TRAVELLERS INSURANCE & SURETY CORPORATION
Notes to Financial Statements
As at and for the Years Ended December 31, 2014 and 2013

1. CORPORATE INFORMATION

Travellers Insurance & Surety Corporation (the Company) was registered with the Securities and Exchange Commission (SEC) on June 25, 1964. The Company is engaged in the business of insurance, guaranty and reinsurance in any branches except life insurance, for a consideration. The Company is owned by a group of Filipino individuals.

The Insurance Commission (IC) granted the Company a license to transact certain class of insurance such as fire, marine, casualty and surety except customs bonds, which is renewable every year. The IC issued a license expiring on June 30, 2014. Based on IC Circular no. 2014-26 issued on June 3, 2014, existing licenses with expiry date of June 30, 2014 shall be recognized as valid until December 31, 2015.

The registered office address of the Company is 10th Floor G.E. Antonino Building T.M. Kalaw Ermita Manila.

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on May 14, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all the years presented, unless stated otherwise.

Statement of Compliance

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

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale financial assets and investment properties which are measured at fair value. The Company presents its statements of financial position in the order of liquidity.

The financial statements are presented in Philippine Peso (₱), which is the Company's functional and presentation currency. All amounts are rounded to the nearest peso unless otherwise indicated.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRSs and Philippine Interpretations which were adopted as at January 1, 2014. The adoption of the new and amended standards and interpretations did not have significant effect on the financial statements.

PAS 32 (Amendment), Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities, effective beginning on or after January 1, 2014. This amendment to PAS 32 clarifies the meaning of "currently has a legally enforceable right to set off" and also clarifies the application of the PAS 32 offsetting criteria to settlement systems (such as central clearinghouse systems) which apply gross settlement mechanisms that are not simultaneous. The amendment is not applicable to the Company's financial statements since the Company does not carry any financial instruments that are subject to offsetting, enforceable master netting arrangements and similar agreements as at the end of the reporting period.

PAS 36 (Amendment), Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets, effective beginning on or after January 1, 2014. This amendment clarifies that the requirement for the disclosure of the recoverable amount of an asset or cash-generating units is only required in the periods in which the impairment has been recorded or reversed. The amendment is also made to expand and clarify the disclosure requirements when the recoverable amount has been determined on the basis of fair value less costs of disposal and to introduce a requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less costs of disposal is determined using a present value technique. The amendment is not applicable since the Company has determined that its tangible assets are recoverable.

IFRIC Interpretation 21, Levies, effective beginning on or after January 1, 2014. This interpretation addresses the accounting for a liability to pay a levy that is accounted for in accordance with PAS 37: Provisions, Contingent Liabilities and Contingent Assets and those whose timing and amount is certain. This interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. The liability to pay a levy is recognized progressively when the obligating event occurs over a period of time. If the levy is subject to a minimum threshold, recognition of a levy liability occurs only at the point the minimum threshold is reached. The interpretation has no impact on the Company's financial statements since the Company is not subject to levy as at the end of the reporting period.

New accounting standards, interpretations and amendments to existing standards effective subsequent to January 1, 2014

The Company will adopt the following standards when these become effective.

Annual Improvements to PFRS 2010 – 2012 Cycle

PFRS 2 (Amendment), Share-based Payment – Definition of vesting condition, focuses on the amendment of the definitions of 'vesting condition' and 'market condition' and added definitions for 'performance condition' and 'service condition' which are previously included in the definition of vesting conditions.

PFRS 13 (Amendment), Fair Value Measurement – Short-term receivables and payables
This amendment states that issuing PFRS 13 and amending PFRS 9, Financial Instruments and PAS 39, Financial Instruments: Recognition and Measurement did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

PAS 16 (Amendment), Property, Plant and Equipment – Revaluation method: proportionate restatement of accumulated depreciation, clarifies that when an item of property, plant and equipment is revalued, the carrying amount of asset is adjusted to the revalued amount. At the date of revaluation, the asset is 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 is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses, or (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.

PAS 24(Amendment), Related Party Disclosures – Key management personnel, clarifies that a management entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

PAS 38 (Amendment), Intangible Assets – Revaluation method: Proportionate restatement of accumulated amortization. This amendment clarifies that when an intangible asset is revalued, the carrying amount of asset is adjusted to the revalued amount. At the date of revaluation, the asset is 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 is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses, or (b) the accumulated amortization is eliminated against the gross carrying amount of the asset.

The management is still evaluating the impact of these amendments on the Company's financial statements. The amendments are effective for annual periods beginning on or after July 1, 2014 and shall be applied retrospectively. However, early application of these improvements is permitted.

Annual Improvements to PFRSs 2011 – 2013 Cycle

PFRS 1 (Amendments to the Basis for Conclusions), First-time Adoption of Philippine Financial Reporting Standards – Meaning of effective PFRSs. The amendments state that a first-time adopter is permitted to use either the PFRS that is currently mandatory or the new PFRS that is not yet mandatory, provided that the new PFRS permits early application. If a first-time adopter chooses to early apply a new PFRS, that new PFRS will be applied throughout all the periods presented in its first PFRS financial statements on a retrospective basis, unless PFRS 1 requires otherwise.

PFRS 3 (Amendments), Business Combinations – Scope exceptions for joint ventures. The amendments clarify that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

PFRS 13 (Amendment), Fair Value Measurement – Portfolio exception, clarifies that the scope of the portfolio exception defined in paragraph 52 of PFRS 13 applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 Financial Instruments: Recognition and Measurement or PFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32 Financial Instruments: Presentation.

PAS 40 (Amendment), Investment Property. The amendments clarify the interrelationship between PAS 40 and PFRS 3 Business Combinations. The amendment states that judgment is needed in 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. Determining whether a specific transaction meets the definition of a business combination and includes an investment property requires the separate application of both PFRS 3 and PAS 40.

The management is still evaluating the impact of these amendments on the Company's financial statements. The amendments are effective for annual periods beginning on or after July 1, 2014 and shall be applied retrospectively. However, early application of these improvements is permitted.

PAS 19 (Amendments) Employee Benefits – Defined Benefit Plans: Employee Contributions, effective beginning on or after July 1, 2014. The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follow: (a) if the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service, i.e. either using the plan's contribution formula or on a straight-line basis; or (b) if the amount of the contributions is independent of the number of years of service, the entity is permitted to recognize such contributions as a reduction of the service cost in the period in which the related service is rendered. The amendments will not have significant impact on the Company's financial statements as the Company does not have contributions from employees or third parties that are linked to period of service.

PFRS 11, Joint Arrangement — Accounting for Acquisitions of Interests in Joint Operations (Amendments) effective beginning on or after July 1, 2014. The amendments require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in PFRS 3 to: (1) apply all of the business combinations accounting principles in PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11; and, (2) disclose the information required by PFRS 3 and other PFRSs for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in PFRS 3, for those acquisitions occurring from the beginning of the first period in which the amendments apply. Amounts recognized for acquisitions of interests in joint operations occurring in prior periods are not adjusted. The amendments will not have impact on the Company's financial statements as the Company does not have interests in joint operations.

PAS 16, Property, Plant and Equipment — Clarification of Acceptable Methods of Depreciation (Amended), effective on or after January 1, 2016. These amendments clarify that a depreciation method that is based on revenue generated by an activity that includes the use of an asset is not appropriate. This is because such methods reflects a pattern of generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits. The amendments will not have impact on the Company's financial statements as the depreciation method being implemented is not based on revenue.

PFRS 9, Financial Instruments. The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. The standard will be effective for annual periods beginning January 1, 2018, with earlier application permitted.

The management does not expect that the application of PFRS 9 will have a significant impact on the Company's financial statements as the financial assets and liabilities pertain only to debt securities that will continue to be measured at amortized cost.

Financial Instruments

Initial recognition, subsequent measurement and classification of financial instruments

The Company recognizes financial assets and financial liabilities in the statements of financial position when it 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 are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments includes transaction costs, except for those financial assets and liabilities at fair value through profit or loss (FVPL) where the transaction costs are charged to expense in the period incurred.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) financial assets and available-for-sale (AFS) financial assets. The Company also classifies its financial liabilities into FVPL and other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading, unless they are designated as effective hedging instruments or a financial guarantee contract.

The Company has no financial assets at FVPL as at December 31, 2014 and 2013.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated, taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition

As at December 31, 2014 and 2013, the Company's loans and receivables consist of cash and cash equivalents, insurance receivables, portion of reinsurance assets, other receivables and claims, deposits and security funds presented under Other assets in the statements of financial position (see Notes 4, 5, 6, 7 and 14).

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 depending on the immediate cash requirements of the Company and are subject to an insignificant risk of change in value.

Insurance Receivables

Insurance receivables include premium-related balances due from policy holders, ceding companies and agents for insurance policy issued in the ordinary course of business, less allowance for impairment as at reporting date.

The Company uses the statutory guideline in evaluating impairment of insurance receivables wherein premiums remaining unpaid beyond a limit set by the IC are impaired and are no longer recognized in the financial statements.

AFS financial assets

AFS financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the three other categories. The Company designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in statement of comprehensive income under other comprehensive income as Unrealized fair value gain (loss) on AFS financial assets", net of deferred income tax effect. When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

When the investment is disposed or determined to be impaired, the cumulative gains or losses recognized in other comprehensive income is reclassified from equity to the income statement as reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on the financial assets previously recognized in the statements of comprehensive income.

