PhilNaRe
National Reinsurance Corporation of the Philippines

Annual Report 2013

Contents

Our Profile

National Reinsurance Corporation of the Philippines (the Company, PhilNaRe) was incorporated in 1978 pursuant to Presidential Decree No. 1270 as a domestic professional reinsurance firm to provide life and non-life reinsurance capacity to the Philippines and neighboring insurance markets. The Company's registered office and principal place of business is located at the 31st Floor, Ayala Life-FGU Center, 6811 Ayala Avenue, Makati City. The Company is listed on the Philippine Stock Exchange with stock symbol NRCP.

Financial Highlights

(amounts in million pesos except book value per share)

	2013	2012	2011	2010	2009
Gross Premiums	2,561	3,025	3,524	4,279	3,538
Net Premiums	820	779	1,126	1,598	1,352
Underwriting Income (Loss)	(122)	(365)	(107)	(658)	31
Investment & Other Income	664	702	768	491	467
Net Profit (Loss)	19	34	346	(480)	103
Total Assets	14,602	15,615	12,638	12,553	11,096
Stockholders' Equity	5,688	5,934	6,053	5,948	6,155
Book Value Per Share	2.68	2.79	2.85	2.75	2.85
Return on Average Equity	0.32%	0.57%	5.81%	-7.90%	1.70%
Expense Ratio	57.16%	30.40%	21.59%	15.06%	24.04%
Loss Ratio	79.77%	108.50%	79.81%	113.75%	70.20%
Combined Ratio	172.30%	177.29%	132.08%	156.08%	124.33%

Message To Stockholders

Helen Y. Dee
Chairperson of the Board

The Philippine Economy

The upward trajectory of the Philippine economy continued in 2013 with 7.2% growth in gross domestic product (GDP) despite the devastation of some parts of the country by two of the worst natural disasters in the country's history. That the Philippines can achieve a level of economic growth unmatched by any country in Southeast Asia and second only to China in Asia in the face of such adversity is proof of the resiliency underlying the Philippine growth story.

As in years past, the growth in the Philippine economy for 2013 was spearheaded by consumer spending, which grew 5.6% and accounted for more than half of the increase in GDP. Unlike years past, investments in fixed capital and durable equipment grew by 18.2% in 2013 (compared to a decline of 3.2% in 2012) and thus contributed to the overall growth number, as the private sector expanded capacity to meet the surge in domestic consumption.

Higher investments, particularly foreign direct investments, signaled a greater level of business confidence in the Philippines in 2013. In the World Bank's annual Doing Business Report which ranks 189 countries in terms of the cost to companies of a country's business regulations, the Philippines improved its ranking to 108 from 133 the year before.

The unrelenting growth of the Philippine economy in 2013 was rewarded by ratings upgrades from three major international credit-rating agencies. These ratings actions elevated the Philippines to a much-coveted investment grade status for the first time. In March, Fitch Ratings upgraded the country's debt rating to BBB- from BB+, with a stable outlook. In May 2013, Standard & Poor's followed with an upgrade of the Philippines' foreign long-term debt to BBB- from BB+, also with a stable outlook. Finally, in October Moody's Investor Service upgraded the Philippine government's rating to Baa3 from Ba1, with a positive outlook. All in all, these ratings upgrades strongly hint at the sustainability of Philippine economic growth and at bright prospects for further inflows of foreign capital. These prospects were reinforced in May of 2014 with another upgrade from Standard & Poor's to BBB from last year's BBB-. In explaining its ratings action S&P cited, among other things, its belief that current economic reforms will endure post-Aquino.

At the end of 2013, with low inflation, steady interest rates and a strong fiscal and current account position, the Philippines continues to project relatively high rates of economic growth. The Asian Development Bank has forecast GDP growth of 6.4% in 2014 and 6.7% in 2015 citing as support continued growth in investment, improving business confidence and rising inflows of foreign direct investment.

The Philippine Insurance Industry

Against this positive economic backdrop, the Philippine insurance industry exhibited strong growth in 2013 with consolidated premium income of ₱226 billion from both the life and non-life sectors. Industry growth, as measured by total premiums, was over 30% though the bulk of that growth came from the life sector, which continued to benefit from the popularity of variable unit-linked (VUL) insurance products. VUL policies combine traditional life insurance protection with an investment component and have proved very popular due to the upbeat Philippine investment market. The life industry registered an impressive 42% increment in its total premium income which rose to ₱171.2 million in 2013.

The non-life insurance sector, which comprises your Company's primary market, saw premium income hit ₱54.6 billion on an industry-wide basis, an amount considerably smaller than the life insurance sector. Premium growth for the non-life sector was a modest 4% and was overshadowed by a higher level of losses incurred by the industry, an increase of 29% owing to the occurrence of several major natural catastrophes in the Philippines in 2013.

Also notable in 2013 was the signing into law of a bill which amends the country's Insurance Code and which aims to strengthen the insurance industry and position the country's insurers for the integration within the anticipated ASEAN regional economic zone by 2015. President Benigno S. Aquino III in August of 2013 signed Republic Act No. 10607 amending the 38-year old Presidential Decree No. 612, also known as the Insurance Code. A key provision of the Amended Insurance Code is higher minimum capitalization for insurance companies. The provision increases the minimum net worth of insurance companies in graduated steps, concluding in a minimum net worth requirement of ₱1.3 billion by 2022. The Amended Insurance Code seeks to strengthen the regulatory framework by, among other things, applying internationally accepted accounting standards for assessing the solvency of insurance companies. We anticipate that these and other provisions of the Amended Insurance Code, including provisions which greatly expand the range of insurance companies' allowable investments, will materially enhance the industry's ability to compete regionally as well as its ability to more efficiently implement its dual mission of savings mobilization and risk transfer.

