691,908
Due from brokers	40,698,926	66,442,456
	570,502,963	609,272,848
Less allowance for impairment losses	20,879,117	16,083,333
	₱549,623,846	₱593,189,515

Premiums receivable and due from brokers pertains to amounts receivable from the Company's agents, dealers and brokers.

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:

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	₱181,349,298	₱56,900,052	₱42,351,350	₱ 76,268,859	₱31,237,325	₱ -	₱388,106,884
Reinsurance recoverable on paid losses	107,900,807	1,772,880	241,481	6,068,767	289,210	2,931,159	119,204,304
Due from ceding companies	45,526	2,240,249	3,185,916	13,938,140	325,211	2,757,807	22,492,849
Due from brokers	12,819,532	15,618,551	4,472,985	7,577,236	210,622	-	40,698,926
	₱302,115,163	₱76,531,732	₱50,251,732	₱103,853,002	₱32,062,368	₱5,688,967	₱570,502,963

2012

	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total
Premiums receivable	₱ 85,588,877	₱54,791,536	₱ 40,106,348	₱ 69,777,195	₱22,195,915	₱ -	₱272,459,871
Reinsurance recoverable on paid losses	182,857,776	448,574	226,835	6,878,321	2,001,912	3,265,195	195,678,613
Due from ceding companies	876,236	2,026,647	57,239,938	5,555,842	2,930,822	6,062,423	74,691,908
Due from brokers	16,953,321	14,935,703	10,070,769	22,577,673	1,904,990	-	66,442,456
	₱286,276,210	₱72,202,460	₱107,643,890	₱104,789,031	₱29,033,639	₱9,327,618	₱609,272,848

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

2013

	Premiums Receivable	Due from Ceding Companies	Reinsurance Recoverable on Paid Losses	Due from Brokers	Total
At January 1, 2013	₱ 8,216,860	₱3,125,066	₱3,757,795	₱983,612	₱16,083,333
Charge (reversal) for the year (Note 23)	4,795,784	132,615	(132,615)	-	4,795,784
At December 31, 2013	₱13,012,644	₱3,257,681	₱3,625,180	₱983,612	₱20,879,117
Individually impaired	₱12,905,655	₱3,257,681	₱3,625,180	₱ 71,457	₱19,859,973
Collectively impaired	106,989	-	-	912,155	1,019,144
	₱13,012,644	₱3,257,681	₱3,625,180	₱983,612	₱20,879,117

2012

	Premiums Receivable	Due from Ceding Companies	Reinsurance Recoverable on Paid Losses	Due from Brokers	Total
At January 1, 2012	₱8,216,860	₱3,574,856	₱3,308,005	₱983,612	₱16,083,333
Charge (reversal) for the year (Note 23)	-	(449,790)	449,790	-	-
At December 31, 2012	₱8,216,860	₱3,125,066	₱3,757,795	₱983,612	₱16,083,333
Individually impaired	₱8,109,871	₱3,125,066	₱3,757,795	₱ 71,457	₱15,064,189
Collectively impaired	106,989	-	-	912,155	1,019,144
	₱8,216,860	₱3,125,066	₱3,757,795	₱983,612	₱16,083,333

6. Financial Assets

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

	2013	2012
AFS financial assets	₱1,700,113,694	₱1,570,370,003
Loans and receivables - net	143,152,051	137,851,851
	₱1,843,265,745	₱1,708,221,854

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

a) *AFS financial assets*

	2013	2012
Securities at fair value		
Equity securities		
Listed and club shares	₱ 205,195,310	₱ 326,117,485
Unlisted	519,738	519,738
	205,715,048	326,637,223
Government debt securities		
Local currency	792,897,071	845,785,481
Bonds and notes		
Local currency	669,010,384	350,483,524
Foreign currency	32,491,191	47,463,775
	1,494,398,646	1,243,732,780
	₱1,700,113,694	₱1,570,370,003

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

	2013	2012
Securities at cost or amortized cost		
Equity securities		
Listed and club shares	₱ 233,741,225	₱ 316,057,906
Unlisted	519,738	519,738
	234,260,963	316,577,644
Government debt securities		
Local currency	652,132,389	722,366,311
Bonds and notes		
Local currency	656,091,908	310,600,000
Foreign currency	31,041,223	45,113,499
	1,339,265,520	1,078,079,810
	₱1,573,526,483	₱1,394,657,454

The following tables present the breakdown of investments in bonds, government and other securities by contractual maturity dates as of December 31, 2013 and 2012 classified under AFS financial assets:

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
	₱174,148,775	₱1,320,249,871	₱1,494,398,646

2012

	Due Within One Year	Due Beyond One Year	Total
Government debt securities	₱ 5,212,331	₱ 840,573,150	₱ 845,785,481
Bonds and notes	46,711,037	351,236,262	397,947,299
	₱51,923,368	₱1,191,809,412	₱1,243,732,780

The AFS financial assets earn interest at rates ranging from 4.88% to 11.25% and from 5.38% to 11.25% in 2013 and 2012, respectively.

As of December 31, 2013 and 2012, government securities amounting ₱125,400,000 is 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.

The rollforward of revaluation reserve on AFS financial assets follows:

	2013	2012
As of January 1	₱175,712,549	₱139,628,584
Other comprehensive income:		
Changes in fair value of AFS financial assets	(15,625,116)	94,554,335
Transfer to statements of comprehensive income	(33,500,222)	(58,470,370)
	(49,125,338)	36,083,965
As of December 31	₱126,587,211	₱175,712,549

The carrying values of AFS financial assets (excluding loans and receivables) have been determined as follows:

	2013	2012
At January 1	₱1,570,370,003	₱1,629,568,787
Additions	917,679,050	1,088,521,200
Disposals and maturities	(738,810,020)	(1,183,803,949)
Fair value gain transferred to statement of income	(33,500,222)	(58,470,370)
Fair value gain reported as other comprehensive income	(15,625,117)	94,554,335
At December 31	₱1,700,113,694	₱1,570,370,003

b) *Loans and receivables-net*

	2013	2012
Accounts receivable	₱ 56,026,626	₱ 59,636,929
Long-term notes	47,500,000	48,000,000
Car financing loans	15,579,268	13,285,858
Mortgage loans	15,389,942	13,091,224
Long-term investments	10,000,000	10,000,000
Short-term investments	1,505,743	1,483,152
	146,001,579	145,497,163
Less allowance for impairment losses	2,849,528	7,645,312
	₱143,152,051	₱137,851,851

Long-term investments pertain to time deposits with maturities of one (1) to ten (10) years which earn interest rates ranging from 10.00% to 10.25% in 2013 and 2012.

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

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

Mortgage and car financing loans earn interest at rates ranging from 1.00% to 9.00% per annum and with maturity of one (1) to fifteen (15) years.

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

	2013	2012
As of January 1	₱7,645,312	₱3,145,312
Charge (reversal) for the year (Note 23)	(4,795,784)	4,500,000
As of December 31	₱2,849,528	₱7,645,312

The following table presents the breakdown of loans and receivables by contractual maturity dates as of December 31, 2013 and 2012:

	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

	2012				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Accounts receivable	₱42,309,739	₱17,327,190	₱ –	₱ –	₱ 59,636,929
Long-term notes	–	–	48,000,000	–	48,000,000
Car financing loans	416,577	4,265,366	6,543,049	2,060,866	13,285,858
Mortgage loans	138,425	1,300,480	1,510,597	10,141,722	13,091,224
Long-term investments	–	–	10,000,000	–	10,000,000
Short-term investments	1,483,152	–	–	–	1,483,152
Total	₱44,347,893	₱22,893,036	₱66,053,646	₱12,202,588	₱145,497,163

7. Accrued Income

This account consists of:

	2013	2012
Accrued interest income	₱20,880,071	₱21,614,027
Accrued dividends	2,583,334	7,685,858
Accrued rent	29,316	99,916
	₱23,492,721	₱29,399,801

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

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 2013 and 2012.