Impairment loss recognized in the statements of comprehensive income for an investment in an equity instrument classified as AFS is not reversed through the statements of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as AFS 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 shall be reversed, with the amount of the reversal recognized in the statements of comprehensive income.

Interest earned on the investments is reported as interest income using the effective interest method.

As at December 31, 2014 and 2013, the Company's AFS financial assets consist of equity securities such as golf club share and publicly traded shares of stocks (see Note 9).

Held-to-maturity (HTM) investments

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM investments when the Company's management has the positive intention and ability to hold the investment to maturity. Investments intended to be held for an undefined period are not included in this category. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Gains and losses are recognized in the statements of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

As at December 31, 2014 and 2013, the Company's HTM investments consist of investments in government securities and agrarian reform bonds (see Note 8).

Financial Liabilities at FVPL

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Company as at FVPL upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Company has no financial liabilities at FVPL as at December 31, 2014 and 2013.

Other financial liabilities

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, these are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the statements of comprehensive income when the liabilities are derecognized as well as through the amortization process.

As at December 31, 2014 and 2013, the Company's other financial liabilities consist of accounts payable and accrued expenses (excluding statutory payables and other liabilities), portion of insurance contract liabilities, due to reinsurers and obligation under finance lease (see Notes 15 16, 17 and 31).

Determination of fair value and fair value hierarchy

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

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

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

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

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 based on the lowest level input that is significant to the fair value measurement as a whole.

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.

The Company determines the policies and procedures for both recurring fair value measurement, such as financial assets at FVPL, and for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value measurement disclosures of financial and non-financial assets are presented in Note 28 to the financial statements.

"Day 1" difference

When the transaction price in a non-active market is different from the fair value of 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 the statements of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements of comprehensive income 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.

Impairment of financial assets

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or 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 contracted parties or a group of contracted parties 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.

(a) Financial assets carried at cost

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

(b) Loans and receivables and HTM investments

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed 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 of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the statements of comprehensive income.

If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the statements of comprehensive income under "Other income" account. Any subsequent reversal of an impairment loss is recognized in the statements of comprehensive to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company.

(c) AFS financial assets

For AFS financial assets, the Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income is removed from other comprehensive income and recognized in the statements of comprehensive income.

Impairment losses on equity investments are not reversed through the statements of comprehensive income. 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 "Interest income" in the statements of comprehensive income. 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 the statements of comprehensive income, the impairment loss is reversed through the statements of comprehensive income.

Derecognition of financial assets and financial liabilities

(a) Financial assets

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

- 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 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 risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(b) Financial liabilities

A financial liability is derecognized when the obligation under the liability was discharged, 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 the statements of comprehensive income.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statements 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.

Insurance Contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 20% more than the benefits payable if the insured event did not occur. 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.

Insurance Contract Liabilities

i) General Insurance Contract Liabilities

Insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of insurance claims, particularly in respect of liability business, environmental and pollution exposures, therefore the ultimate cost of which cannot be known with certainty at the reporting date.

ii) Provision for Unearned Premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premiums. The change in the provision for unearned premiums is taken to the statements of comprehensive income in the 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.

iii) Liability Adequacy Test (LAT)

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of unearned premiums net of related deferred acquisition cost asset. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the statements of comprehensive income by establishing an unexpired risk provision for losses arising from the liability adequacy tests.

Reinsurance Assets

The Company assumed and cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

Deferred Acquisition Costs

Deferred acquisition costs consist of commission and other acquisition costs incurred during the financial period that varies with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods. Deferred acquisition costs is capitalized and amortized over the life of the contract. All other acquisition costs are recognized as an expense when incurred. An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred.

This also includes the Company's input taxes, creditable withholding taxes and other prepaid taxes which are stated at cost less any impairment in value.

Property and Equipment

Property and equipment are initially recognized at cost and subsequently measured at cost less accumulated depreciation and any impairment in value. The initial cost of property and equipment comprises its purchase price, including any costs directly attributable to bringing the assets to its working condition and location for its intended use.

Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted to an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation of property and equipment commences once the assets are available for use. Depreciation is computed using straight-line basis over the estimated useful lives of the assets such as follows:

Category	No. of Years
Condominium office unit	50
Leasehold improvements	3
Transportation equipment	10
Furniture and fixtures	5
Office machine and other equipment	5

Leasehold improvements are depreciated over the expected useful lives or over the term of the lease, if shorter.

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

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.
An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Investment Properties

Investment properties consist of various lands that are held for capital appreciation or to earn rental. Investment properties are measured initially at cost, including transaction costs and subsequently carried at fair value. Fair value of investment properties reflects market condition at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are recognized in the profit or loss in the year in which they arise. Initial cost includes cost incurred initially to acquire an investment property and cost incurred subsequently to add to, replace part of, or service property. Costs of day-to-day servicing are expensed as incurred.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of comprehensive income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Impairment of Nonfinancial Assets

The Company assesses property and equipment, investment property at each reporting date whether there is an indication that assets may be impaired. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost to sell, and value in use, based on an internal evaluation of discounted cash flow. Impairment loss is charged pro-rate to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Leases

Finance lease

Leases which transfer to the Company substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statements of financial position at amounts equal to the fair value of the leased property or at the present value of the minimum lease payments whichever is lower at the inception of the lease. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are directly charged to profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

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

Retirement Benefits

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 asset, 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 plan is determined using the projected unit credit method. The defined benefit cost comprises of the service cost, net interest on the defined benefit liability or asset and the remeasurement of net defined benefit liability or asset.

Service cost which includes current service cost, past service cost and gains or losses on non-routine settlements is recognized as expense in profit or loss. Past service cost is recognized when plan amendment or curtailment occurs. 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 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. Remeasurement comprising actuarial gains and losses, return on plan asset and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) is recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account “Remeasurement gains (losses) on retirement plan” is not reclassified to another equity account in subsequent periods. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

The Company’s right to be reimbursed of some or all of the expenditures 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

a) Capital stock

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are shown in equity as a deduction from the proceeds, net of tax. The excess of proceeds from issuance of shares over the par value is credit to share premium.

b) Retained earnings

Retained earnings represent accumulated earnings of the Company as disclosed in the statements of comprehensive income.

c) Contributed surplus

Contributed surplus represents contributions from stockholders to the Company in compliance with the requirements of the Insurance Code.

Revenue Recognition

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

a) Premium Revenue

Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired periods of the policies at reporting date is accounted for as “Reserve for unearned premiums” and presented under “Insurance contract liabilities” of the statements of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as “Deferred reinsurance premiums” and presented under Reinsurance assets” of the statements of financial position. The net changes of these accounts between reporting dates are credited or charged against income.

b) Commission Income

Reinsurance commissions are deferred and are subject to the same amortization method as the related premiums ceded. Unamortized reinsurance commissions are shown in the statements of financial position as deferred reinsurance commission income.

c) Interest Income

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

d) Dividend Income

Dividend income is recognized when the Company’s right to receive payment is established. The right to receive payment is usually established when the dividends is declared by the BOD.

e) Other Income

Other income is recognized when earned.

Expense Recognition

Cost and expenses are recognized in the statements of comprehensive income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

General business claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to claims function.

Direct underwriting cost includes commission expenses and direct costs. Commission expenses represent payments to insurance intermediaries such as agents or agencies for direct business solicited by the Company. Direct costs include processing fees and allocated portion of common expenses.

Functional and Presentation Currency

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

Transactions in foreign currencies are recorded in Philippine Peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at reporting date. All foreign exchange gains and losses are recognized in the statements of comprehensive income.

Provision and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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 with the amount of the obligation. 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, an increase in the provision due to the passage of time is recognized as an interest expense. When the Company expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statements of comprehensive income, net of any reimbursement.

Provision are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements, but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Related Party Relationships and Transactions

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. An entity that is a post-employment benefit plan for the employees of the Company, if any and the key management personnel of the Company are also considered to be related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely the legal form.

Events After the Reporting Date

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the financial statements are based upon management’s evaluation of relevant facts and circumstances as of the date of the financial statements. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of any changes will be reflected in the financial statements of the Company as they become reasonably determinable.

Judgment

In the process of applying the Company’s accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the financial statements:

Distinction between Investment Property and Owner-occupied Property

In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process. Some properties comprise a portion held to earn rentals and another portion held for use in rendering of services and for administrative purposes. If those portions held to earn rentals cannot be sold separately, the entire property is classified as investment property only if insignificant portion is held for use in the rendering of services and for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment. The Company's properties were classified as property and equipment and investment properties based on the above conditions.

Classification of Financial Instruments

The Company classifies a financial instrument, or its components on initial recognition as a financial asset, financial liability or equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

Financial assets are classified as FVPL financial assets, HTM investments, loans and receivables, and AFS financial assets, as appropriate. Financial liabilities, on the other hand, are classified as FVPL financial liabilities and other financial liabilities, as appropriate.
The Company determines the classification at initial recognition and, where allowed and appropriate, reevaluates this classification at each reporting date.

Impairment of HTM Investments

The Company determines impairment of HTM investments based on its evaluation of the presence of objective evidence of impairment which includes observable data that comes to the attention of the Company such as, but not limited to, significant financial difficulty of the counterparty or the probability that the issuer will enter bankruptcy or other financial re-organization.

Based on management's assessment, there were no indicators of impairment on the Company's HTM investments in 2014 and 2013.

Impairment of Non-financial Assets

The Company assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the assets 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 asset or the strategy for overall business; and
- Significant negative industry or economic trends.