The Insurance Commission attributed the insurance industry's growth in 2013 to the introduction of new products and channels of distribution as well as a growing microinsurance industry. Despite the stellar performance of the insurance industry in 2013, the level of insurance penetration for the Philippines remains one of the lowest in Asia. Insurance penetration is normally measured in terms of total premiums generated over a country's gross domestic product (GDP). In the Philippines, insurance penetration has been increasing steadily over the years from about 1% of GDP in 2009 to about 1.9% of GDP by the end of 2013. However, this is still well below comparable economies in Southeast Asia. The Insurance Commission estimates that insurance penetration needs to be at the level of about 3% of GDP to be at par with our neighboring countries.

The low level of insurance penetration was evident in the assessment of the damage wrought by natural catastrophes which struck the Philippines in 2013. Apart from the 20 or so typhoons that on average visit the country every year, the Philippines attained the unfortunate distinction of playing host to two of the world's five worst natural disasters in 2013.

In October of 2013 a magnitude 7.2 earthquake hit the country's Central Visayas region resulting in the loss of over 200 lives and the damage to more than 73,000 structures, 14,500 of which were totally destroyed. With damage centered on the islands of Bohol and Cebu, it was the deadliest earthquake in the Philippines in nearly a quarter of a century.

In November of 2013, just 3 weeks after the Bohol earthquake, Tropical Storm Yolanda (International codename: Haiyan), one of the strongest tropical cyclones ever recorded, made its first landfall in Eastern Samar. The subsequent damage wrought by the typhoon killed nearly 6,000 people and displaced more than 3.6 million individuals, sparking a humanitarian crisis of international proportions.

Ironically, despite the immense human and economic cost of the Bohol earthquake and Typhoon Yolanda, the insured costs of these natural catastrophes, while sizable, were of a magnitude that could be absorbed by the Philippine insurance industry. Typhoon Yolanda caused about US$10 billion of economic losses, equivalent to about 5% of Philippine GDP. However, because of the low level of insurance penetration, insured losses are not expected to exceed US$1 billion. The massive gap between economic and insured losses, and the resulting stress

THE UNRELENTING GROWTH OF THE PHILIPPINE ECONOMY IN 2013 WAS REWARDED BY RATINGS UPGRADES FROM THREE MAJOR INTERNATIONAL CREDIT-RATING AGENCIES. THESE RATINGS ACTIONS ELEVATED THE PHILIPPINES TO A MUCH-COVETED INVESTMENT GRADE STATUS FOR THE FIRST TIME.

Message To Stockholders

on personal, commercial and government finances, serve to highlight the need for a more developed Philippine insurance industry, one that is tightly woven into the fabric of Philippine economic life and can effectively partner with the government in mitigating the consequences of natural calamities on the country and its population.

PhilNaRe – Highlights of Operations

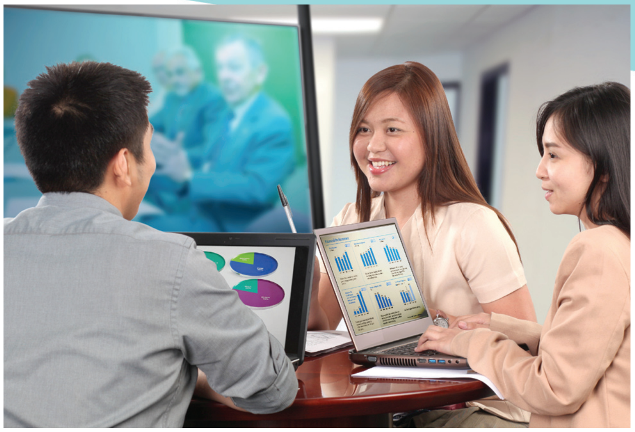
Your Company's net income in 2013 was ₱18.7 million or ₱0.01 per share compared to net income of ₱34.1 million or ₱0.02 per share in 2012. In 2013, your Company's gross premiums written amounted to ₱2.6 billion, 15% lower than its production of ₱3.0 billion in 2012. While this may be seen as not being consistent with the growth of the insurance industry in 2013, it largely reflects the Company's continued selective risk acceptance in view of prior years' underwriting losses. Generally speaking, all lines of business experienced declines in premiums in 2013.

Despite the drop in gross premiums written, net premiums retained increased by 5.3% in 2013 to ₱820 million from ₱779 million in 2012. The increase was due to a higher retention of business written as well as a reduction in premiums paid for the Company's Fire catastrophe and risk excess of loss protection. In 2012 the cost of excess of loss protection shot up due to massive industry losses resulting from several major natural catastrophes that hit the region in 2011, notably the floods in Thailand and Australia and the earthquakes in Japan and New Zealand.

The increase in net premiums combined with a reduction in claims and losses led to an improvement in underwriting performance. Total claims and losses incurred by the Company in 2013 amounted to ₱662.5 million, 22% lower than the previous year's ₱843.9 million. Consequently, the Company's underwriting loss in 2013 was reduced by more than half to ₱121.9 million from ₱365 million in 2012.

Mr. Augusto P. Hidalgo
New President and CEO
Effective April 1, 2014

Roberto B. Crisol
Outgoing President and CEO



YOUR COMPANY'S INVESTMENT OPERATIONS CONTINUED TO GENERATE BETTER THAN AVERAGE RETURNS FOR 2013. INVESTMENT INCOME WAS P664 MILLION IN 2013 COMPARED WITH P702 MILLION IN 2012.

While overall underwriting results continued to be negative in 2013, an analysis of performance by business segment shows a picture of health in some areas and of recovery in others. Your Company's life reinsurance operations continued to generate positive results. Despite a slight decline in gross premiums written, its life portfolio posted an underwriting profit of ₱138 million in 2013, an improvement over its underwriting profit of ₱136 million in 2012. Unfortunately, non-life reinsurance operations incurred an underwriting loss of ₱260 million in 2013. However, this represents an improvement over an underwriting loss in excess of ₱500 million in 2012, and stemmed from the adoption of event limits and other remedial measures in the company's non-life proportional business and stricter terms in its excess of loss acceptances and renewals. The Company thus avoided a massive increase in the renewal cost of its non-life excess of loss covers, but a complete return to underwriting profitability could not be sustained largely because of claims and losses related to the Cebu/Bohol earthquake and Typhoon Yolanda.