8. Reinsurance Assets

This account consists of (Note 15):

	2013	2012
Reinsurance recoverable on unpaid losses	₱1,876,758,685	₱ 887,123,169
Reinsurance premiums reserve	192,930,684	160,683,072
	₱2,069,689,369	₱1,047,806,241

9. Deferred Acquisition Costs

The rollforward analysis of this account follows:

	2013	2012
At beginning of the year	₱241,905,762	₱197,537,168
Cost deferred during the year	464,108,525	462,243,386
Amortization during the year	(461,955,185)	(417,874,792)
At end of the year	₱244,059,102	₱241,905,762

10. Investment Property

The rollforward analysis of this account follows:

	2013	2012
Acquisition cost	₱29,217,064	₱29,217,064
Accumulated depreciation:		
At beginning of year	5,687,831	5,097,242
Depreciation (Note 23)	590,589	590,589
At end of year	6,278,420	5,687,831
Net book value	₱22,938,644	₱23,529,233

Rental income earned from investment property amounted to ₱2,290,748 and ₱2,201,942 in 2013 and 2012, which is included in investment income (Notes 20 and 32).

Based on the appraisal report dated November 22, 2010, the estimated fair value of the investment property amounted to ₱31,289,483. The property was independently valued by a professional qualified appraiser using the Market Data Approach which considers the sales and listings of comparable property registered within the vicinity.

11. Property and Equipment

The rollforward analysis of this account follows:

2013

	Building and Building Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
As of January 1, 2012	₱109,616,659	₱132,749,842	₱30,115,776	₱35,673,336	₱308,155,613
Additions	1,610,532	32,849,641	8,610,626	17,748,239	60,819,038
Disposals	–	(22,689,878)	(7,446,527)	–	(30,136,405)
As of December 31, 2013	111,227,191	142,909,605	31,279,875	53,421,575	338,838,246
Accumulated Depreciation and Amortization					
As of January 1, 2012	40,773,457	81,193,063	10,412,479	15,038,223	147,417,222
Depreciation and amortization (Note 23)	4,130,218	17,068,685	9,044,694	7,084,385	37,327,982
Disposals	–	(22,689,876)	(7,446,525)	–	(30,136,401)
As of December 31, 2013	44,903,675	75,571,872	12,010,648	22,122,608	154,608,803
Net Book Value as of December 31, 2013	₱ 66,323,516	₱ 67,337,733	₱19,269,227	₱31,298,967	₱184,229,443

2012

	Building and Building Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
As of January 1, 2012	₱99,229,776	₱114,090,061	₱39,487,649	₱14,586,121	₱267,393,607
Additions	10,386,883	37,996,992	13,454,156	21,087,215	82,925,246
Disposals	–	(19,337,211)	(22,826,029)	–	(42,163,240)
As of December 31, 2012	109,616,659	132,749,842	30,115,776	35,673,336	308,155,613
Accumulated Depreciation and Amortization					
As of January 1, 2012	37,817,682	89,233,371	23,982,011	12,542,137	163,575,201
Depreciation and amortization (Note 23)	2,955,775	11,296,903	9,256,497	2,496,086	26,005,261
Disposals	–	(19,337,211)	(22,826,029)	–	(42,163,240)
As of December 31, 2012	40,773,457	81,193,063	10,412,479	15,038,223	147,417,222
Net Book Value as of December 31, 2012	₱68,843,202	₱ 51,556,779	₱19,703,297	₱20,635,113	₱160,738,391

Fully depreciated assets that are still actively used amounted to ₱22,675,321 and ₱15,699,466 as of December 31, 2013 and 2012, 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 5.65% and 5.90% in 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012.

13. Other Assets

This account consists of:

	2013	2012
Input value-added tax (VAT)	₱34,270,638	₱33,031,095
Income tax refund	13,694,030	11,362,902
Security deposits (Note 29)	7,822,495	7,500,441
Prepaid assets	12,664,024	6,707,296
Documentary stamps inventory	4,392,650	6,685,870
Others	6,248,803	10,574,741
	₱79,092,640	₱75,862,345

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

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

The other assets pertain to deposits for electricity, water and telephone utilities. In 2012, these also include the Company's 49.875% investment in MAIC Insurance Agency (MIA), which is carried at cost amounting ₡249,375. The Company did not present consolidated financial statements because it is a subsidiary of Mapfre Internacional, the ultimate parent, with registered office address at Ctra. de Pozuelo, 52 28222 Majadahonda Madrid, Spain. Mapfre Internacional prepares and publishes consolidated financial statements for the Group. The financial statements prepared by the ultimate parent comply with International Financial Reporting Standards. MIA ceased operations in March 2012.

14. Trade and Other Liabilities

This account consists of:

	2013	2012
Accounts payable	₱ 81,697,040	₱ 61,072,240
Output VAT	45,175,919	43,213,669
Taxes payable	38,577,056	62,131,232
Accrued expenses	16,681,592	8,596,543
Dividends payable (Note 18)	470,318	396,482
Others	32,821	32,821
	₱182,634,746	₱175,442,987

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

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

Accounts payable consist of collateral bond from policy holders, 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 2013	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2012
Provision for claims reported	₱2,227,769,374	₱1,839,235,991	₱ 388,533,383	₱1,127,177,881	₱ 853,471,876	₱ 273,706,005
Provision for IBNR claims	98,468,544	37,522,694	60,945,850	68,712,523	33,651,293	35,061,230
Total claims reported and IBNR	2,326,237,918	1,876,758,685	449,479,233	1,195,890,404	887,123,169	308,767,235
Reserve for unearned premiums	980,197,616	192,930,684	787,266,932	975,305,245	160,683,072	814,622,173
Total insurance contract liabilities	₱3,306,435,534	₱2,069,689,369	₱1,236,746,165	₱2,171,195,649	₱1,047,806,241	₱1,123,389,408

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

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2013	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2012
At beginning of the year	₱1,195,890,404	₱ 887,123,169	₱308,767,235	₱1,037,446,414	₱734,962,167	₱302,484,247
Claims incurred during the year	1,840,150,368	1,153,850,827	686,299,541	765,865,258	275,332,677	490,532,581
Claims paid - net of recoveries (Note 24)	(736,911,104)	(165,956,284)	(570,954,820)	(625,900,889)	(145,871,526)	(480,029,363)
Increase (decrease) in IBNR (Note 24)	27,108,250	1,740,973	25,367,277	18,479,621	22,699,851	(4,220,230)
At end of the year	₱2,326,237,918	₱1,876,758,685	₱449,479,233	₱1,195,890,404	₱887,123,169	₱308,767,235