Based on management's assessment, there were no indicators of impairment on the Company's non-financial assets in 2014 and 2013.

Classification of Leases

The Company assesses at the inception of the lease whether an arrangement is finance or operating lease based on who bears substantially all the risks and benefits incidental to ownership of the leased item.

The Company has entered into contract of lease for some of the office space it occupies and transportation equipment as a lessee, and on its investment property portfolio as a lessor. The Company has determined who bears the significant risks and benefits of ownership on the properties by considering among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Company accordingly accounted for the lease agreements for office space and investment property portfolio as operating lease while the lease for transportation equipment as finance lease.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are as follow:

Impairment of Loans and Receivables

The Company maintains allowance for impairment at a level considered by management as adequate to provide for potential uncollectible loans and receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the status of the debtors' membership in the Company, the member's payment behavior and known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a continuous basis.

In addition to specific impairment against individually significant loans and receivables, the Company makes a collective impairment assessment against exposures which, although not specifically identified as requiring a specific impairment, have a greater risk of default than when originally granted. This takes into consideration the Company's historical collection experience.

As at December 31, 2014 and 2013, the carrying amount of loans and receivables, net of allowance for impairment of ₱1,705,522, amounted to ₱389,491,792 and ₱317,876,195 (excluding deferred reinsurance premium and salvage recoverable), respectively (see Notes 4, 5, 6, 7 and 14).

Estimation of Useful Lives of Property and Equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives are periodically reviewed and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amount of property and equipment, net of accumulated depreciation of ₱16,354,951 and ₱16,118,412, amounted to ₱21,947,409 and ₱18,166,440 as at December 31, 2014 and 2013, respectively (see Note 12).

Estimation of Claims Payable Arising from Insurance Contracts

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies. The primary technique adopted by management in estimating the cost of notified claims is that of using past claim 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. Nonlife insurance claims provisions are not discounted for the time value of money.

The carrying value of insurance contract liabilities amounted to ₱130,961,373 and ₱136,151,807 as of December 31, 2014 and 2013, respectively (see Note 16).

Estimation of Retirement Benefits

The determination of the retirement benefit cost and obligation is dependent on management's assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 and include, among others, discount rates and salary increase rates. 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 retirement obligations.

Retirement benefits obligation as at December 31, 2014 and 2013 amounted to ₱8,634,890 and P5,733,111, respectively (see Note 18).

Recognition of Deferred Tax Asset

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

The carrying amount of deferred tax assets as at December 31, 2014 and 2013 that are expected to be recoverable in future periods, amounted to ₱4,376,115 and P2,973,107, respectively (see Note 26).

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2014	2013
Cash on hand	**₱144,696**	₱135,756
Cash in banks	**46,381,516**	17,179,168
Cash equivalents	**79,458,169**	45,156,479
	₱125,984,381	₱62,471,403

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents include deposits and placements which can be withdrawn anytime depending on the immediate cash requirements of the Company and earn interest at effective rates ranging from 1.13% to 1.5% in 2014 and 1.25% to 1.63% in 2013.

Interest earned from cash and cash equivalents amounted to ₱953,445 and ₱591,007 in 2014 and 2013, respectively is presented under investment and other income (charges) (see Note 22).

There is no restriction in the Company's cash and cash equivalents as at December 31, 2014 and 2013.

5. INSURANCE RECEIVABLES (NET)

This account consists of:

	2014	2013
Due from agents	**₱29,298,751**	₱31,401,331
Due from ceding companies	**21,104,674**	23,174,353
Premium receivables	**129,741,254**	146,145,337
	180,144,679	200,721,021
Less allowance for impairment	**(1,705,522)**	(1,705,522)
	₱178,439,157	₱199,015,499

The allowance for impairment pertains to due from agents, in which the Management believes, are accounts identified as doubtful as to collection.

The movement in allowance for impairment as at December 31 is as follows:

	2014	2013
Balance at beginning of year	**₱1,705,522**	₱3,883,247
Write-off	**-**	(2,177,725)
Balance at end of year	**₱1,705,522**	₱1,705,522

Accounts written-off pertain to receivables which are no longer collectible based on Company's experience, age of receivables and after conducting collection efforts. Uncollectible accounts directly written off amounted to ₱3,141,956 in 2014 and ₱2,323,673 in 2013 (see Note 25).

6. REINSURANCE ASSETS (NET)

This account consists of:

	2014	2013
Reinsurance recoverable on paid losses	**₱12,067,361**	₱12,332,558
Reinsurance recoverable on unpaid losses - note 16	**9,445,007**	4,027,003
Deferred reinsurance premium - note 16	**9,725,573**	3,947,610
Premium reserve withheld by reinsurer	**5,391,633**	-
	₱36,629,574	₱20,307,171

Uncollectible accounts directly written off in 2013 amounted to ₱6,568,510 (see Note 25).

7. OTHER RECEIVABLES

This account consists of:

	2014	2013
Advances to related parties – note 30	**₱30,633,762**	₱15,501,353
Mortgage loan receivable – note 30	**17,208,571**	11,644,062
Salary loan receivable – note 30	**1,627,786**	1,023,142
Advances to employees	**1,372,687**	1,419,108
Car loan receivable	**748,562**	1,113,701
Accrued interest receivable	**152,715**	80,622
Other nontrade receivables	**2,484,272**	2,240,364
	₱54,228,355	₱33,022,352

Other nontrade receivables consist mainly of unliquidated advances provided to the Company's branch managers for settlement of claims.

Interest earned from salary, mortgage and other loans amounted to ₱1,677,233 and ₱761,205 in 2014 and 2013, respectively.

8. HTM INVESTMENTS

HTM investments consist of Philippine government and other securities with details as follow:

	2014	2013
Government securities:		
Treasury bills	**₱49,530,027**	₱69,367,266
Treasury notes	**10,014,488**	-
Agrarian reform bonds	**13,740,713**	9,126,375
	₱73,285,228	₱78,493,641

Government securities are deposited with the Bureau of Treasury of the Philippines as securities for the benefit of the policyholders and creditors of the Company in accordance with the provisions in the Insurance Code of the Philippines. These securities bear fixed interest rates ranging from 1.63% to10% in 2014 and 1.7% to 7.75% in 2013.

Interest earned from HTM investments amounted to ₱1,114,262 and ₱798,560 in 2014 and 2013, respectively is presented under investment and other income (charges) (see Note 22).

The following table shows the reconciliation of HTM investments:

	2014	2013
Balance at beginning of year	**₱79,053,236**	₱64,159,115
Acquisitions	**56,614,781**	79,053,236
Maturities	**(61,572,934)**	(64,159,115)
	74,095,083	79,053,236
Amortization of premium	**(809,855)**	(559,595)
Balance at end year	**₱73,285,228**	₱78,493,641

9. AFS FINACIAL ASSETS (NET)

Movements in AFS financial assets are as follow:

	2014	2013
At acquisition cost:		
Listed shares of stock	**₱1,315,801**	₱1,315,801
Proprietary club share	**880,000**	880,000
	2,195,801	2,195,801
Cumulative net unrealized gain (loss) in fair value of AFS financial assets		
Balance at beginning of year	**(212,383)**	(175,674)
Increase (decrease) in fair value	**329,748**	(36,709)
Balance at end of year	**117,365**	(212,383)
	₱2,313,166	₱1,983,418

This account represents listed shares of stock and proprietary golf club shares which are carried at fair value. The fair value of AFS financial assets has been determined directly by reference to the published price in an active market (i.e. stock exchange and broker's published price). As at December 31, 2014 and 2013, the Company has no intention to dispose its AFS investments.

10. DEFERRED ACQUISITION COSTS (NET)

The movement of this account follows:

	2014	2013
Balance at beginning of year	**₱30,571,557**	₱25,901,209
Cost deferred during the year	**70,912,181**	66,195,661
Amortization during the year	**(70,606,065)**	(61,525,313)
Balance at end of year	**₱30,877,673**	₱30,571,557

The carrying amounts disclosed above are net of deferred reinsurance commission income of ₱3,252,675 and ₱1,317,882 for the years ended December 31, 2014 and 2013, respectively. The Company did not provide for any impairment loss because the carrying amount of the account approximates its fair value.

11. PREPAYMENTS

This account consists of:

	2014	2013
Prepaid taxes	**₱23,992,834**	₱18,320,974
Input value-added tax (VAT)	**4,277,988**	16,976,269
Stationeries and office supplies	**1,727,300**	1,349,910
Prepaid rent	**224,243**	207,243
	30,222,365	36,854,396
Allowance for impairment	**-**	(6,000,000)
	₱30,222,365	₱30,854,396

In 2014, the Company had written off input VAT and prepaid taxes amounting to ₱16,000,000 and ₱4,000,000, respectively as the Management determined that these could no longer be utilized in the future due to lack of supporting documents. Portion of the input VAT written off amounting to ₱6,000,000 was already provided with allowance for impairment in 2013 hence, total expenses charged in 2014 amounted to ₱ 14,000,000 and is presented under Investment and other income (charges) (see Note 22).