Your Company's investment operations continued to generate better than average returns for 2013. Investment income was ₱664 million in 2013 compared with ₱702 million in 2012. While equities and fixed income markets were flat in 2013, the volatility which prevailed between the start and the end of 2013 created trading opportunities of which your Company was able to take advantage.

Since 2008, your Company has generated some ₱3.5 billion in investment income which offset, to some extent, the ₱1.3 billion in underwriting losses incurred over the same period. Consequently, your Company's financial condition remains strong despite the disappointing underwriting performance. In early 2014, the U.S.-based credit rating agency of A.M. Best Company, Inc. affirmed the Company's financial strength rating of B++ (Good) and issuer credit rating of bbb, with a stable outlook for both ratings. According to A.M.Best the ratings reflect your Company's "solid risk-based capitalization, established market presence in the Philippines and favorable investment results."

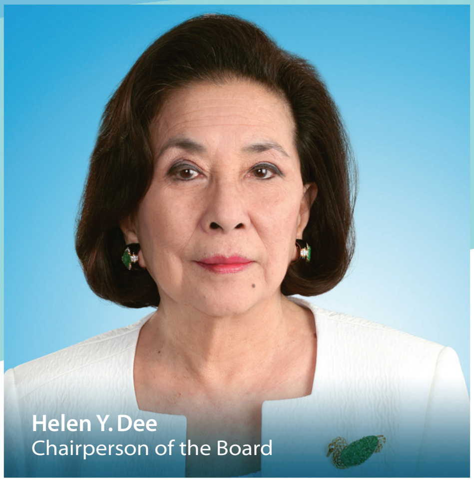
The current year 2014 ushered in a new leadership for PhilNaRe. Outgoing President & CEO Mr. Roberto B. Crisol retired effective March 31, 2014. The company's directors, officers and staff extend to Mr. Crisol their appreciation for his dedication, unselfish service and invaluable contributions to PhilNaRe. We welcome his successor as President & CEO, Mr. Augusto P. Hidalgo who brings to the company a wealth of expertise and many years of international experience in reinsurance, management, finance and IT. We are confident that Mr. Hidalgo will lead the company to a higher level of performance and achievement and ensure enhanced standards of service to its clients.

In closing, we would like to thank all of the Company's stakeholders—our shareholders, directors, management and staff—for their unwavering support of our efforts to turn the Company around. We would also like to express our gratitude to our clients, the insurance companies who continue to utilize our services.

HELEN Y. DEE
Chairperson of the Board

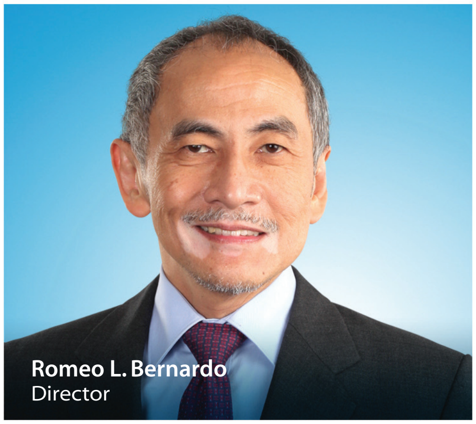
ROBERTO B. CRISOL
President and CEO

Board of Directors

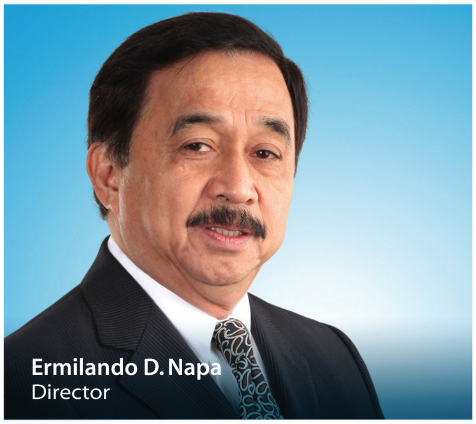

Helen Y. Dee
Chairperson of the Board


Robert G. Vergara
Vice Chairman


Roberto B. Crisol
President and CEO


Romeo L. Bernardo
Director

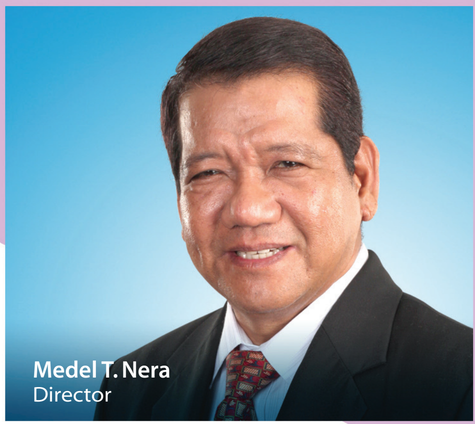

Rafael G. Ayuste, Jr.
Director


Ermilando D. Napa
Director


Yvonne S. Yuchengco
Director

Danilo A. Gozo
Director

Joli Co Wu
Director



Medel T. Nera
Director

Alfonso L. Salcedo, Jr.
Director

Jose Teodoro K. Limcaoco
Director

Gregorio T. Yu
Director

Advisor
RAFAEL C. GALLAGA

Corporate Secretary
NOEL A. LAMAN

Assistant Corporate Secretary
MA. PILAR M. PILARES-GUTIERREZ

Treasurer
JOHN E. HUANG

External Auditor
PUNONGBAYAN & ARAULLO

External Legal Counsel
CASTILLO LAMAN TAN
PANTALEON
& SAN JOSE LAW OFFICES

*Mr. Danilo A. Gozo resigned as Director November 2013 and replaced by Mr. Roman Felipe S. Reyes