Provision for unearned premiums may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2013	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2012
At beginning of the year	₱ 975,305,245	₱160,683,072	₱ 814,622,173	₱ 851,854,699	₱155,292,525	₱ 696,562,174
New policies written during the year (Note 22)	2,007,866,918	567,957,416	1,439,909,502	1,914,827,788	452,793,171	1,462,034,617
Premiums earned during the year (Note 22)	(2,002,974,547)	(535,709,804)	(1,467,264,743)	(1,791,377,242)	(447,402,624)	(1,343,974,618)
At end of the year	₱ 980,197,616	₱192,930,684	₱ 787,266,932	₱ 975,305,245	₱160,683,072	₱ 814,622,173

16. Other Insurance Contract Liabilities

This account consists of:

	2013	2012
Due to reinsurers	₱169,205,228	₱ 89,346,045
Funds held for reinsurers	95,241,385	78,978,020
	₱264,446,613	₱168,324,065

The rollforward analysis of other insurance contract liabilities follows:

	Due to Reinsurers	Funds held for reinsurers
At January 1, 2012	₱ 71,524,302	₱71,231,116
Arising during the year	213,301,657	78,978,020
Utilized	(195,479,914)	(71,231,116)
At December 31, 2012	89,346,045	78,978,020
Arising during the year	279,623,066	95,241,385
Utilized	(199,763,882)	(78,978,020)
At December 31, 2013	₱169,205,229	₱95,241,385

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 (12)-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.

2013

	Change in Assumption %	Impact on Insurance Contract Liabilities (net of Reinsurance Assets)	Impact on Profit Before Tax
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		

2012

	Change in Assumption %	Impact on Insurance Contract Liabilities (net of Reinsurance Assets)	Impact on Profit Before Tax
Average claim costs	7.75%	₱32,085,540	(₱32,085,540)
Average number of claims	12.24%	50,680,171	(50,680,171)
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:

At Gross

Accident year	2002 and prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total			
Estimate of ultimate claim costs																
At the end of accident year	₱159,855,276	₱185,719,867	₱344,687,223	₱277,461,829	₱682,536,056	₱491,237,990	₱555,641,559	₱ 659,479,570	₱ 515,391,998	₱ 642,863,378	₱728,854,274	₱1,858,997,896	₱1,858,997,896			
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	—	752,809,387			
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	—	—	1,205,732,582			
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	—	—	—	1,800,951,056			
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	—	—	—	—	1,143,511,740			
Five years later	149,030,058	297,524,095	498,383,528	313,944,081	594,990,142	421,168,354	527,652,988	—	—	—	—	—	527,652,988			
Six years later	101,079,661	297,967,390	498,178,267	304,101,091	594,925,866	421,283,185	—	—	—	—	—	—	421,283,185			
Seven years later	101,214,020	298,394,591	498,427,267	302,189,085	595,417,149	—	—	—	—	—	—	—	595,417,149			
Eight years later	101,411,085	298,420,367	498,436,387	303,275,751	—	—	—	—	—	—	—	—	303,275,751			
Nine years later	101,416,085	298,334,957	498,436,387	—	—	—	—	—	—	—	—	—	498,436,387			
Ten years later	101,416,085	298,334,957	—	—	—	—	—	—	—	—	—	—	298,334,957			
Eleven years later	101,423,385	—	—	—	—	—	—	—	—	—	—	—	101,423,385			
Current estimate of cumulative claims	101,423,385	298,334,957	498,436,387	303,275,751	595,417,149	421,283,185	527,652,988	1,143,511,740	1,800,951,056	1,205,732,582	752,809,387	1,858,997,896	9,507,826,463			
Cumulative payments to date	101,423,385	298,334,957	498,436,387	292,431,905	583,364,830	419,058,476	447,490,715	709,095,016	1,749,717,256	1,144,296,893	550,351,437	387,587,288	7,181,588,545			
Total gross insurance liability in the statement of financial position	₱	—	₱	—	₱	—	₱ 10,843,846	₱ 12,052,319	₱ 2,224,709	₱ 80,162,273	₱ 434,416,724	₱ 51,233,800	₱ 61,435,689	₱202,457,950	₱1,471,410,608	₱2,326,237,918

At Net

Accident year	2002 and prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total			
Estimate of ultimate claim costs																
At the end of accident year	₱141,295,488	₱136,278,902	₱179,302,653	₱249,364,691	₱312,325,941	₱361,595,928	₱398,113,064	₱414,109,113	₱372,190,374	₱479,922,860	₱424,939,841	₱666,565,555	₱666,565,555			
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	—	478,751,084			
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	—	—	990,902,331			
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	—	—	—	353,776,795			
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	—	—	—	—	487,467,157			
Five years later	55,789,748	136,765,271	288,384,494	248,048,720	280,021,683	338,313,036	374,761,255	—	—	—	—	—	374,761,255			
Six years later	43,206,528	137,082,677	288,402,796	238,194,631	279,998,658	338,356,287	—	—	—	—	—	—	338,356,287			
Seven years later	43,278,979	137,179,504	288,651,796	237,355,069	280,482,823	—	—	—	—	—	—	—	280,482,823			
Eight years later	43,254,773	137,205,280	288,660,916	237,906,277	—	—	—	—	—	—	—	—	237,906,277			
Nine years later	43,279,444	137,290,690	288,660,916	—	—	—	—	—	—	—	—	—	288,660,916			
Ten years later	43,279,444	137,290,690	—	—	—	—	—	—	—	—	—	—	137,290,690			
Eleven years later	43,286,744	—	—	—	—	—	—	—	—	—	—	—	43,286,744			
Current estimate of cumulative claims	43,286,744	137,290,690	288,660,916	237,906,277	280,482,823	338,356,287	374,761,255	487,467,157	353,776,795	990,902,331	478,751,084	666,565,555	4,678,207,914			
Cumulative payments to date	43,286,744	137,290,690	288,660,916	229,070,344	277,693,804	337,332,213	356,131,071	474,527,995	350,472,764	990,426,414	411,273,547	332,562,179	4,228,728,681			
Total net insurance liability in the statement of financial position	₱	—	₱	—	₱	—	₱ 8,835,933	₱ 2,789,019	₱ 1,024,074	₱ 18,630,184	₱ 12,939,162	₱ 3,304,031	₱ 475,917	₱ 67,477,537	₱334,003,376	₱449,479,233

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, 2013 and 2012.

Cash Dividends

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

	2013	2012
Date of approval	March 25	March 26
Date of declaration	March 25	March 26
Number of stockholders as of dividend declaration	16	16
Dividend per share	₱12.00	₱17.50
Total amount	₱120,000,000	₱175,000,000
Dividends paid	₱119,926,164	₱174,892,427
Dividends payable (Note 14)	₱ 470,318	₱ 396,482

Policy on dividends

The Company intends to declare annual cash dividend 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:

	2013	2012
Insurance contract premiums revenue:		
Direct insurance	₱1,792,395,624	₱1,634,858,583
Assumed reinsurance	215,471,293	279,969,205
Total insurance contract premiums revenue (Note 15)	2,007,866,917	1,914,827,788
Gross change in unearned premiums provision	(4,892,370)	(123,450,546)
Total gross earned premiums on insurance contracts (Note 15)	₱2,002,974,547	₱1,791,377,242

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

	2013	2012
Reinsurers' share of insurance contract premiums revenue:		
Direct insurance	₱ 481,210,458	₱ 377,907,930
Assumed reinsurance	86,746,959	74,885,241
Total reinsurers' share of insurance contract premiums revenue (Note 15)	567,957,417	452,793,171
Reinsurers' share of gross change for unearned premiums provision	(32,247,613)	(5,390,547)
Total reinsurers' share of gross earned premiums on insurance contracts (Note 15)	535,709,804	447,402,624
Net earned insurance premiums	₱1,467,264,743	₱1,343,974,618