12. PROPERTY AND EQUIPMENT (NET)

The reconciliation of this account is as follows:

December 31, 2014

	Condominium office unit	Leasehold improvement	Transportation equipment	Furniture and fixtures	Office machine and other equipment	Total
Cost						
Balance at beginning of year	₱13,718,431	₱4,085,234	₱2,668,727	₱2,383,070	₱11,429,390	₱34,284,852
Additions	-	3,365,640	-	3,305,981	779,472	7,451,093
Disposal	-	(3,173,571)	-	-	(260,014)	(3,433,585)
Balance at end of year	13,718,431	4,277,303	2,668,727	5,689,051	11,948,848	38,302,360
Accumulated depreciation						
Balance at beginning of year	823,105	3,369,976	564,455	1,837,422	9,523,454	16,118,412
Depreciation – notes 24 and 25	274,369	1,262,369	263,329	770,847	1,074,812	3,645,726
Disposal	-	(3,173,571)	-	-	(235,616)	(3,409,187)
Balance at end of year	1,097,474	1,458,774	827,784	2,608,269	10,362,650	16,354,951
Carrying amount	**₱12,620,957**	**₱2,818,529**	**₱1,840,943**	**₱3,080,782**	**₱1,586,198**	**₱21,947,409**

December 31, 2013

	Condominium office unit	Leasehold improvement	Transportation equipment	Furniture and fixtures	Office machine and other equipment	Total
Cost						
Balance at beginning of year	₱13,718,431	₱3,450,598	₱3,006,968	₱1,989,475	₱10,771,373	₱32,936,845
Additions	-	634,636	-	414,127	658,017	1,706,780
Disposal	-	-	(338,241)	(20,532)	-	(358,773)
Balance at end of year	13,718,431	4,085,234	2,668,727	2,383,070	11,429,390	34,284,852
Accumulated depreciation						
Balance at beginning of year	548,737	3,256,433	311,676	1,676,961	8,419,767	14,213,574
Depreciation – notes 24 and 25	274,368	113,543	295,059	170,727	1,103,687	1,957,384
Disposal	-	-	(42,280)	(10,266)	-	(52,546)
Balance at end of year	823,105	3,369,976	564,455	1,837,422	9,523,454	16,118,412
Carrying amount	₱12,895,326	₱715,258	₱2,104,272	₱545,648	₱1,905,936	₱18,166,440

Depreciation expense is recognized as follows:

	2014	2013
Direct underwriting costs – note 24	**₱1,093,718**	₱585,955
Operating expenses – note 25	**2,552,008**	1,371,429
	₱3,645,726	₱1,957,384

In 2012, the Company's transportation equipment with a cost of ₱2,368,000 were acquired under the finance lease agreement for a period of three (3) years. The carrying amount of the asset as at December 31, 2014 and 2013 amounted to ₱1,720,941 and ₱1,957,742, respectively. In 2014, the ownership of the leased asset was wholly transferred to the Company.

The Company disposed property and equipment with carrying amount of ₱24,398 and ₱295,961 for total proceeds of ₱1,000 and ₱255,000 in 2014 and 2013, respectively. Loss on disposal amounting to ₱23,398 and ₱40,961 in 2014 and 2013, respectively is presented under Investment and other income (charges) (see Note 22).

13. INVESTMENT PROPERTIES

The reconciliation of investment properties is as follows:

	2014	2013
Cost:		
Balance at beginning of year	**₱26,249,876**	₱12,819,579
Additions during the year	**-**	13,430,297
Disposal	**(597,250)**	-
Balance at end of year	**25,652,626**	26,249,876
Fair value gain:		
Balance at beginning of year	**15,835,991**	15,135,991
Fair value gain during the year	**-**	700,000
Balance at end of year	**15,835,991**	15,835,991

	₱41,488,617	₱42,085,867

Fair value gain on investment properties is presented under Investment and other income (charges) (see Note 22).

The details of the Company's investment properties are as follow:

	2014	2013
Land situated at:		
Trece Martires City	**₱22,304,000**	₱22,304,000
Samal, Bataan	**5,441,301**	5,441,301
Balanga, Bataan (Marinell Subdivision)	**3,896,093**	3,896,093
Naga City	**3,111,570**	3,111,570
Imus, Cavite	**1,563,683**	2,160,933
Sta. Rosa, Laguna	**1,490,000**	1,490,000
General Natividad, Nueva Ecija	**1,750,000**	1,750,000
Balanga City, Bataan (Sioson Ville Subdivision)	**895,907**	895,907
Ilagan, Isabela	**524,303**	524,303
Alicia, Isabela	**511,760**	511,760
	₱41,488,617	₱42,085,867

On November 3, 2014, the land located in Imus Cavite with TCT No. 875100 was sold for ₱700,000 resulting in a gain of ₱67,750 which is included in "Investment and other income (charges)" in the statements of comprehensive income (see Note 22).

In 2013, the Company reacquired various properties located in Samal Bataan, Balanga Bataan, Imus Cavite, Ilagan Isabela and Alicia Isabela as a result of the borrowers' payment default on amortization of loans with Home Development Mutual Fund (HDMF). The buyback value of the properties amounted to ₱13,430,297 with initial payment made amounting to ₱2,160,933. The remaining balance amounting to ₱11,269,364 is payable within one year. As at December 31, 2013, the unpaid balance to HDMF amounting to ₱3,483,301 is included in Accounts payable and accrued expenses account (see Note 15). In 2014, the Company paid in full the amount due to HDMF and the title of ownership of the properties was transferred to the Company. The Management believes that the fair value of the properties approximates its acquisition cost.

In 2012, the land situated at Brgy. Inocencio, Trece Martires City was revalued by an independent firm of appraisers with appraisal report dated April 1, 2013. Based on the appraiser's report, the fair value of the land amounted to ₱22,304,000. The value of the land was arrived at using the Market Data Approach. In this approach, the value of the land is based on sales and listings of comparable properties registered within the vicinity. In 2014, Management assessed that the carrying amount of its land approximates its fair value.

If the land was carried at the cost model, the carrying amount would be ₱11,152,000 as at December 31, 2014 and 2013. The land had been transferred from property and equipment to investment property in 2009, since the property will not be used anymore by the Company for administrative purposes and as such, it was decided that it will be held for capital appreciation. Existing revaluation surplus amounting to ₱4,879,000 previously recognized in other comprehensive income is not transferred to profit or loss at the date of transfer. This will be transferred directly to retained earnings upon subsequent disposal.

Based on the report submitted by the independent firm of appraiser in April 2012, the land situated in Sta. Rosa, Laguna was revalued to ₱1,490,000. The value of the land was arrived at using the Market Data Approach. In this approach, the value of the land is based on sales and listings of comparable properties registered within the vicinity. In 2014, Management assessed that the carrying amount of its land approximates its fair value.

The Company owned a land situated at General Natividad, Nueva Ecija reappraised by an independent firm of appraisers in 2013. The land was revalued to P1,750,000 resulting in fair value gain of P700,000 (see Note 22). The value of the land was arrived at using the Market Data Approach. In this approach the value of the land is based on sales and listings of comparable properties registered within the vicinity. In 2014, Management assessed that the carrying amount of its land approximates its fair value.

In April 2011, the Company foreclosed a land situated in Naga City in consideration for the uncollected salvage recoverable under "Other assets account" amounting to ₱569,866. The land was revalued in July 2011 by an independent firm of appraisers. Based on the appraisal report, the fair value of the land was ₱3,111,570. The value of the land was arrived at using the Market Data Approach. In this approach, the value of the land is based on sales and listings of comparable properties registered within the vicinity. In 2014, Management assessed that the carrying amount of its land approximates its fair value.

Based on the assessment performed, Management believes that there are no assets that are impaired at the reporting date.

14. OTHER ASSETS

This account consists of:

	2014	2013
Salvage recoverable	**₱8,011,899**	₱6,644,170
Claims fund	**2,526,368**	5,555,202
Deposit on rent, light and water	**1,440,169**	1,411,718
Security fund	**14,657**	14,657
Others	**99,400**	161,559
	₱12,092,493	₱13,787,306

Salvage recoverable pertains to the estimated recoveries the Company may have from losses on surety policies issued.

Claims fund represent the cash of the Company that are withheld by third parties as collateral in issuance of certain insurance policies.

Security fund pertains to guaranty fund deposited with the Insurance Commission as required in the insurance code.

15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

	2014	2013
Accounts payable	**₱4,010,915**	₱1,604,396
Income tax payable	**999,701**	483,368
Accrued expenses	**516,577**	478,984
SSS, Philhealth, HDMF and EC contributions payable	**275,550**	256,788
Buy-back obligation – note 13	**-**	3,483,301
Other taxes payable	**10,835,532**	12,362,020
	₱16,638,275	₱18,668,857

Accounts payable are usually payable within 30 days and do not bear any interest.

Other taxes payable consists mainly of documentary stamps payable, local taxes payable, fire service tax payable and output tax payable.

16. INSURANCE CONTRACT LIABILITIES

This account consists of:

	2014			2013		
	Insurance contract liabilities	**Reinsurers' share in liabilities - note 6**	**Net amount**	Insurance contract liabilities	Reinsurers' share in liabilities - note 6	Net amount
Provision for claims and losses	**₱24,258,807**	**₱9,445,007**	**₱14,813,800**	₱19,465,707	₱4,027,003	₱15,438,704
Reserve for unearned premiums	**106,629,706**	**9,725,573**	**96,904,133**	116,325,584	3,947,610	112,377,974
Catastrophic loss reserve	**72,860**	**-**	**72,860**	360,516	-	360,516
Total insurance contract liabilities	**₱130,961,373**	**₱19,170,580**	**₱111,790,793**	₱136,151,807	₱7,974,613	₱128,177,194

Provisions for claims reported and losses are net of expected recoveries from salvage and subrogation. The amount for salvage and subrogation claimed during the year is considered immaterial.