Management

OFFICE OF THE PRESIDENT

ROBERTO B. CRISOL	President & CEO
REGINA S. RAMOS	Vice President
JEFFREY R. LACSON	Assistant Vice President
ALLAN L. FONG	Senior Manager

LIFE DIVISION

AUGUSTO C. CIPRIANO	First Vice President & Division Head
ROSARIO V. ENGRACIA	Assistant Vice President
FRANCISCO B. KABIGTING	Assistant Vice President
ARIEL G. MARTINEZ	Assistant Vice President
VICENTE R. SANOY, JR.	Assistant Vice President

NON-LIFE DIVISION

ROBERTO S. DE LEON II	First Vice President & Division Head
GLENN JOSEPH B. AQUINO	Assistant Vice President
EDITHA B. GERONIMO	Assistant Vice President
RONNIERICK E. GUERA	Senior Manager

FINANCE DIVISION

JOHN E. HUANG	Senior Vice President & CFO
MARISSA P. ALDEANO	Vice President
AMERFIL V. BASCO	Vice President
VICENTE B. VILLARAMA, JR.	Vice President
HONORATA S. LUCOS	Assistant Vice President
ROWENA S. PANGILINAN	Assistant Vice President
DAISY C. SALONGA	Assistant Vice President

CORPORATE SERVICES DIVISION

RENE O. DE GUZMAN	Vice President
REGINA LOURDES D. PAPA	Senior Assistant Vice President
NORMANDO ANTONIO S. AGUILAR	Assistant Vice President

Senior Management Committee

JOHN E. HUANG
Senior Vice President & CFO

ROBERTO B. CRISOL
President & CEO

ROBERTO S. DE LEON II
First Vice President

AUGUSTO C. CIPRIANO
First Vice President

The current year 2014 ushered in a new leadership for PhilNaRe.

Outgoing President and CEO Mr. Roberto B. Crisol retired effective March 31, 2014.

We welcome his successor as President and CEO, Mr. Augusto P. Hidalgo who brings to the company a wealth of expertise and many years of international experience in reinsurance, management, finance and IT.

Statement of Management's Responsibility for Financial Statements

The Management of National Reinsurance Corporation of the Philippines (the Company), is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013 and 2012 in accordance with Philippine Financial Reporting Standards.

This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and, and in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Helen Y. Dee
Chairperson of the Board

Roberto B. Crisol
President & Chief Executive Officer

John E. Huang
Treasurer

Vicente B. Villarama, Jr.
Financial Control Head

Report of the Audit Committee

In line with Article V. Board Committees of the Amended By-Laws of the National Reinsurance Corporation of the Philippines (PhilNaRe, the "Company"), the Audit Committee assists the Board of Directors in carrying out its responsibilities as they relate to the oversight of the Company's financial and operational risks, internal control, internal audit function, independent auditors, legal or regulatory compliance, corporate governance, risk management process and fraud risks.

The Audit Committee's roles and responsibilities are likewise defined in the Audit Committee Charter approved by the Company's Board of Directors (Board).

In compliance with the Audit Committee Charter, we confirm that:

- The Audit Committee was composed of three (3) independent directors;
- We had seven (7) meetings during the year. The Company's President & Chief Executive Officer (CEO), the Chief Financial Officer (CFO), and other members of Management attended the Committee meetings. External subject experts, such as the appointed Independent External Auditors and other consultants, were also invited to the meetings.
- The Committee met with the Chief Audit Executive and the Independent External Auditors in private sessions during the year.
- We have reviewed and discussed the quarterly unaudited financial statements and the audited annual financial statements of the Company, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, with the Management, who has the primary responsibility for the financial statements and the financial reporting process, the Internal Audit, and with Punongbayan & Araullo (P&A), the Independent External Auditor, who is responsible for expressing an opinion on the conformity of the Company's audited financial statements with Philippine Financial Reporting Standards (PFRS);
- We have reviewed and discussed the adequacy of the Company's enterprise risk management framework and risk management processes specific to financial statement reporting, business continuity, fraud, revenue assurance and regulatory risks with Management who is primarily responsible for the risk management process;
- We have reviewed the effectiveness of the system for monitoring compliance with laws and regulations and the results of Management's investigation and follow-up (including disciplinary action) of any instances of noncompliance;
- We have discussed and approved the overall scope and plans for the respective audit reviews of the Internal Auditors and P&A. We have also discussed the results of their audits and their assessment of the Company's internal controls and the overall quality of the financial reporting process;
- We have reviewed and discussed the reports of the Internal and Independent External Auditors ensuring that Management is taking appropriate corrective actions in a timely manner, including addressing internal control and any regulatory compliance issues;
- We have reviewed the effectiveness of the internal audit function, ensuring compliance with the International Standards for the Professional Practice of Internal Auditing (ISSPIA), and the Internal Audit's annual and quarterly reports to the Audit Committee covering:
  - Work plan and Key Performance Indicators (KPI) Accomplishments
  - Critical Risk Areas, including investigative reviews and resolutions
  - Organizational Structure, Resource Utilization and Staff Competencies
- We have reviewed and recommended for Board approval the audit services of P&A and approved audit-related and permitted non-audit services provided by P&A to the Company and the related fees for such services, in accordance with existing policies, standards, and regulatory requirements, and concluded that the non- audit fees are not significant to impair their independence.
- We have evaluated the performance of the Committee, for the year ended December 31, 2013 and benchmarked the practices against the expectations set out in the Audit Committee Charter. We have ascertained that the Audit Committee continues to fulfill its responsibilities in accordance with global best practices and in compliance with the Manual of Corporate Governance and other relevant regulatory requirements.

Based on the reviews and discussions undertaken, and subject to the limitations of our roles and responsibilities, the Audit Committee recommended to the Board of Directors the inclusion of the corporate governance report and audited financial statements in the December 31, 2013 Annual Report, filed with the Securities and Exchange Commission.