20. Investment Income-net

This account consists of:

	2013	2012
Interest income on:		
Debt securities	₱ 78,747,902	₱ 96,941,647
Loans and receivables	6,998,158	4,465,746
Cash and cash equivalents	5,792,123	4,430,645
Funds held by ceding companies	629,520	778,224
Dividend income	16,250,217	21,772,810
Rental income (Notes 10, 30 and 32)	2,290,748	2,201,942
Other underwriting income	432,723	–
Other expenses -net	(778,690)	(891,301)
	₱110,362,701	₱129,699,713

21. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid:

	2013	2012
Direct insurance	₱642,681,268	₱528,075,106
Assumed reinsurance	94,229,836	97,825,783
Total insurance contract benefits and claims paid (Note 15)	₱736,911,104	₱625,900,889

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

	2013	2012
Direct insurance	₱119,458,645	₱107,457,954
Assumed reinsurance	46,497,639	38,413,572
Total reinsurers' share of insurance contract benefits and claims paid (Note 15)	₱165,956,284	₱145,871,526

Gross change in insurance contract liabilities:

	2013	2012

Direct insurance	₱1,127,936,231	₱ 87,525,535
Assumed reinsurance	(24,696,967)	52,438,834
Change in provision for IBNR claims (Note 15)	27,108,250	18,479,621
Total gross change in insurance contract liabilities	₱1,130,347,514	₱158,443,990

Reinsurers' share of gross change in insurance contract liabilities:

	2013	2012
Direct insurance	₱1,006,127,398	₱ 57,715,044
Assumed reinsurance	(18,232,855)	71,746,107
Change in provision for IBNR (Note 15)	1,740,973	22,699,851
Total reinsurers' share of gross change in insurance contract liabilities	₱ 989,635,516	₱152,161,002

22. Finance Costs

This account consists of:

	2013	2012
Interest expense	₱4,086,801	₱3,666,876
Amortization of discount on off-market loans	–	237,500
	₱4,086,801	₱3,904,376

23. General and Administrative Expenses

This account consists of:

	2013	2012 (As restated)
Salaries and benefits (Notes 23 and 26)	₱206,977,971	₱202,300,690
Net benefit expense (Notes 25 and 26)	21,678,511	31,999,221
Depreciation and amortization (Notes 10 and 11)	37,918,571	26,595,850
Rent (Note 32)	24,543,310	19,917,982
Professional and other fees	21,947,224	19,320,268
Transportation and travel	15,030,662	14,781,798
Repairs and maintenance	9,916,973	14,669,980
Communications	19,346,303	12,400,158
Taxes and licenses	2,367,042	9,427,847
Scholarship and training	5,804,563	9,175,211
Entertainment, amusement and recreation	1,536,506	8,611,482
Light and water	9,986,041	8,417,638
Stationery and supplies	7,328,813	7,820,070
(Forward)		

	2013	2012 (As restated)
Advertising and promotions	₱ 9,871,420	₱ 5,090,994
Provision for impairment losses (Notes 5 and 6)	–	4,500,000
Donations	1,207,852	2,630,249
Insurance	2,845,766	2,082,264
Books and periodicals	746,170	908,701
Others	56,834	187,629
	₱399,110,532	₱400,838,032

24. Other Expenses

This account consists of:

	2013	2012
Road assistance service fees	₱29,112,573	₱17,591,438
Losses on bank deposits	–	1,275,852
	₱29,112,573	₱18,867,290

Losses on bank deposits pertain to cash deposits with Export Industry Bank. Export Industry Bank is under receivership starting April 27, 2012.

25. Pension Benefit Obligation

The Company has a 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 net benefit expense recognized in the statements of income and the funded status and amounts recognized in the statement of financial position for the plan:

Net benefit expense included under general and administrative expenses follows:

	2013	2012 (As restated)
Current service cost	₱20,114,022	₱27,378,397
Net interest cost	1,564,489	4,620,824
Net benefit expense	₱21,678,511	₱31,999,221
Actual return on plan assets	₱15,619,287	₱ 8,295,186

Remeasurement effects to be recognized in OCI

	2013	2012
Actuarial gain	₱10,143,065	₱ 4,281,508
Return on assets (excluding amount included in net interest cost)	9,699,391	26,080,427
Total amount to be recognized in OCI	₱19,842,456	₱30,361,935

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

	2013	2012 (As restated)
Present value of benefit obligation	₱152,098,583	₱140,683,931
Fair value of plan assets	144,854,839	111,276,242
Net pension obligation	₱ 7,243,744	₱ 29,407,689

The movements in net pension obligation follow:

	2013	2012 (As restated)
At beginning of year	₱29,407,689	₱67,570,343
Net benefit expense	21,678,511	31,999,221
Actuarial gains	(19,842,456)	(30,361,935)
Contribution	(24,000,000)	(39,799,940)
At end of year	₱ 7,243,744	₱29,407,689

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

	2013	2012 (As restated)
At beginning of year	₱140,683,931	₱145,361,993
Current service cost	20,114,022	27,378,397
Interest cost	7,484,385	8,634,502
Benefits paid	(6,040,690)	(14,610,534)
Actuarial gains on obligation	(10,143,065)	(26,080,427)
At end of year	₱152,098,583	₱140,683,931

Changes in the fair value of plan assets follow:

	2013	2012 (As restated)
At beginning of year	₱111,276,242	₱ 77,791,650
Asset return in net interest cost	5,919,896	4,013,678
Contributions by employer	24,000,000	39,799,940
Benefits paid	(6,040,690)	(14,610,534)
Actuarial gains on plan assets	9,699,391	4,281,508
At end of year	₱144,854,839	₱111,276,242

The Company expects to contribute ₲24,000,000 to its retirement fund in 2014.

The distribution of the plan assets at year end follows:

	2013	2012
--	------	------

Assets			
Cash	₱ 128	₱ 321	
Investments	144,964,328	111,537,911	
Receivables	74,582	493,108	
	₱145,039,038	₱112,031,340	

Liabilities			
Trust fee payable	₱ 184,199	₱ 145,036	
Other payable	—	610,062	
	184,199	755,098	
	₱144,854,839	₱111,276,242	

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:

	2013	2012
Discount rate	5.32%	5.94%
Rate of salary increase	6.00%	6.00%

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, 2013			
	Discount Rate		Salary Increase Rate	
	+0.5%	-0.5%	+1.0%	-1.0%
Increase (Decrease) in net pension obligation	(₱7,359,898)	₱9,373,756	₱19,641,106	(₱12,761,933)

Amounts for the current and previous three(3) periods are as follows:

	2013	2012	2011	2010
Defined benefit obligation	₱152,098,583	₱140,683,931	₱145,361,993	₱94,864,518
Plan assets	144,854,839	111,276,242	77,791,650	86,153,717
Deficit	7,243,744	29,407,689	67,570,343	8,710,801
Experience adjustment loss (gain) on plan liabilities	13,483,185	12,173,958	(3,057,433)	9,008,874
Experience adjustment gain (loss) on plan assets	9,699,391	4,405,603	(4,963,767)	6,932,299