Movements in insurance contract liabilities and reinsurers' share in liabilities (reinsurance assets) are as follow:

	2014			2013		
	Gross amount	**Reinsurance**	**Net amount**	Gross amount	Reinsurance	Net amount
At January 1	**₱19,465,707**	**₱4,027,003**	**₱15,438,704**	₱17,087,517	₱3,321,765	₱13,765,752
Claims during the year - note 23	**46,965,198**	**8,818,686**	**38,146,512**	46,172,420	1,722,852	44,449,568
Claims paid – note 23	**(42,172,098)**	**(3,400,682)**	**(38,771,416)**	(43,794,230)	(1,017,614)	(42,776,616)
At December 31	**₱24,258,807**	**₱9,445,007**	**₱14,813,800**	₱19,465,707	₱4,027,003	₱15,438,704

Movement in reserve for unearned premiums is as follows:

	2014			2013		
	Gross amount	**Reinsurance**	**Net amount**	Gross amount	Reinsurance	Net amount
At January 1,	**₱116,325,584**	**₱3,947,610**	**₱112,377,974**	₱113,995,772	₱3,067,919	₱110,927,853
New policies during the year- note 21	**282,364,284**	**16,705,054**	**265,659,230**	298,744,574	7,806,088	290,938,486
Premiums earned during the year - note 21	**(292,060,162)**	**(10,927,091)**	**(281,133,071)**	(296,414,762)	(6,926,397)	(289,488,365)
At December 31	**₱106,629,706**	**₱9,725,573**	**₱96,904,133**	₱116,325,584	₱3,947,610	₱112,377,974

17. DUE TO REINSURERS

Due to reinsurers amounting to ₱15,301,004 and ₱12,557,205 in 2014 and 2013, respectively pertains to amount of insurance liability assumed by the Company from the reinsurers.

18. RETIREMENT BENEFITS OBLIGATION

The Company maintains an unfunded and non-contributory retirement benefit plan covering its regular employees.

The Company obtained a latest actuarial valuation as at December 31, 2014 to update the retirement benefits cost and amount of contributions in accordance with the revised PAS 19. The computation of retirement benefit costs is based on Republic Act 7641, Retirement Law.
The retirement benefits cost recognized in profit or loss is as follows:

	2014	2013
Current service cost	**₱966,263**	₱829,101
Interest cost	**273,469**	253,035
	₱1,239,732	₱1,082,136

The retirement benefits cost is allocated as follows:

	2014	2013
Direct underwriting costs – note 24	**₱495,893**	₱432,854
Operating expenses – note 25	**743,839**	649,282
	₱1,239,732	₱1,082,136

The movements in retirement benefits obligation recognized in the statements of financial position are as follow:

	2014	2013
Balance at beginning of year	**₱5,733,111**	₱4,454,837
Interest cost	**273,469**	253,035

Current service cost	**966,263**	829,101
Remeasurement loss on retirement benefits	**1,662,047**	196,138
Balance at end of year	**₱8,634,890**	₱5,733,111

The following actuarial assumptions were used to determine retirement benefit obligation:

	2014	2013
Discount Rate	**4.77%**	4.77%
Salary Increase Rate	**3%**	3%

The discount rate as at December 31, 2014 and 2013 was calculated as the resulting single-weighted rate determined by computing the present value of the expected future benefit cash flows across valuation years using the zero coupon rate. The salary increase rate represents the projected increases in employee salaries.

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

The Company has no plan asset as at December 31, 2014 and 2013.

Risk Arising from the Retirement Plan

The defined benefit plan is unfunded by ₱8,634,890 and ₱5,733,111 as at December 31, 2014 and 2013, respectively. While there is no minimum required funding, the amount without fund may expose the Company to cash flow risk for 10-15 years when a significant number of employees are expected to retire.

Maturity Profile of Undiscounted Benefit Payments

The maturity analysis on the Company's undiscounted benefit payments as at December 31, 2014 is as follows:

	1 year and less	2 to 5 Years	6 to 10 years	11 to 15 years	16 to 20 years	Over 21 years
Normal retirement	₱4,335,695	₱1,468,752	₱4,404,427	₱6,076,917	₱6,321,587	₱40,126,138

Discount Rate Sensitivity

The following illustrates the sensitivity to a reasonably possible change in each key assumption, with all other variable held constant, of the Company's retirement benefits obligation. A +/-1% increase or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase. The impact on the Company's accrued retirement benefits as at December 31, 2014 which affects the Company's cash flow is as follows:

	Increase (decrease)	Present value of obligation	Increase (decrease) on retirement benefits obligation
Discount rate	+0.5%	₱8,355,447	(₱279,443)
	-0.5%	8,950,620	315,730
Salary increase	+1%	9,279,963	645,073

-1%	8,123,857	(511,033)

19. 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, property, casualty, marine and engineering. Risks under these policies usually cover twelve-month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policy holders) 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 defined 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, claims handling costs, claims inflation factors, and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumption includes variation in interest and delays in settlement.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding 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 demonstrates the effect of change in key assumptions while other assumptions remain unchanged, if these assumptions were changed in a single calendar year. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact on the claims liabilities due to changes in assumptions, these assumptions

changes had to be done on an individual basis. It should also be stressed that these assumptions are nonlinear and larger or smaller impacts cannot be easily gleaned from these results.

The figures shown below demonstrates the effect of 10% upward variation in either the net premiums earned or the loss development factor used in determining the estimated ultimate liabilities.

	2014	2013
Increase on gross liabilities	**₱29,206,016**	₱29,641,476
Increase on net liabilities	**28,113,307**	28,948,837
Decrease on income before tax	**(28,113,307)**	(28,948,837)

The Company's estimation of ultimate liabilities may be impacted largely by the shift in the development trends of losses. However, the Company believes that using a statistical data over 10 years minimizes the margin of error in its estimates.

20. CAPITAL STOCK

Details of this account are as follow:

	Shares		**Amount**	
	2014	2013	**2014**	2013
Common shares – P100 par value				
Authorized – 3,000,000 shares	**3,000,000**	3,000,000	**₱300,000,000**	₱300,000,000
Issued	**1,985,050**	1,985,050	**198,005,000**	198,005,000
Subscribed:			**51,995,000**	51,995,000
Subscription receivable:				
Balance at beginning of year			**-**	(51,995,000)
Collection during the year			**-**	51,995,000
Balance at end of year			**-**	--
			₱250,000,000	₱250,000,000

21. NET PREMIUM REVENUE

Gross earned on premiums on insurance contracts

	2014	2013
Insurance contract premium revenue		
Direct insurance	**₱240,208,026**	₱262,589,331
Assumed reinsurance	**42,156,258**	36,155,243
Total insurance contract premiums revenue – note 16	**282,364,284**	298,744,574
Gross change in unearned premium provision	**9,695,878**	(2,329,812)
Gross premium earned – note 16	**292,060,162**	296,414,762
Reinsurer's share of premium revenue		
Direct insurance	**16,592,746**	P7,623,493
Assumed reinsurance	**112,308**	182,595
Total reinsurers' share of insurance contract premiums revenue – note 16	**16,705,054**	7,806,088
Reinsurers' share of gross change in unearned premium Provision	**(5,777,963)**	(879,691)

Premiums ceded – note 16	**10,927,091**	6,926,397
Net premiums on insurance	**₱281,133,071**	₱289,488,365

22. INVESTMENT AND OTHER INCOME (CHARGES)

This account consists of:

	2014	2013
Interest income	**₱3,744,940**	₱2,150,772
Premium reserved withheld by reinsurer	**666,503**	-
Rental income	**521,892**	316,507
Reversal on catastrophe loss	**287,656**	-
Gain on sale of investment property – note 13	**67,750**	-
Write off of input taxes – note 11	**(14,000,000)**	-
Loss on disposal of equipment – note 12	**(23,398)**	(40,961)
Fair value gain on investment properties – note 13	**-**	700,000
Dividend income	**-**	13,922
Provision for impairment losses – note 11	**-**	(6,000,000)
Others	**384,389**	147,609
	(₱8,350,268)	(₱2,712,151)

Others mainly consist of gain on foreign exchange due to translation, provision for catastrophe loss and other incidental income. In 2014, others also include additional income amounting to ₱666,503 which pertains from excess of claims and losses shouldered by the Company under reinsurance contract.

23. NET INSURANCE BENEFITS AND CLAIMS

Gross insurance contracts benefits and claims incurred consist of the following:

	2014	2013
Insurance contracts benefits and claims incurred		
Direct insurance	**₱36,101,814**	₱40,674,341
Assumed reinsurance	**10,712,984**	5,208,050
Loss adjustment	**150,400**	290,029
Total insurance contract benefits and claims incurred – note 16	**46,965,198**	46,172,420
Total reinsurers' share of insurance contract benefits and claims incurred – note 16	**(8,818,686)**	(1,722,852)
Net insurance benefits and claims	**₱38,146,512**	₱44,449,568

Gross insurance contracts benefits and claims paid consist of the following

	2014	2013
Direct insurance	**₱30,953,806**	₱38,296,151
Assumed	**11,067,892**	5,208,050
Loss adjustment	**150,400**	290,029
Total insurance contract benefits and claims paid - note 16	**₱42,172,098**	₱43,794,230

Reinsurers' share of gross insurance contracts benefits and claims paid consist of direct insurance amounting to ₱3,400,682 and ₱1,017,614 in 2014 and 2013, respectively (see Note 16).