Considering the independent auditor's performance and qualifications and based on a fair and transparent tender process, we recommended to the Board of Directors, subject for ratification of the Stockholders during the annual stockholders meeting, the re-appointment of Punongbayan & Araullo as the Company's Independent Auditor for the year 2014.

By the Audit Committee:

Ermilando D. Napa	Romeo L. Bernardo	Medel T. Nera
Chairman	Member	Member

Report of Independent Auditors

The Board of Directors and the Stockholders
National Reinsurance Corporation of the Philippines
31/F, Ayala Life-FGU Center
6811 Ayala Avenue, Makati City 1227, Philippines

Report on the Financial Statements

We have audited the accompanying financial statements of National Reinsurance Corporation of the Philippines, which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Reinsurance Corporation of the Philippines as at December 31, 2013 and 2012, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2013 required by the Bureau of Internal Revenue as disclosed in Note 28 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 4225011, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-2 (until Sept 5, 2016)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-22-2013 (until Nov 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

March 20, 2014

Statements of Financial Position

DECEMBER 31, 2013 AND 2012
(With Corresponding Figures as of January 1, 2012)
(Amounts in Philippine Pesos)

	Notes	December 31, 2013	December 31, 2012 (As Restated – see Note 2)	January 1, 2012 (As Restated – see Note 2)
ASSETS				
CASH AND CASH EQUIVALENTS	5	₱ 605,045,799	₱ 1,226,499,273	₱ 1,699,806,389
REINSURANCE BALANCES RECEIVABLE - Net	6	6,548,123,440	7,068,319,259	3,892,173,173
AVAILABLE-FOR-SALE FINANCIAL ASSETS	7	6,391,696,049	5,690,040,419	5,365,644,659
LOANS AND RECEIVABLES	8	320,047,429	715,296,547	584,623,402
PROPERTY AND EQUIPMENT - Net	9	102,753,246	114,952,669	127,375,909
DEFERRED ACQUISITION COSTS	2	85,207,534	97,760,247	137,880,973
DEFERRED REINSURANCE PREMIUMS	10	218,898,489	400,632,000	564,483,447
OTHER ASSETS	11	329,960,974	301,719,133	266,094,166
TOTAL ASSETS		₱ 14,601,732,960	₱ 15,615,219,547	₱ 12,638,082,118
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	6	₱ 8,210,083,119	₱ 8,665,239,181	₱ 5,427,830,997
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	12	137,729,054	237,451,508	180,276,582
RESERVE FOR UNEARNED REINSURANCE PREMIUMS	10	541,893,656	734,563,495	897,469,364
DEFERRED REINSURANCE COMMISSIONS	2	23,587,283	44,321,965	79,232,764
		8,913,293,112	9,681,576,149	6,584,809,707
EQUITY	18	5,688,439,848	5,933,643,398	6,053,272,411
TOTAL LIABILITIES AND EQUITY		₱ 14,601,732,960	₱ 15,615,219,547	₱ 12,638,082,118

See Notes to Financial Statements.

Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 (As Restated – see Note 2)	2011 (As Restated – see Note 2)
REINSURANCE PREMIUM INCOME				
Reinsurance premiums - net of returns	19	₱ 2,561,126,445	₱ 3,025,410,991	₱ 3,524,300,496
Retroceded premiums	19	1,741,505,765	2,246,692,148	2,397,850,047
Reinsurance premiums retained		819,620,680	778,718,843	1,126,450,449
Decrease (increase) in reserve for unearned reinsurance premiums	10	10,936,328	(945,578)	55,643,683
		830,557,008	777,773,265	1,182,094,132
UNDERWRITING DEDUCTIONS	14			
Share in claims and losses		662,547,481	843,897,848	943,404,577
Commissions - net		289,904,723	298,907,847	345,606,618
		952,452,204	1,142,805,695	1,289,011,195
NET UNDERWRITING LOSS		(121,895,196)	(365,032,430)	(106,917,063)
INVESTMENT AND OTHER INCOME - Net	13	664,399,633	702,151,965	768,158,953
PROFIT AFTER INVESTMENT AND OTHER INCOME		542,504,437	337,119,535	661,241,890
GENERAL AND ADMINISTRATIVE EXPENSES	15	468,494,074	236,752,181	243,197,154
PROFIT BEFORE TAX		74,010,363	100,367,354	418,044,736
TAX EXPENSE	17	55,281,861	66,272,420	72,133,582
NET PROFIT		₱ 18,728,502	₱ 34,094,934	₱ 345,911,154
Earnings Per Share	22	₱ 0.01	₱ 0.02	₱ 0.16

See Notes to Financial Statements.

Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 (As Restated – see Note 2)	2011 (As Restated – see Note 2)
NET PROFIT		**₱ 18,728,502**	₱ 34,094,934	₱ 345,911,154
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit liability	16	**(10,394,122)**	(4,350,219)	12,564,025
Items that will be reclassified subsequently to profit or loss	7			
Fair valuation of available-for-sale (AFS) financial assets				
Fair value gains (loss) during the year		**(41,637,686)**	231,502,395	216,080,704
Fair value gains on disposal of AFS financial assets reclassified to profit or loss		**(169,428,132)**	(168,515,563)	(275,064,036)
		(211,065,818)	62,986,832	(58,983,332)
		(221,459,940)	58,636,613	(46,419,307)
TOTAL COMPREHENSIVE INCOME (LOSS)		**(₱ 202,731,438)**	₱ 92,731,547	₱ 299,491,847

See Notes to Financial Statements.

Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in Philippine Pesos)

	Notes	Capital Stock: No. of Shares	Capital Stock: Amount	Additional Paid-in Capital	Treasury Shares - At Cost	Revaluation Reserves: Available-for-sale Financial Assets	Revaluation Reserves: Remeasurements of Defined Benefit Liability	Retained Earnings: Appropriated	Retained Earnings: Unappropriated	Total Equity
Balance as of January 1, 2013										
As previously reported		2,181,954,600	₱ 2,181,954,600	₱ 3,019,218,458	(₱ 100,525,432)	₱ 399,020,095	-	₱ 268,469,546	₱ 237,889,026	₱ 6,006,026,293
Prior period adjustments	2, 7	-	-	-	-	16,867,546	(91,308,350)	-	2,057,909	(72,382,895)
As restated		2,181,954,600	2,181,954,600	3,019,218,458	(100,525,432)	415,887,641	(91,308,350)	268,469,546	239,946,935	5,933,643,398
Cash dividends	18	-	-	-	-	-	-	-	(42,472,112)	(42,472,112)
Appropriated for contingencies	18	-	-	-	-	-	-	1,872,850	(1,872,850)	-
Total comprehensive income for the year	7, 16	-	-	-	-	(211,065,818)	(10,394,122)	-	18,728,502	(202,731,438)
Total equity as of December 31, 2013		2,181,954,600	₱ 2,181,954,600	₱ 3,019,218,458	(₱ 100,525,432)	₱ 204,821,823	(₱ 101,702,472)	₱ 270,342,396	₱ 214,330,475	₱ 5,688,439,848
							-			
							-			
Balance as of January 1, 2012										
As previously reported		2,181,954,600	₱ 2,181,954,600	₱ 3,019,218,458	(₱ 100,525,432)	₱ 334,665,263	-	₱ 265,673,762	₱ 425,087,529	₱ 6,126,074,180
Prior period adjustments	2, 7	-	-	-	-	18,235,546	(86,958,131)	-	(4,079,184)	(72,801,769)
As restated		2,181,954,600	2,181,954,600	3,019,218,458	(100,525,432)	352,900,809	(86,958,131)	265,673,762	421,008,345	6,053,272,411
Cash dividends	18	-	-	-	-	-	-	-	(212,360,560)	(212,360,560)
Appropriated for contingencies	18	-	-	-	-	-	-	2,795,784	(2,795,784)	-
Total comprehensive income for the year	7, 16	-	-	-	-	62,986,832	(4,350,219)	-	34,094,934	92,731,547
Total equity as of December 31, 2012		2,181,954,600	₱ 2,181,954,600	₱ 3,019,218,458	(₱ 100,525,432)	₱ 415,887,641	(₱ 91,308,350)	₱ 268,469,546	₱ 239,946,935	₱ 5,933,643,398
							-		-	
Balance as of January 1, 2011										
As previously reported		2,181,954,600	₱ 2,181,954,600	₱ 3,019,218,458	(₱ 40,081,811)	₱ 393,670,095	-	₱ 231,638,713	₱ 161,965,640	₱ 5,948,365,695
Prior period adjustments	2, 7	-	-	-	-	18,214,046	(99,522,156)	-	(9,639,848)	(90,947,958)
As restated		2,181,954,600	2,181,954,600	3,019,218,458	(40,081,811)	411,884,141	(99,522,156)	231,638,713	152,325,792	5,857,417,737
Acquisition of shares during the year	18	-	-	-	(60,443,621)	-	-	-	-	(60,443,621)
Cash dividends	18	-	-	-	-	-	-	-	(43,193,552)	(43,193,552)
Appropriated for contingencies	18	-	-	-	-	-	-	34,035,049	(34,035,049)	-
Total comprehensive income (loss) for the year	7, 16	-	-	-	-	(58,983,332)	12,564,025	-	345,911,154	299,491,847
Total equity as of December 31, 2011		2,181,954,600	₱ 2,181,954,600	₱ 3,019,218,458	(₱ 100,525,432)	₱ 352,900,809	(₱ 86,958,131)	₱ 265,673,762	₱ 421,008,345	₱ 6,053,272,411

See Notes to Financial Statements.

Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in Philippine Pesos)

	Notes	2013	2012 (As Restated – see Note 2)	2011 (As Restated – see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		₱ 74,010,363	₱ 100,367,354	₱ 418,044,736
Adjustments for:				
Gain on sale of available-for-sale financial assets	13	(327,352,764)	(298,137,689)	(354,002,693)
Interest income	13	(298,209,165)	(356,372,204)	(371,450,866)
Impairment losses	6, 15	236,932,939	20,000,000	32,500,000
Depreciation and amortization	9, 11, 15	34,481,368	34,413,916	28,843,853
Dividend income	13	(34,303,900)	(30,947,188)	(37,970,582)
Increase (decrease) in reserve for unearned reinsurance premiums	10	(10,936,328)	945,578	(55,643,683)
Unrealized foreign exchange loss (gain)		2,622,301	(11,303,838)	(2,578,773)
Gain on sale of property and equipment	13	-	(26,786)	(6,786)
Operating loss before working capital changes		(322,755,186)	(541,060,857)	(342,264,794)
Decrease (increase) in reinsurance balances receivable		365,985,399	(3,230,841,824)	287,193,890
Decrease (increase) in loans and receivables		384,928,134	(134,073,052)	30,611,921
Decrease (increase) in deferred acquisition costs		(8,181,969)	5,209,927	9,285,340
Increase in other assets		(47,431,520)	(37,751,432)	(31,140,922)
Increase (decrease) in reinsurance balances payable		(557,688,544)	3,290,673,039	(39,002,115)
Increase (decrease) in accounts payable and accrued expenses		(110,116,576)	52,824,707	(6,850,365)
Cash used in operations		(295,260,262)	(595,019,492)	(92,167,045)
Cash paid for income taxes		(55,281,861)	(66,272,420)	(72,022,408)
Net Cash Used in Operating Activities		(350,542,123)	(661,291,912)	(164,189,453)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal/maturities of:				
Available-for-sale financial assets	7	3,905,563,050	7,291,351,598	8,170,190,586
Property and equipment	9	1,607,354	26,786	279,369
Interest received		307,987,449	361,212,469	388,169,115
Dividends received	13	34,303,900	30,947,188	37,970,582
Acquisitions of:				
Available-for-sale financial assets	7	(4,477,286,405)	(7,260,278,243)	(7,213,870,663)
Property and equipment	9	(2,298,273)	(5,852,051)	(29,563,988)
Intangible assets	11	(2,401,348)	(14,012,160)	(3,030,370)
Net Cash From (Used in) Investing Activities		(232,524,273)	403,395,587	1,350,144,631
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of dividends	18	(42,472,112)	(212,360,560)	(43,193,552)
Acquisition of treasury shares	18	-	-	(60,443,621)
Net Cash Used in Financing Activities		(42,472,112)	(212,360,560)	(103,637,173)
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		4,085,034	(3,050,231)	4,201,330
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(621,453,474)	(473,307,116)	1,086,519,335
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,226,499,273	1,699,806,389	613,287,054
CASH AND CASH EQUIVALENTS AT END OF YEAR		₱ 605,045,799	₱ 1,226,499,273	₱ 1,699,806,389

See Notes to Financial Statements.