26. Personnel Expenses

	2013	2012
Salaries and wages	₱141,668,546	₱154,527,000
Others	65,309,425	47,773,690
Total salaries and benefits (Note 23)	206,977,971	202,300,690
Net benefit expense (Notes 23 and 25)	21,678,511	31,999,221
	₱228,656,482	₱234,299,911

27. Income Tax

The provision for income tax consists of:

	2013	2012
Final	₱17,173,447	₱19,905,509
Current	4,338,835	4,428,313
Deferred	(12,968,067)	20,528,469
	₱ 8,544,215	₱44,862,291

Deferred Tax

The Company's net deferred tax liability consists of:

	2013	2012 (As restated)
Deferred tax assets on:		
Deferred reinsurance commissions	₱ 9,943,810	₱10,758,837
Provision for IBNR claims	18,128,552	10,518,369
Allowance for impairment losses	7,118,594	7,118,593
Unamortized past service cost	6,938,225	6,898,898
MCIT	8,767,149	4,428,313
Accrued long-term employee benefits	4,498,048	2,343,515
Pension obligation	2,173,123	8,822,307
Accrued rent expense	506,430	235,447
Unamortized discount of off-market loans	—	109,660
	58,073,931	51,233,939
Deferred tax liabilities on:		
Deferred acquisition costs	83,161,541	83,330,566
Excess of unearned premiums per tax basis over per books	768,686	753,820
Accrued rent income	8,795	29,975
	83,939,022	84,114,361
Net deferred tax liability	(₱25,865,091)	(₱32,880,422)

Movements in net deferred tax liabilities comprise of:

	2013	2012 (As restated)
At beginning of the year	(₱32,880,422)	(₱ 3,243,373)
Amounts charged against (credited to) to statements of income	7,015,331	(29,637,049)
At end of the year	(₱25,865,091)	(₱32,880,422)

As of December 31, 2013, details of NOLCO and MCIT which can be claimed as deduction from future taxable income follow:

Year incurred	Year of Expiry	NOLCO	MCIT
2012	2015	₱ 60,496,361	₱ 4,428,314
2013	2016	67,192,295	4,338,835
		₱127,688,656	₱8,767,149

The movements in NOLCO are as follows:

	2013	2012
At January 1	₱60,496,361	₱ –
Additions	67,192,295	60,496,361
At December 31	₱127,688,656	₱60,496,361

The movements in MCIT are as follows:

	2013	2012
At January 1	₱4,428,314	₱ –
Additions	4,338,835	4,428,314
At December 31	₱8,767,149	₱4,428,314

Deferred tax assets on NOLCO and MCIT as of December 31, 2013 and 2012, respectively, have not been recognized since management believes that the benefits will not be realized prior to their expiry dates.

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

	2013	2012 (As restated)
Statutory income tax rate	30.00%	30.00%
Tax effects of:		
Unrecognized deferred tax assets	52.55	8.94
Nondeductible expense	–	0.04
Dividend income	(12.71)	(3.19)
Income already subjected to final tax	(21.37)	(5.60)
Nontaxable income	(26.20)	(8.55)
Effective income tax rate	22.27%	21.64%

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 capital-based requirements: Margin of Solvency (MOS), Fixed Capitalization 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 its required minimum capital.

The BOD also sees to it that the Company complies with the RBC and the MOS requirements. 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.

The following table shows the Company's MOS and Fixed Capital requirement as of December 31, 2013 and 2012:

Requirement	2013		2012	
	Minimum Required	Actual	Minimum Required	Actual
Margin of Solvency*	₱146,203,462	₱525,050,477	₱140,077,045	₱545,232,586
Fixed Capital Requirement	250,000,000	500,000,000	250,000,000	500,000,000

*The 2013 and 2012 MOS is based on amounts estimated by the Company.

During the years 2013 and 2012, the Company fully complied with the IC-imposed Minimum Statutory Networth and Minimum Paid-up Capital, MOS and RBC requirements; however, it is subject to IC examination.

Margin of Solvency

Under the Insurance Code (the Code), a nonlife insurance company doing business in the Philippines shall maintain, at all times, an MOS equal to ₱250,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The MOS shall be the excess of the value of its admitted assets (as defined under the same Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums, and reinsurance reserves.

Reserve for unearned premiums as of December 31, 2013 and 2012, determined in accordance with the same Code for purposes of MOS, amounted to ₱789,829,237 and ₱817,134,905. In the accompanying financial statements, the PFRS net provision for unearned premiums amounted to ₱787,266,932 and ₱814,622,173 as of December 31, 2013 and 2012, computed as provision for unearned premiums of ₱980,197,616 and ₱975,305,245 as of December 31, 2013 and 2012, reduced by deferred reinsurance premiums of ₱192,930,684 and ₱160,683,072 as of December 31, 2013 and 2012.

The final amount of the MOS can only be determined after the accounts of the Company have been examined by the IC, particularly with respect to the determination of admitted and non-admitted assets. As of December 31, 2013 and 2012, the Company's MOS amounted to ₱525,050,477 and ₱545,232,586, respectively.

The estimated amounts of non-admitted assets as of December 31, 2013 and 2012, as defined under the Code, which are included in the accompanying statements of financial position follow:

	2013	2012
Premiums in course of collection	₱115,294,041	₱116,455,772
Deferred acquisition costs - net	244,059,101	241,905,762
Property and equipment - net	70,423,581	56,213,516
Other assets	154,675,543	136,807,579
	₱584,452,266	₱551,382,629

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

Fixed Capitalization Requirements

Department of Finance (DOF) Order 27-06 provide for the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On October 29, 2008, the IC issued the Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of IMC No. 10-2006, the scheduled increases due December 31, 2008 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007.

On June 1, 2012, the Department of Finance issued DO No. 15-2012 which provides for minimum paid up capital requirements of all insurance and professional reinsurance companies to supplement the requirements of DO No. 27-06 after December 31, 2012. Under the said DO, the minimum paid up capital requirements is on a staggered basis for the years December 31, 2012 up to 2020. The DO also allows all existing insurance and professional reinsurance companies a one-time one-year deferral in the compliance to minimum paid up capital requirements provided it has met the RBC hurdle rate based on the schedule set out in the said DO.

The table below shows the amount of minimum paid-up capital and the schedule of compliance per DO No. 15-2012.

Paid-up capital	Compliance Date
₱ 250,000,000	On or before December 31, 2012 (<i>Pursuant to DO 27-06 and IMC No. 10-2006</i>)
400,000,000	On or before December 31, 2014
600,000,000	On or before December 31, 2016
800,000,000	On or before December 31, 2018
1,000,000,000	On or before December 31, 2020

On November 22, 2012, the IC issued an advisory to all insurance and reinsurance companies doing business in the Philippines regarding the implementation of DO No. 27-06. According to the advisory, the minimum paid-up capital for December 31, 2012 must at least be equal to the amount previously scheduled for December 31, 2011 per DO 27-06.

On December 11, 2012, DO No. 15-2012 was issued with a temporary restraining order. Accordingly, the minimum paid up capital requirement would be ₱250,000,000 by the end of 2012 as advised by the IC.

On August 5, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the “New Insurance Code” which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

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

As of December 31, 2013 and 2012, the estimated statutory net worth of the Company amounted to ₱146,203,462 and ₱1,185,840,535, respectively.

Unimpaired capital requirement

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

Risk-based Capital Requirements

IMC No. 7-2006 provides for the RBC framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every 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, 2013 and 2012, the Company’s estimated RBC ratio is 64% and 107%, respectively, based on RBC requirements of ₱1,612,889,957 and ₱1,107,762,641, respectively.