24. DIRECT UNDERWRITING COSTS

This account consists of:

	2014	2013
Processing fee and training expenses	**₱69,472,699**	₱74,309,727
Commission direct	**57,895,851**	54,603,576
Underwriting expenses	**12,944,144**	14,730,048
Commission on reinsurance	**10,775,421**	6,619,871
Salaries, wages and allowances	**7,833,733**	7,318,829
Rent, light and water	**4,137,157**	2,802,159
Stationeries and office supplies	**4,051,929**	3,802,447
Transportation and travel	**3,925,047**	5,200,726
Employee benefits	**3,827,880**	2,687,397
Representation and entertainment	**3,151,744**	4,402,427
Advertising and promotions	**2,015,636**	2,630,674
Postage, freight and communications	**1,922,091**	1,985,492
Depreciation – note 12	**1,093,718**	585,955
Taxes and licenses	**879,316**	171,799
SSS, HDMF, PhilHealth and other contributions	**577,563**	663,681
Retirement benefits cost - note 18	**495,893**	432,854
Dues and fees	**483,367**	295,546
Meetings and conferences	**275,646**	1,821,402
Electronic data processing expenses	**249,616**	140,849
Other underwriting expenses	**330,615**	488,495
	₱186,339,066	₱185,693,954

Other underwriting expenses consist of donation and contributions and other miscellaneous expenses.

25. OPERATING EXPENSES

This account consists of:

	2014	2013
Salaries and bonuses	**₱14,548,362**	₱13,592,111
Write-off of receivables – notes 5 and 6	**3,141,956**	8,892,183
Transportation and travel	**2,616,698**	3,467,151
Employee benefits	**2,552,336**	1,791,598
Depreciation – note 12	**2,552,008**	1,371,429
Representation and entertainment	**2,101,163**	2,934,951
Professional fees	**2,137,580**	2,219,064
Rent, light and water	**2,122,635**	1,492,905
Taxes and licenses	**1,761,717**	47,504
Printing and office supplies	**1,736,541**	1,629,620
Advertising and promotion	**1,343,757**	1,753,783
Management fees – note 30	**1,200,000**	1,200,000
Dues and fees	**1,136,577**	689,608
SSS, HDMF, PhilHealth and other contributions	**965,720**	968,534
Communications	**823,753**	850,925
Repairs and maintenance	**847,260**	804,167
Per diem and board meetings	**793,134**	1,408,101
Retirement benefits cost – note 18	**743,839**	649,282
Interest and bank charges	**306,423**	399,977
Insurance	**114,216**	101,618
Electronic data processing expenses	**106,978**	60,364
Notarial fees and documentary stamps	**95,137**	96,203
Books, subscriptions and periodicals	**63,735**	47,204
Miscellaneous	**421,282**	590,189
	₱44,232,807	₱47,058,471

26. INCOME TAXES

A reconciliation of tax on pretax income computed at the applicable statutory rate to tax expense reported in the statements of comprehensive income follows:

	2014	2013
Income before tax	**₱7,647,568**	₱11,867,834
Accounting income at 30%	**2,294,270**	3,560,350
Tax effect of:		
Deferred tax assets written off and other movement	**123,654**	1,037,780
Interest income subjected to final tax	**(1,123,482)**	(645,232)
Adjustment on tax rate of investment property	**-**	(168,000)
Dividend income	**-**	(4,177)
Unrecognized deferred tax	**-**	1,800,000
Other non-deductible expenses	**1,285,731**	1,382,520

Reported income tax expense	**₱2,580,173**	₱6,963,241

The Company's income tax expense for the year ended December 31, 2014 represents regular corporate income tax (RCIT), while the income tax expense for the year ended December 31, 2013 pertains to MCIT.

The Company's deferred tax assets consist of:

	2014	2013
Retirement benefits obligation	**₱2,590,467**	₱1,719,933
Provision for impairment losses and catastrophic losses	**533,514**	619,811
Deferred reinsurance commissions	**975,803**	395,365
Excess of MCIT over normal income tax	**-**	123,654
Excess of unearned premium per books over tax basis	**276,331**	114,344
	₱4,376,115	₱2,973,107

The Company's deferred tax liabilities consist of:

	2014	2013
Deferred acquisition cost	**₱10,239,105**	₱9,566,832
Revaluation of land under investment property	**3,810,334**	3,810,334
Deferred reinsurance premium	**2,917,672**	1,184,283
Unrealized foreign exchange gain	**39,219**	23,521
	₱17,006,330	₱14,584,970

The Company applied the MCIT amounting to ₱123,654 against the RCIT for 2014.

27. MANAGEMENT OF CAPITAL, INSURANCE AND FINANCIAL RISK

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing group-wide policies on market, credit, liquidity, insurance and operational risk.

The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

Capital Management Framework

The Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly the anticipated impact on the realistic financial position and revenue account of each business unit, are reported to the Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

Risk Based Capital Requirement

On October 5, 2006, the Philippine Insurance Commission (IC) approved the guidelines on the adoption in the Philippines of the Risk Based Capital (RBC) framework for all registered non–life insurance companies. This requires every insurance company to annually maintain a minimum RBC ratio of 100% and should not fail with the trend test which shall occur in the event that:

- The RBC ratio is less than 125% but is not below 100%
- The RBC ratio has decreased over the past year, and
- The difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%.

If the Company will not be able to maintain the required minimum ratio, they may be subjected to regulatory intervention depending on the level of its RBC ratio.

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

The following table shows how the RBC ratio as at December 31, 2014 and 2013 is determined by the Company:

	2014	2013
Net worth	**₱295,059,575**	₱235,224,824
RBC requirement	**132,377,237**	85,413,573
RBC Ratio	**223%**	275%

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

As at December 31, 2014 and 2013, the Company is in compliance with the required RBC ratio by the IC.

Fixed Capitalization Requirement

On January 13, 2015, the IC issued Circular Letter no. 2015-02-A presenting the minimum capitalization requirements for all new and existing insurance companies. The circular is in line with the Amended Insurance Code.

On August 15, 2013, the Amended Insurance Code (Republic Act No. 10607) was approved 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 Company shall have a net worth of ₱250 million by June 30, 2013 and additional ₱300 million, ₱350 million and ₱400 million by December 31, 2016, 2019 and 2022, respectively. The minimum net worth shall remain unimpaired at all times.

The Company's net worth amounting to ₱344 million and ₱266 million in 2014 and 2013, respectively, are in compliance with the minimum requirements for those periods.

Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the IC, such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise).

Financial Risk

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

The risk that the Company primarily faces due to the nature of its investments and liabilities is the interest rate risk.

Market risk

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

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

The Company’s market risk includes equity price risk for the available-for-sale financial assets which are stated at fair value.

Equity Price Risk

The Company’s equity price risk arises from its investments carried at fair value classified as available-for-sale financial assets. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investment. The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the equity price had been 10% higher/lower, the revaluation reserve would increase/decrease by ₱231,317 and ₱198,342 in 2014 and 2013, respectively as a result of the change in the fair value of the Company's available-for-sale financial assets.

Interest Rate Risk

As at December 31, 2014 and 2013, the Company is exposed to changes in market interest rates through its cash in banks, cash equivalents and held-to-maturity investments, which are subject to variable interest rates (see Notes 4 and 8). However the risk is assessed by management as insignificant due to its relatively short term nature and/or low interest rates.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Credit risk exposure

The table below shows the gross maximum exposure to credit risk of the Company as at December 31.

	2014	2013
Loans and receivables:		
Cash and cash equivalents*	**₱125,839,685**	₱62,335,647
Insurance receivables		
Due from ceding companies	**21,104,674**	23,174,353
Premium receivables	**129,741,254**	146,145,337
Due from agents	**27,593,229**	29,695,809
Other receivables	**54,228,355**	33,022,352
Reinsurance assets:		
Reinsurance recoverable on paid losses	**12,067,361**	12,332,558
Reinsurance recoverable on unpaid losses	**9,445,007**	4,027,003
Premium withheld by reinsurers	**5,391,633**	-
Other assets**	**4,080,594**	7,143,136
Held-to-maturity investments	**73,285,228**	78,493,641
	₱462,777,020	₱396,369,836

**Excluding cash on hand amounting to ₱144,696 in 2014 and ₱135,756 in 2013.*
***Excluding salvage recoverable amounting to ₱8,011,899 in 2014 and ₱6,644,170 in 2013.*

The Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Although, such arrangements do not generally result in offset of statements of financial position assets and liabilities in the statements of financial position, as transactions are usually settled on gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may however change

substantially within a short period following the reporting date because the exposure is affected by transactions subject to the arrangement.

Reinsurance is placed with high-rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs assessment of credit worthiness of reinsurers to update reinsurance purchase strategy.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commission due to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts. The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed on the expiry of which the policy is either paid up or terminated.