Notes to Financial Statements

DECEMBER 31, 2013, 2012 AND 2011

(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

National Reinsurance Corporation of the Philippines (the Company) was incorporated on June 7, 1978 by virtue of Presidential Decree No. 1270 (the Decree), as a domestic professional reinsurance firm to provide life and non-life reinsurance capacity to the Philippines and neighboring insurance markets. Under the Decree, it became the vehicle for the Philippine insurance industry's participation in the Asian Reinsurance Corporation (ARC), a multi-government-initiated reinsurance entity, based in Bangkok, Thailand, which was established to foster regional cooperation among insurance companies doing business in Asia. The Company's shares are listed in the Philippine Stock Exchange (PSE).

The Company's registered office and principal place of business is located at 31st floor Ayala Life FGU Center, 6811 Ayala Avenue, Makati City. The change in the Company's registered office which was formerly at 18th floor Philippine AXA Life Center, Sen. Gil J. Puyat Avenue corner Tindalo Street, Makati City, was approved by the Company's Board of Directors (Board) on December 19, 2013 and was reported to the Securities and Exchange Commission (SEC) on the same date. Subsequently, the change in address was also reported to the Bureau of Internal Revenue (BIR) on January 20, 2014.

The financial statements of the Company for the year ended December 31, 2013 (including the comparative financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012) were authorized for issue by the Company's BOD on March 20, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 *Basis of Preparation of Financial Statements*

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents the statement of comprehensive income in two statements: a statement of income and a statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

The Company's adoption of PAS 19 (Revised), *Employee Benefits*, resulted in material retrospective restatements on certain accounts in the comparative financial statements for December 31, 2012 and in the corresponding figures as of January 1, 2012 [see Note 2.2(a)(ii)]. Accordingly, the Company presents a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

2.2 *Adoption of New and Amended PFRS*

(a) Effective in 2013 that are Relevant to the Company

In 2013, the Company adopted the following new PFRS, revision, amendments and annual improvements thereto that are relevant to the Company and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised) :	:	Employee Benefits
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 13 :	:	Fair Value Measurement
Annual Improvements to PFRS 2009-2011 Cycle		
PAS 1 (Amendment)	:	Presentation of Financial Statements – Clarification of the Requirements for Comparative Information
PAS 32 (Amendment)	:	Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments

Discussed below and in the succeeding pages are relevant information about these new, revised and amended standards.

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Company applied the amendment retrospectively, hence, the presentation of other comprehensive income has been modified to reflect the changes.

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to defined benefit plans as follows:

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;

- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined liability or asset; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Company has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012. The effect of the restatement on the affected liability, and equity components is shown below along with a certain prior period adjustment relating to available-for-sale (AFS) financial assets (see Note 7).

	December 31, 2012		
	As Previously Reported	Prior Period Adjustments	As Restated
Change in liability:			
Accounts payable and accrued expenses (defined benefit liability)	(₱ 165,068,613)	(₱ 72,382,895)	(₱ 237,451,508)
Net decrease in equity		(₱ 72,382,895	
Changes in components of equity:			
Revaluation reserves –			
Remeasurements of defined benefit liability	₱ -	(₱ 91,308,350)	(₱ 91,308,350)
AFS financial assets	399,020,095	16,867,546	415,887,641
Unappropriated retained earnings	237,889,026	2,057,909	239,946,935
Net decrease in equity		(₱ 72,382,895)	

	January 1, 2012		
	As Previously Reported	Prior Period Adjustments	As Restated
Change in liability:			
Accounts payable and accrued expenses (defined benefit liability)	(₱ 107,474,813)	(₱ 72,801,769)	(₱ 180,276,582)
Net decrease in equity		(₱ 72,801,769)	
Changes in components of equity:			
Revaluation reserves –			
Remeasurements of defined benefit liability	₱ -	(₱ 86,958,131)	(₱ 86,958,131)
AFS financial assets	334,665,263	18,235,546	352,900,809
Unappropriated retained earnings	425,087,529	(4,079,184)	421,008,345
Net decrease in equity		(₱ 72,801,769)	

The effects of the adoption of PAS 19 (Revised) on the statements of income and statement of comprehensive income for the year ended December 31, 2012 and 2011 are shown below.

	December 31, 2012		
	As Previously Reported	Prior Period Adjustments	As Restated – (see Notes 7, 13, 15 and16)
Changes in income:			
Investment and other income –			
Foreign currency gains	₱ 19,747,982	₱ 1,368,000	₱ 21,115,982
General and administrative expense:			
Salaries and employee benefits	(129,012,395)	9,407,744	(119,604,651)
Finance costs	-	(4,638,651)	(4,638,651)
Net increase in net profit		₱ 6,137,093	

	December 31, 2012		
	As Previously Reported	Prior Period Adjustments	As Restated – (see Notes 7, 13, 15 and16)
Changes in other comprehensive income:			
Remeasurements of defined benefit liability	₱ -	(₱ 4,350,219)	(₱ 4,350,219)
Fair valuation of AFS financial assets	64,354,832	(1,368,000)	62,986,832
Net increase in other comprehensive income		(₱ 5,718,219)	