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

Consolidated Compliance Framework

IMC no.10-2006 integrated the compliance standards for the fixed capitalization and risk-based capital framework.

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2013 and 2012 which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

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, 2013 and 2012. There are no material unrecognized financial assets as of December 31, 2013 and 2012.

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	₱ 234,719,056	₱ 234,719,056	₱ 286,502,753	₱ 286,502,753
Insurance receivables - net				
Premiums receivable	375,094,240	375,094,240	264,243,011	264,243,011
Reinsurance recoverable on paid losses	115,579,124	115,579,124	191,920,818	191,920,818
Due from ceding companies	19,235,168	19,235,168	71,566,842	71,566,842
Due from brokers	39,715,314	39,715,314	65,458,844	65,458,844
	549,623,846	549,623,846	593,189,515	593,189,515
AFS financial assets				
Equity securities				
Listed and club shares	205,195,310	205,195,310	326,117,485	326,117,485
Unlisted	519,738	519,738	519,738	519,738
Government debt securities				
Local currency	792,897,071	792,897,071	845,785,481	845,785,481
Bonds and notes				
Local currency	669,010,384	669,010,384	350,483,524	350,483,524
Foreign currency	32,491,191	32,491,191	47,463,775	47,463,775
	1,700,113,694	1,700,113,694	1,570,370,003	1,570,370,003
Loans and receivables - net				
Accounts receivable	53,177,098	53,177,098	51,991,617	51,991,617
Long-term notes	47,500,000	57,831,535	48,000,000	67,434,780
Mortgage loans	15,389,942	20,496,523	13,091,224	15,859,715
Car financing loans	15,579,268	17,182,416	13,285,858	14,638,454
Long-term investments	10,000,000	15,324,685	10,000,000	15,973,736
Short-term investments	1,505,743	1,505,743	1,483,152	1,483,152
	143,152,051	165,518,000	137,851,851	167,381,454

(Forward)

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Accrued income				
Accrued interest income	₱ 20,880,071	₱ 20,880,071	₱ 21,614,027	₱ 21,614,027
Accrued dividends	2,583,334	2,583,334	7,685,858	7,685,858
Accrued rent	29,316	29,316	99,916	99,916
	23,492,721	23,492,721	29,399,801	29,399,801
Other assets				
Security deposits	7,822,495	7,822,495	7,500,441	7,500,441
Total	₱2,658,923,863	₱2,681,289,812	₱2,624,814,364	₱2,654,343,967
OTHER FINANCIAL LIABILITIES				
Other insurance contract liabilities				
Due to reinsurer	₱169,205,228	₱169,205,228	₱ 89,346,045	₱ 89,346,045
Funds held for reinsurer	95,241,385	95,241,385	78,978,020	78,978,020
	264,446,613	264,446,613	168,324,065	168,324,065
Trade and other liabilities				
Accounts payable	81,697,040	81,697,040	61,072,240	61,072,240
Accrued expenses	16,681,592	16,681,592	8,596,543	8,596,543
Dividends payable	470,318	470,318	396,482	396,482
	98,848,950	98,848,950	70,065,265	70,065,265
Total	₱363,295,563	₱363,295,563	₱238,389,330	₱238,389,330

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. 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 0.49% to 3.69% and from 0.49% to 5.96% in 2013 and 2012, 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 0.52% to 3.09% and from 1.69% to 4.84% in 2013 and 2012, 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% and from 1.78% to 5.35% in 2013 and 2012, respectively.

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, 2013 and 2012:

2013	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:				
AFS financial assets				
Equity securities	₱205,715,048	₱—	₱—	₱205,715,048
Debt securities	1,494,398,646	—	—	1,494,398,646
	1,700,113,694	—	—	1,700,113,694
Assets for which fair values are disclosed:				
Loans and receivables				
Mortgage loans	—	20,496,523	—	20,496,523
Car financing loans	—	17,182,416	—	17,182,416
Long-term investments	—	15,324,685	—	15,324,685
Investment property	—	—	0	0
	—	53,003,624	—	53,003,624
	₱1,700,113,694	₱53,003,624	₱0	₱1,753,117,318

In 2012, fair values of equity and debt securities classified as AFS financial assets were determined using Level 1.

During the reporting period ended December 31, 2013 and 2012, 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.

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 are 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 toX currency risk on foreign currency-denominated financial assets and their PHP equivalents as follows:

Financial Assets	December 31, 2013	
	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
Total	\$1,255,396	₱55,733,322

Financial Assets	December 31, 2012	
	USD	PHP
Cash and cash equivalents	\$ 402,701	₱16,530,876
AFS financial assets		
Bonds and notes	1,156,243	47,463,775
Accrued interest income	25,065	1,028,918
Total	\$1,584,009	₱65,023,569

The Company used the following foreign exchange rates:

	2013	2012
USD to Peso	₱44.40	₱41.05

The Company has no foreign currency-denominated financial liabilities as of December 31, 2013 and 2012.

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, 2013 and 2012:

2013

	Change in Exchange Rate	Effect on Income Before Tax	Equity
USD	+3.64%	₱2,028,693	₱1,420,085
	-3.64%	(2,028,693)	(1,420,085)

2012

	Change in Exchange Rate	Effect on Income Before Tax	Equity
USD	+1.56%	₱977,123	₱683,986
	-1.56%	(977,123)	(683,986)

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:

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
Total		₱303,359,913	₱43,820,527	₱1,147,218,206	₱1,494,398,646

2012

	Range of Interest Rates	1-3 Years	3-5 Years	Over 5 Years	Total
AFS - debt securities					
Government debt securities	5.38% - 11.25%	₱ 5,212,331	₱140,688,581	₱699,884,569	₱ 845,785,481
Bonds and notes	6.50% - 9.50%	76,318,293	31,043,775	290,585,231	397,947,299
Total		₱81,530,624	₱171,732,356	₱990,469,800	₱1,243,732,780

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.

2013

	Change in interest rate	Impact on Equity
USD rate	+4.92%	1,528,964
	-4.92%	(1,528,964)
PHP rate	+5.43%	57,585,150
	-5.43%	(57,585,150)

2012

	Change in interest rate	Impact on Equity
USD rate	+4.92%	₱5,586,003
	-4.92%	(5,586,003)
PHP rate	+5.43%	₱92,146,804
	-5.43%	(92,146,804)

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, 2013 and 2012.

	Percentage increase (decrease) in equity prices	Effect on Equity
2013	12.40%	₱16,518,478
	-12.40%	(16,518,478)
2012	+23.80%	₱75,599,084
	-23.80%	(75,599,084)

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.

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.

	2013	2012
Cash and cash equivalents (excluding cash on hand)	₱ 233,613,890	₱ 285,406,703
Insurance receivables - net:		
Premiums receivable	375,094,240	264,243,011
Reinsurance recoverable on paid losses	115,579,124	191,920,818
Due from ceding companies	19,235,168	71,566,842
Due from brokers	39,715,314	65,458,844
AFS financial assets:		
Government debt securities		
Local currency	792,897,071	845,785,481
Bonds and notes		
Local currency	669,010,384	350,483,524
Foreign currency	32,491,191	47,463,775
Loans and receivables:		
Accounts receivable	53,177,098	51,991,617
Long-term notes	47,500,000	48,000,000
Car financing loans	15,579,268	13,285,858
Mortgage loans	15,389,942	13,091,224
Long-term investments	10,000,000	10,000,000
Short-term investments	1,505,743	1,483,152
Accrued income:		
Accrued interest income	20,880,071	21,614,027
Accrued dividends	2,583,334	7,685,858
Accrued rent	29,316	99,916
Security deposits	7,822,495	7,500,441
Total Credit Risk Exposure	₱2,452,103,649	₱2,297,081,091

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, 2013 and 2012 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.