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

Concentrations of risk exist when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic conditions. Management believes that the concentrations described above do not represent excessive risk for the Company.
The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

December 31, 2014

	Neither past due nor impaired					
	High	Medium	Low	Past due but not impaired	Impaired financial assets	Total
Loans and receivables						
Cash and cash equivalents	**₱125,839,685**	**₱-**	**₱-**	**₱-**	**₱-**	**₱125,839,685**
Insurance receivables:						
Due from ceding companies	**632,190**	**-**	**-**	**20,472,484**	**-**	**21,104,674**
Premium receivables	**36,002,577**	**-**	**-**	**93,738,677**	**-**	**129,741,254**
Due from agents	**1,307,153**	**-**	**-**	**26,286,076**	**1,705,522**	**29,298,751**
Other receivables	**7,304,388**	**-**	**-**	**46,923,967**	**-**	**54,228,355**
Reinsurance assets:						
Reinsurance recoverable on paid losses	**-**	**-**	**-**	**12,067,361**	**-**	**12,067,361**
Reinsurance recoverable on unpaid losses	**8,526,583**	**-**	**-**	**918,424**	**-**	**9,445,007**
Premium reserve withheld by Reinsurers	**5,391,633**	**-**	**-**	**-**	**-**	**5,391,633**
Other assets	**4,080,594**	**-**	**-**	**-**	**-**	**4,080,594**
Held-to-maturity investments	**73,285,228**	**-**	**-**	**-**	**-**	**73,285,228**
	₱262,370,031	**₱-**	**₱-**	**₱200,406,989**	**₱1,705,522**	**₱464,482,542**

December 31, 2013

	Neither past due nor impaired					
	High	Medium	Low	Past due but not impaired	Impaired financial assets	Total
Loans and receivables						
Cash and cash equivalents	₱62,335,647	₱-	₱-	₱-	₱-	₱62,335,647
Insurance receivables:						
Due from ceding companies	4,986,980	-	-	18,187,373	-	23,174,353
Premium receivables	10,333,705	-	-	135,811,632	-	146,145,337
Due from agents	3,527,737	-	-	26,168,072	1,705,522	31,401,331
Other receivables	15,062,534	-	-	17,959,818	-	33,022,352
Reinsurance assets:						
Reinsurance recoverable on paid losses	46,144	-	-	12,286,414	-	12,332,558
Reinsurance recoverable on unpaid losses	3,064,579	-	-	962,424	-	4,027,003
Other assets	7,143,136	-	-	-	-	7,143,136
Held-to-maturity investments	78,493,641	-	-	-	-	78,493,641
	₱184,994,103	₱-	₱-	₱211,375,733	₱1,705,522	₱398,075,358

High Credit Quality

This pertains to assets of the Company that are highly convertible to cash based on the Company's experience and those that are classified by the IC as readily admitted assets.

Moderate Credit Quality

For receivables, this covers accounts of paying insured and or remittance of agents, but paid and or remitted normally beyond the credit term. This also includes receivables from insured and or agent with delayed payment and or remittance, although paid and or remitted but was only made after a demand letter was sent.

Low Credit Quality

For receivables, this covers accounts of slow paying insured and or remittance of agents, and those whose payments and or remittances are received upon sending a second demand letter as at financial reporting date.

Aging analysis of financial assets

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

December 31, 2014	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Insurance receivables:						
Due from ceding companies	₱2,015,222	₱524,367	₱425,185	₱372,038	₱17,135,672	₱20,472,484
Premium receivables	18,333,622	19,051,311	21,506,247	5,060,244	29,787,253	93,738,677
Due from agents	2,664,367	1,629,412	1,499,609	1,297,336	19,195,352	26,286,076
Other receivables	2,156,049	859,875	7,514,825	7,952,719	28,440,499	46,923,967
Reinsurance assets:						
Reinsurance recoverable on paid losses	404,076	-	-	2,906,615	8,756,670	12,067,361
Reinsurance recoverable on unpaid losses	-	-	-	-	918,424	918,424
	₱25,573,336	**₱22,064,965**	**₱30,945,866**	**₱17,588,952**	**₱104,233,870**	₱200,406,989

December 31, 2013	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Insurance receivables:						
Due from ceding companies	₱57,060	₱185,247	₱239,776	₱1,696,156	₱16,009,134	₱18,187,373
Premium receivables	158,719	3,965,845	19,894,836	21,133,624	90,658,608	135,811,632
Due from agents	16,840,408	9,327,664	-	-	-	26,168,072
Other receivables	6,609,816	2,616,247	531,068	424,830	7,777,857	17,959,818
Reinsurance assets:						
Reinsurance recoverable on paid losses	148,934	-	-	668,519	11,468,961	12,286,414
Reinsurance recoverable on unpaid losses	-	-	-	-	962,424	962,424
	₱23,814,937	₱16,095,003	₱20,665,680	₱23,923,129	₱126,876,984	₱211,375,733

As at December 31, 2014 and 2013, insurance receivables of ₱1,705,522 are impaired and for which full provision has been recognized. The impaired receivables relate to a number of third parties which are in unexpectedly difficult economic situations.

Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with insurance claims. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company manages liquidity through a liquidity risk policy which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specifies the sources of funding and the events that would trigger the plan; concentration of funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

As at December 31, the Company's financial liabilities have contractual maturities which are presented below:

December 31, 2014

	Less than 1 year	**1-5 years**	**More than 5 years**	**Total**
Insurance contract liabilities				
claims and losses	₱24,258,807	₱-	₱-	24,258,807
Due to reinsurers	15,301,004	-	-	15,301,004
Accounts payable and accrued expenses				
Accounts payable	4,010,915	-	-	4,010,915
Accrued expenses	516,577	-	-	516,577
	₱44,087,303	**₱-**	**₱-**	**₱44,087,303**

December 31, 2013

	Less than 1 year	1-5 years	More than 5 years	Total
Insurance contract liabilities				
Claims and losses	₱17,450,524	₱-	₱2,015,183	₱19,465,707
Due to reinsurers	12,557,205	-	-	12,557,205
Accounts payable and accrued expenses				
Accounts payable	1,604,396	-	-	1,604,396
Buy-back obligation	3,483,301	-	-	3,483,301
Accrued expenses	478,984	-	-	478,984
Obligation under finance lease	728,365	318,891	-	1,047,256
	₱36,302,775	₱318,891	₱2,015,183	₱38,636,849

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting date.

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 actual benefits paid which are greater than originally estimated and subsequent development of long-term claims.

The Company determines its concentration of insurance risk based on individual type of contract. The Company principally issued the following types of general insurance contracts: motor, household insurance, commercial and business interruption.

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

December 31, 2014	**Gross claim liabilities**	**Reinsurers' share of claims liabilities**	**Net claim liabilities**
Fire	₱12,420,096	₱8,996,886	₱3,423,210
Motor car	6,097,518	448,121	5,649,397
Accident	116,186	-	116,186
Marine	5,426	-	5,426
Others	5,619,581	-	5,619,581
Total - note 16	₱24,258,807	₱9,445,007	₱14,813,800

December 31, 2013	Gross claim liabilities	Reinsurers' share of claims liabilities	Net claim liabilities
Fire	₱4,783,096	₱3,851,564	₱931,532
Motor car	8,750,958	175,439	8,575,519
Accident	17,932	-	17,932
Marine	105,426	-	105,426
Others	5,808,295	-	5,808,295
Total - note 16	₱19,465,707	₱4,027,003	₱15,438,704

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

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts and geographical areas, 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 of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The majority of reinsurance business ceded is placed on a quota share 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 statements 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 reinsurers 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.

Financial Assets and Financial Liabilities

The table below summarizes the maturity profile of the Company's financial assets, insurance liabilities and financial liabilities based on contractual undiscounted payments.

	2014			2013		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Loans and receivables						
Cash and cash equivalents*	**₱125,839,685**	**-**	**₱125,839,685**	₱62,335,647	₱-	₱62,335,647
Insurance receivables						
Due from ceding Companies	**21,104,674**	**-**	**21,104,674**	23,174,353	-	23,174,353
Premiums receivables	**129,741,254**	**-**	**129,741,254**	146,145,337	-	146,145,337
Due from agents	**27,593,229**	**-**	**27,593,229**	29,695,809	-	29,695,809
Other receivables	**34,643,436**	**19,584,919**	**54,228,355**	19,241,447	13,780,905	33,022,352
Reinsurance assets						
Reinsurance recoverable on paid losses	**12,067,361**	**-**	**12,067,361**	12,332,558	-	12,332,558
Reinsurance recoverable on unpaid losses	**9,445,007**	**-**	**9,445,007**	4,027,003	-	4,027,003
Premium reserve withheld by reinsurers	**5,391,633**	**-**	**5,391,633**	-	-	-
Other assets**	**2,640,425**	**1,440,169**	**4,080,594**	5,731,418	1,411,718	7,143,136
Held-to-maturity Investments	**50,130,027**	**23,155,201**	**73,285,228**	59,352,778	19,140,863	78,493,641
Available-for-sale financial assets	**-**	**2,313,166**	**2,313,166**	-	1,983,418	1,983,418
	₱418,596,731	**₱46,493,455**	**₱465,090,186**	₱362,036,350	₱36,316,904	₱398,353,254
Financial Liabilities						
Other liabilities						
Insurance contract liabilities						
Claims and losses	**₱24,258,807**	**₱-**	**₱24,258,807**	₱19,465,707	₱-	₱19,465,707
Due to reinsurers	**15,301,004**	**-**	**15,301,004**	12,557,205	-	12,557,205
Accounts payable and accrued expenses						
Accounts payable	**4,010,915**	**-**	**4,010,915**	1,604,396	-	1,604,396
Buy-back obligation	**-**	**-**	**-**	3,483,301	-	3,483,301
Accrued expenses	**516,577**	**-**	**516,577**	478,984	-	478,984
Obligation under finance Lease	**-**	**-**	**-**	728,365	318,891	1,047,256
	₱44,087,303	**₱-**	**₱44,087,303**	₱38,317,958	₱318,891	₱38,636,849

**Excluding cash on hand amounting to ₱144,696 in 2014 and ₱135,756 in 2013.*

***Excluding salvage recoverable amounting to ₱8,011,899 in 2014 and ₱6,644,170 in 2013.*

28. FAIR VALUE INFORMATION

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 follow:

- 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; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Financial asset measured at fair value

The fair value of available-for-sale financial assets at December 31 is determined as follows:

	2014	2013	Fair value hierarchy
Available-for-sale financial assets	**₱2,313,166**	₱1,983,418	Level 1

Fair value of available-for-sale financial assets is based on net asset value per share as published by Philippine Stock Exchange.

Financial assets and liabilities not measured at fair value

The following gives information about how the fair values of the Company's financial assets and liabilities, which are not measured at fair value but the fair values, are disclosed at the end of each reporting period are determined.

Cash and cash equivalents, insurance receivables, short-term other receivables, reinsurance assets, other assets, insurance contract liabilities, due to reinsurers, accounts payable and accrued expenses

Due to the short-term nature of these financial instruments, their fair value approximates the carrying amount as at reporting date.

The carrying amount and fair value of the categories of noncurrent financial assets and liabilities presented in the statements of financial position are shown below:

	2014		2013	
	Carrying Values	**Fair Values**	Carrying Values	Fair Values
FINANCIAL ASSETS				
Loans and receivables				
Mortgage loan	**₱17,208,571**	**₱18,855,621**	₱11,644,062	₱11,644,062
Salary loan	**1,627,786**	**1,783,584**	1,023,142	1,023,142
Car loan	**748,562**	**820,208**	1,113,701	1,113,701
	19,584,919	**21,459,413**	13,780,905	13,780,905
Deposits	**1,440,169**	**1,408,244**	1,411,718	1,411,718
HTM investments	**73,285,228**	**76,049,053**	78,493,641	78,493,641
	₱94,310,316	**₱98,916,710**	₱93,686,264	₱93,686,264

	2014		2013	
	Carrying Values	**Fair Values**	Carrying Values	Fair Values
FINANCIAL LIABILITY				
Obligation under finance lease	**₱-**	**₱-**	₱1,047,256	₱1,047,256

Salary, mortgage and car loan receivables
Fair values are estimated using the discounted cash flow technique that makes use of Philippine Dealing Exchange rates of similar instruments in 2014 and 2013.

Deposit to service providers
Fair values are estimated using the discounted cash flow technique that makes use of risk-free interest rate of 3.39% and 1.10% in 2014 and 2013, respectively.

HTM investments
Fair values are based on quoted rates ranging from 2.5 to 7% and 3 to 5% in 2014 and 2013, respectively.

Obligation under finance lease
Estimated fair values are based on the effective interest rates of 19.8% and 22.8% per annum which are equal to the rates implicit in the lease.

The aforementioned fair values of financial assets and liability is measured using level 2 of the fair value hierarchy.

Investment property measured at cost for which fair value is disclosed

The fair value of the investment property was determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

The fair value of the land amounting to ₱41,488,617 as at December 31, 2014, which equals its carrying value, was determined based on market data approach and is based on sales and listings of comparable properties registered within the vicinity. In estimating the fair value of the land, the appraisal gave due consideration to the highest and best use of the property.

The fair value of the investment property is measured using level 2 of the fair value hierarchy.

There were no transfers between levels 1 and 2 nor changes in level 3 instruments in 2014 and 2013.

29. MARGIN OF SOLVENCY (MOS)

The Company is required to maintain, at all times, a MOS equal to ₱500,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The margin of solvency shall be the excess of the value of its admitted assets (as defined under the Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. Reserve for unearned premiums as at December 31, 2014, determined on the basis of the rates and amounts prescribed in the same Code, amounted to ₱105,708,604 which is higher than the PFRS net reserve by ₱8,804,471. The PFRS net reserve amounted to ₱96,904,133 which is the Reserve for unearned premiums amounting to ₱ 106,629,706 reduced by the deferred reinsurance premiums amounting to ₱9,725,573.

The estimated amounts of non-admitted assets, as defined under insurance regulations, which are included in the statements of financial position follow:

	2014	2013
Property and equipment–net	**₱8,008,363**	₱2,793,367
Premiums in course of collection	**-**	36,191,894
Other assets	**35,069,493**	36,640,845
Total	**₱43,077,856**	₱75,626,106

The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC, specifically as to admitted and non-admitted assets as defined in the Insurance Code.

30. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company has related party transactions with stockholders and officers.

The details of transactions are as follow:

a) Advances

Related party/relationship	Amount		Outstanding balance - note 7		Terms and Conditions
	2014	2013	**2014**	2013	
Toptraders Import and Export Corporation (TIEC) – Stockholder	**₱4,632,409**	₱14,924,000	**₱20,133,762**	₱15,501,353	Unsecured and unguaranteed, non-interest bearing, payable in cash , no fixed payment term and no impairment
Individual Stockholder	**10,500,000**	-	**10,500,000**	-	Unsecured and unguaranteed, non-interest bearing, payable in cash , no fixed payment term and no impairment
	₱15,132,409	₱14,924,000	**₱30,633,762**	₱15,501,353	

The Company granted cash advances to TIEC and an individual stockholder as financial support. Outstanding balances arising from the transaction are included in the "Other receivables" account in the statements of financial position.

b) Loans to stockholders and officers who are individuals

Related party/relationship	Amount		Outstanding balance - note 7		
	2014	2013	**2014**	2013	**Terms and Conditions**
1) Salary loans to stockholders and officers	**₱513,000**	₱50,000	**₱633,000**	₱120,000	Unsecured and unguaranteed, payable thru salary deduction at 12% per annum, with maximum term of 2 years and no impairment
2) Mortgage loans to stockholders and officers	**5,564,509**	4,641,708	**17,208,571**	11,644,062	Payable in cash at 12% per annum, with terms ranging from 2 to 5 years and no impairment

The Company granted salary loans and mortgage to its stockholders and officers as financial assistance. Outstanding balances arising from the transaction are included in the "Other receivables" account in the statements of financial position.

c) Management fee

Related party/relationship	Amount		Outstanding balance		Terms and Conditions
	2014	2013	**2014**	2013	
TIEC – stockholder	**₱1,200,000**	₱1,200,000	**₱-**	₱-	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term

The Company pays management fee to TIEC in connection with the services rendered such as payroll, human resource and internal audit services amounting to P100,000 from August 2011 to present. The total management fee expense incurred by the Company is presented under "Operating expenses" in the statements of comprehensive income (see Note 25).

d) Leasing

Related party/relationship	Amount		Outstanding balance		Terms and Conditions
	2014	2013	**2014**	2013	
TIEC – stockholder	**₱-**	₱204,686	**₱-**	₱-	Unsecured and unguaranteed, non-interest bearing, payable in cash , no fixed payment term

A portion of the related party's office space in 7th floor G.E. Antonino Building is being utilized by the Company as stockroom. Monthly share of rental expense billed by the related party amounted to ₱17,741 from May to December 2013, ₱17,225 from January to April 2013, Rent expense is recognized under "Direct underwriting cost" and "Operating expenses" in the statements of comprehensive income.

Compensation of Key Management Personnel

The compensation of the Company's key management personnel consists of short term benefits amounting to ₱8,308,134 and ₱8,195,601 in 2014 and 2013, respectively and is included as part of salaries and wages under operating expenses.

31. LEASE COMMITMENTS

The following are the significant commitments involving the Company:

Finance lease commitments – Company as a lessee

In 2012, the Company entered into finance lease agreements covering two transportation equipment for a period of three (3) years with the Unionbank of the Philippines for ₱1,040,695 and ₱1,610,424. The monthly amortization for each equipment amounted to ₱28,908 and

₱44,734. The finance lease liabilities have effective interest rates of 19.8% and 22.8% per annum which are equal to the rates implicit in the lease.

In 2014, the risk and benefits incidental to ownership of the lease asset was wholly transferred to the Company. The asset's net carrying amount as at December 31, 2014 and 2013 amounted to ₱1,720,942 and ₱1,957,742, respectively.

Interest expenses relating to such lease amounted to nil in 2014 and ₱58,452 in 2013 are included as part of Interest and bank charges account which is presented under the operating expenses in the statements of comprehensive income.

Operating lease – the Company as a lessee

Operating lease agreements represents contracts entered into by the Company's head office and branch offices are as follows:

a.) The Company entered into contract of lease with G.E. Antonino, Inc. for the use of office space. The leased premise is located at 10th floor "Suite B", G.E. Antonino building, T.M. Kalaw St., Ermita, Manila. Lease term is for a period of three years which commenced on January 1, 2014 and will end on December 31, 2016, renewable thereafter as may be agreed upon by the parties. The Company shall pay a rental fee of ₱209,038 inclusive of VAT every first five days of each calendar month with an escalation rate of three (3%) at every year.

a) Lease of office space of the branches have terms of one to three years, renewable before the expiration of the contract.

Total rent expense for the years ended December 31, 2014 and 2013, presented under direct underwriting cost and operating expenses, amounted to ₱5,036,305 and ₱3,273,136, respectively.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2014	2013
Not later than one year	**₱2,662,830**	₱3,626,274
Later than one year and not later than five years	**2,376,086**	5,051,162
	₱5,038,916	₱8,677,436

32. 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 seriously the Company's position with regard to the outcome of these claims.