2013

	PRS Aaa	PRS Ba	PRS B	Not Rated	Total
Cash and cash equivalents					
Cash in banks	₱	–	₱	–	₱ 134,216,877
Short-term deposits	–	–	–	–	99,397,013
Total					₱ 134,216,877 99,397,013
AFS financial assets					
Government securities					
Local currency	–	792,897,071*	–	–	792,897,071
Bonds and notes					
Local currency	608,802,582	–	–	60,207,802	669,010,384
Foreign currency	23,079,451	–	–	9,411,740	32,491,191
Total	₱631,882,033	₱792,897,071	₱	₱303,233,432	₱1,728,012,536

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

2012

	PRS Aaa	PRS Ba	PRS B	Not Rated	Total
Cash and cash equivalents					
Cash in banks	₱	–	₱	–	₱ 113,760,047
Short-term deposits	–	–	–	–	171,646,656
Total					₱ 113,760,047 171,646,656
AFS financial assets					
Government securities					
Local currency	–	845,785,481*	–	–	845,785,481
Bonds and notes					
Local currency	261,056,259	–	–	89,427,265	350,483,524
Foreign currency	38,401,659	–	–	9,062,116	47,463,775
Total	₱299,457,918	₱845,785,481	₱	₱383,896,084	₱1,529,139,483

* The credit ratings are the equivalent to Moody's specific issue credit rating for the same debt securities as of December 31, 2012.

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.

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, 2013 and 2012.

2013

	Neither Past Due nor Impaired			Past Due or Impaired	Total
	Grade A	Grade B	Grade C		
Insurance receivables					
Due from ceding companies	₱	–	₱	–	₱ 22,492,849
Premiums receivable	–	–	–	280,600,700	388,106,884
Due from brokers	–	–	–	32,911,069	40,698,926
Reinsurance recoverable on paid losses	–	–	–	114,189,299	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	–	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
	₱30,969,210	₱135,376,430	₱453,443,409	₱128,030,709	₱747,819,758

2012

	Neither Past Due nor Impaired			Past Due or Impaired	Total
	Grade A	Grade B	Grade C		
Insurance receivables					
Due from ceding companies	₱	–	₱	–	₱ 74,691,908
Premiums receivable	–	–	–	180,486,761	272,459,871
Due from brokers	–	–	–	41,959,793	24,482,663
Reinsurance recoverable on paid losses	–	–	–	183,533,185	195,678,613
Long-term notes	–	–	48,000,000	–	48,000,000
Mortgage loans	13,091,224	–	–	–	13,091,224
Car financing loans	13,285,858	–	–	–	13,285,858
Long-term investments	–	–	10,000,000	–	10,000,000
Short-term investments	–	–	1,483,152	–	1,483,152
Accounts receivable	240,102	–	33,375,690	–	59,636,929
Accrued income					
Accrued interest income	–	–	21,614,027	–	21,614,027
Accrued dividends	–	–	7,685,858	–	7,685,858
Accrued rent	–	–	–	99,916	99,916
Security deposits	–	–	–	7,500,441	7,500,441
	₱26,617,184	₱122,158,727	₱473,722,917	₱169,171,425	₱791,670,253

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, 2013 and 2012 follows:

2013

	Past Due but not Impaired		Past Due and Impaired	Total
	≤ 90 days	91-180 days		
Accounts receivable	₱ 269,816	₱ –	₱2,849,528	₱ 3,119,344
Insurance receivables				
Premium receivables	89,020,238	18,485,946	–	107,506,184
Due from brokers	7,787,857	–	–	7,787,857
Reinsurance recoverable on paid losses	1,389,825	–	3,625,180	5,015,005
Due from ceding companies	1,344,638	–	3,257,681	4,602,319
Total	₱99,812,374	₱18,485,946	₱9,732,389	₱128,030,709

2012

	Past Due but not Impaired		Past Due and Impaired	Total
	≤ 90 days	91-180 days		
Accounts receivable	₱ 5,855,162	₱12,520,663	₱ 7,645,312	₱ 26,021,137
Insurance receivables				
Premium receivables	69,777,195	13,979,055	8,216,860	91,973,110
Due from brokers	22,577,673	921,378	983,612	24,482,663
Reinsurance recoverable on paid losses	6,878,321	1,509,312	3,757,795	12,145,428
Due from ceding companies	5,555,842	5,868,179	3,125,066	14,549,087
Total	₱110,644,193	₱34,798,587	₱23,728,645	₱169,171,425

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 2012.

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 October 24, 2013, 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:

- Renewal of Bills Purchase Line amounting ₱35,000,000;
- Renewal of Corporate Guarantee Line amounting ₱10,000,000; and

The table below shows the maturity profile of the financial instruments of the Company as of December 31, 2013 and 2012 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

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
Financial assets	₱ 2,952,814,693	₱ 353,650,745	₱ 62,721,895	₱ 1,166,495,216	₱ 4,535,682,549
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
Other Financial liabilities	₱ 2,689,533,481	₱ –	₱ –	₱ –	₱ 2,689,533,481

2012

	On Demand	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Cash and cash equivalents	₱ 286,502,753	₱ —	₱ —	₱ —	₱ 286,502,753
Insurance receivables – net					
Premiums receivable	272,459,871	—	—	—	272,459,871
Reinsurance recoverable on paid losses	195,678,613	—	—	—	195,678,613
Due from ceding companies	74,691,908	—	—	—	74,691,908
Due from brokers	66,442,456	—	—	—	66,442,456
AFS financial assets					
Equity securities					
Listed and club shares	326,117,485	—	—	—	326,117,485
Unlisted	519,738	—	—	—	519,738
Government and debt securities					
Local currency	—	5,212,331	140,688,581	699,884,569	845,785,481
Bonds and notes					
Local currency	—	59,898,293	—	290,585,231	350,483,524
Foreign currency	—	16,420,000	—	31,043,775	47,463,775
Loans and receivables – net					
Accounts receivable	240,102	—	10,000,000	—	10,240,102
Long-term notes	—	—	48,000,000	—	48,000,000
Mortgage loans	42,069,637	17,327,190	—	—	59,396,827
Car financing loans	138,425	1,300,480	1,510,597	10,141,722	13,091,224
Long-term investments	416,577	4,265,366	6,543,049	2,060,866	13,285,858
Short-term investments	1,483,152	—	—	—	1,483,152
Accrued income					
Accrued interest income	21,614,027	—	—	—	21,614,027
Accrued dividends	7,685,858	—	—	—	7,685,858
Accrued rent	99,916	—	—	—	99,916
Other assets					
Security deposits	7,500,441	—	—	—	7,500,441
Reinsurance assets	887,123,169	—	—	—	887,123,169
Financial assets	₱ 2,190,784,128	₱ 104,423,660	₱ 206,742,227	₱ 1,033,716,163	₱ 3,535,666,178
Insurance contract liabilities	₱ 1,195,890,404	₱ —	₱ —	₱ —	₱ 1,195,890,404
Other insurance contract liabilities					
Due to reinsurer	89,346,045	—	—	—	89,346,045
Funds held for reinsurers	78,978,020	—	—	—	78,978,020
Trade and other liabilities					
Accounts payable	61,072,240	—	—	—	61,072,240
Accrued expenses	8,596,543	—	—	—	8,596,543
Dividends payable	396,482	—	—	—	396,482
Other Financial liabilities	₱ 1,434,279,734	₱ —	₱ —	₱ —	₱ 1,434,279,734

The Company has no existing interest-bearing financial obligation as of December 31, 2013 and 2012.

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:

2013

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

2012

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	₱ 809,261,073	₱735,441,099	₱ 73,819,974
Motorcar	216,326,404	37,539,290	178,787,114
Surety	66,345,331	45,578,511	20,766,820
Marine	43,769,896	38,091,022	5,678,874
Accident	24,333,222	1,581,798	22,751,424
Engineering	16,541,419	15,968,699	572,720
Casualty	13,693,059	7,302,750	6,390,309
Aviation	5,620,000	5,620,000	—
	₱1,195,890,404	₱887,123,169	₱308,767,235

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:

	2013	2012
Salaries and other short-term employee benefits	₱86,618,449	₱93,585,770
Post-employment benefits	—	5,250,844
	₱86,618,449	₱98,836,614

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

December 31, 2013

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

December 31, 2012

	Amount/volume	Outstanding Balance	Allowance for Impairment	Terms	Conditions
Entities with joint control					
Mapfre Re Compania de Reaseguros, S.A. (Mapfre Re)					Net of RI Recoverable, outward commission, premium reserve withheld
Reinsurance premiums ceded	₱195,396,648	₱29,848,732	₱	– Current, unsecured	Offset against Reinsurance premium ceded
Inward commissions	48,696,383	7,650,756		– Current, unsecured	Foreign currency denominated payment
Other insurance contract liability	45,747,667	45,747,667		– Current, unsecured	
Subsidiaries					
MAIC Insurance Agency (MIA)					
Premiums	24,489,338	279		– Current, unsecured	Cash payment
Outward commissions	(5,468,143)	(22)		– Current, unsecured	Cash payment
Trade receivables	27,643,670	3,548,038	1,147,534	Current, unsecured	Cash payment
Lease contract	64,447	64,447		Current, no guarantees and security deposit	Cash payment
	₱336,570,010	₱86,859,897	₱1,147,534		

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

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

	2013	2012 (As restated)
Net income under PFRS	₱29,815,374	₱162,434,369
Add (deduct):		
Difference in change in provision for unearned premiums - net	(49,553)	(41,010,337)
Deferred acquisition costs - net	(2,153,340)	(44,368,593)
Provision for IBNR	25,367,277	(4,220,230)
Tax effects of PFRS differences	(6,949,315)	26,879,748
Statutory net income	₱46,030,443	₱ 99,714,957

32. Lease Commitments

The Company as Lessee

The Company has entered into noncancelable operating lease agreements for its several 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 payable on a monthly basis and are renewable under certain terms and conditions.

Future minimum rentals payable under noncancelable operating leases as of December 31, 2013 and 2012 follow:

	2013	2012
Within one (1) year	₱22,127,196	₱18,992,049
After one (1) year but not more than five (5) years	35,931,697	46,083,387
	₱58,058,893	₱65,075,436

Rent expense included in the statements of income for the years ended December 31, 2013 and 2012 amounted to ₱24,543,310 and ₱19,917,982, respectively (Note 23).

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 below 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, 2013 and 2012 follow:

	2013	2012
Within one (1) year	₱2,404,035	₱890,623
After one (1) year but not more than five (5) years	1,202,018	—
	₱3,606,053	₱890,623

Rental income included in the statements of income for the years ended December 31, 2013 and 2012 amounted to ₱2,290,748 and ₱2,201,942, respectively (Note 23).

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.

34. Disclosures Required Under Revenue Regulations 19-2011

The Company reported the following schedules and information on taxable income and deductions in 2013:

a. Sales/Receipts/Fees

The Company's sales of services for the year ended December 31, 2013 amounted to ₱1,467,215,190.

b. Cost of Sales/Services

Details of cost of services follow:

Direct Charges - salaries, wages and benefits	₱ 114,328,241
Direct Charges - others	1,264,876,189
	₱1,379,204,430

c. Non-operating and Taxable Other Income

Details consist of the following in 2013:

Commission income	₱ 85,355,548
Rental income	2,361,348
Interest income not subjected to final tax	7,627,678
Foreign exchange gain	21,875,496
Others	11,710,906
	₱128,930,976

d. Itemized Deductions

The Company has the following itemized deductions in 2013:

Salaries and allowances	₱ 71,941,500
Depreciation	37,918,571
Communication, light and water	29,332,344
Amortization of pension trust contribution	3,754,886
Rental	23,640,036
Professional fees	21,947,224
Transportation and travel	15,030,662
Repairs and maintenance	9,916,973
SSS, GSIS, Philhealth and other contributions	31,566,477
Taxes and licenses	2,367,042
Representation and entertainment	1,536,506
Office supplies	7,328,813
Scholarship and training	5,804,563
Advertising	9,871,420
Interest	4,086,801
Charitable contributions	1,207,852
Insurance	2,845,766
Books and periodicals	746,170
Directors' fees	2,074,000
Miscellaneous	1,216,425
	₱284,134,031

e. Taxes and Licenses

This amount consists of the following in 2013:

Insurance Commission registration penalties and assessment	₱ 471,874
Real estate taxes	668,527
License and permit fees	901,687
Others	215,166
<u>Documentary stamp taxes</u>	109,788
	<u>₱2,367,042</u>

35. Disclosures Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following types of taxes in 2013:

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	₱1,392,501,524	₱167,100,182
Commissions	85,355,549	10,242,666
Leasing income	2,361,347	283,362
	<u>₱1,480,218,420</u>	<u>₱177,626,210</u>

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 ₱16,729,195 in 2013.

b. Details of Input VAT follow:

Balance at January 1, 2013	₱ 33,031,095
Current year's purchases/payments for:	
Services lodged under cost of service	₱60,936,313
Goods other than for resale or manufacture	34,338,094
Capital goods subject to amortization	1,281,927
Capital goods not subject to amortization	458,480
	<u>97,014,814</u>
	130,045,909
Claims for tax credit	(95,775,271)
<u>Balance at December 31, 2013</u>	<u>₱ 34,270,638</u>

c. Information on the Company's importations

The Company does not undertake importation activities.

d. Documentary Stamps Tax

Insurance premiums	₱209,752,116
Debt instruments	58,182
Agents' IC Certificate of Authority (CA) fees	644
Lease contract	2,260
	<u>₱209,813,202</u>

e. Fringe Benefits Tax

The Company paid fringe benefits tax amounting ₱3,085,431 in 2013.

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	₱ 471,874
Real estate taxes	668,527
License and permit fees	901,687
Others	215,166
Documentary stamp taxes	109,788
	<u>₱2,367,042</u>

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	₱ 72,311,220
Withholding taxes on compensation and benefits	45,837,594
Final withholding taxes	9,547,537
	<u>₱127,696,351</u>

h. Tax assessments and Cases

The Company is under preliminary tax audit for taxable year 2010. The Company has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.