	December 31, 2011		
	As Previously Reported	Prior Period Adjustments	As Restated – (see Notes 7, 13, 15 and16)
Changes in income:			
Investment and other income –			
Foreign currency gains	₱ 7,754,821	(₱ 21,500)	₱ 7,733,321
General and administrative expense:			
Salaries and employee benefits	(127,785,291)	11,314,320	(116,470,971)
Finance costs	-	(5,732,156)	(5,732,156)
Net increase in net profit		₱ 5,560,664	
Changes in other comprehensive income:			
Remeasurements of defined benefit liability	₱ -	₱ 12,564,025	₱ 12,564,025
Fair valuation of AFS financial assets	(59,004,832)	21,500	(58,983,332)
Net increase in other comprehensive income		₱ 12,585,525	

The adoption of PAS 19 (Revised) did not have a material impact on Company's statements of cash flows for the year ended December 31, 2012 and 2011.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position. The details and outstanding balances of financial assets and financial liabilities that are subject to enforceable master netting agreements and similar arrangements are disclosed in Note 24.2.

(iv) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRS require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. This new standard applies prospectively from annual period beginning January 1, 2013, hence, disclosure requirements need not be presented in the comparative information in the first year of application.

Other than the additional disclosures presented in Notes 24 and 25, the application of this new standard had no significant impact on the amounts recognized in the financial statements.

(v) 2009 – 2011 Annual Improvements to PFRS. Annual improvement to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Company but has no material impact on the Company's financial statements.

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.* The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosure of certain specified information in accordance with PAS 8, related notes to the third statement of financial position are not required to be presented.

Consequent to the Company's adoption of PAS 19 (Revised) in the current year and certain other restatement which resulted in retrospective restatement of the prior years' financial statements, the Company has presented a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8.

(b) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments.* The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Company's financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

(a) *Effective in 2013 that are not Relevant to the Company*

The following revisions, amendments, annual improvements, and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Company's financial statements:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Repeated Application of PFRS 1and Borrowing Cost
PFRS 10	:	Consolidated Financial Statements
PFRS 11	:	Joint Arrangements
PFRS 12	:	Disclosure of Interest in Other Entities
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associate and Joint Venture
PFRS 10, 11 and 12 (Amendments)	:	Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12
Annual Improvements to PFRS 2009-2011 Cycle		
PAS 16 (Amendment)	:	Property, Plant and Equipment – Classification of Servicing Equipment.
PAS 34 (Amendment)	:	Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities
PPRS 1 (Amendment)	:	First-time Adoption of PFRS – Government Loans
Philippine Interpretation International Financial Reporting Interpretations Committee 20	:	Stripping Costs in the Production Phase of a Surface Mine

(b) *Effective Subsequent to 2013 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Company will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no material impact on the Company's financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Company does not expect this amendment to have a significant impact on its financial statements.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' financial statements the changes arising from this relief on disclosure requirements, if the resulting impact of this amendment will be applicable.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Company neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have impact on the financial statements.

(v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement, and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the liability's credit risk is recognized in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS 9 and PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

The Company does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Company and evaluating the need to conduct a comprehensive study of the potential impact and changes that may result from the adoption of PFRS 9 when it becomes effective.

(vi) PFRS 10, 12 and PAS 27 (Amendments) - *Investment Entities* (effective from January 1, 2014). The amendments define the term "investment entities," provide supporting guidance, and require investment entities to measure investments in the form of controlling interest in another entity, at fair value through profit or loss.

Management does not anticipate these amendments to have a material impact on the Company's financial statements.

(vii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Company but management does not expect a material impact on the Company's financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

(c) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

(b) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

2.3 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

The categories of financial assets that are currently relevant to the Company are fully described below.

(a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Company provides money or services directly to a debtor with no intention of trading the receivables.

The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Reinsurance Balances Receivable, and Loans and Receivables in the statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' 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 or current effective interest rate determined under the contract if the loan has a variable interest rate.

(b) AFS Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS financial assets include listed equity securities, government and corporate bonds, and golf club shares.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses relating to financial assets that are recognized in profit or loss are presented as part of Investment and Other Income in the statement of income, except for impairment losses which are presented as part of General and Administrative Expenses.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party.

2.4 Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Condominium units	40 years
Office improvements	10 years
Office furniture and equipment	5 years
Transportation equipment	5 years
Electronic data processing (EDP) equipment	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

2.5 Other Assets

Other assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

2.6 Investment Property

Investment property (included as part of Other Assets) is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Except for land, investment properties are stated at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value. The cost of the investment property comprises its purchase price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Depreciation is computed using the straight-line basis over the estimated useful life of the properties which is ten years.

The carrying amount of investment property is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the statement of income in the year of retirement or disposal.

2.7 Intangible Assets

Intangible assets (presented as part of Other Assets account) include acquired software licenses which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over five years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.17.

Acquired computer software licenses are capitalized on the cost incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

2.8 Financial Liabilities

Financial liabilities, which include Reinsurance Balances Payable and Accounts Payable and Accrued Expenses [excluding deferred output value-added tax (VAT), defined benefit liability and other taxes payable], are recognized when the Company becomes a party to the contractual terms of the agreement. All interest-related charges are recognized as an expense in the statement of income.

Reinsurance Balances Payable and Accounts Payable and Accrued Expenses are recognized initially at their fair value and subsequently measured at amortized cost, using the effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Company.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.9 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using pretax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Revenue and Expense 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) *Reinsurance premiums* – Premiums from short duration insurance contracts are recognized over the period of the contracts using the "24^{th} method", except for revenues from marine cargo risks wherein the premiums written during the first ten months of the current year and the last two months of the preceding year are recognized as revenue in the current year. The "24^{th} method" assumes that the average date of issue of all policies written during any one month is the middle of that month. Accordingly, $1/24^{th}$ of the net premiums are considered earned in the month the reinsurance contracts are issued and $2/24^{th}$ for every month thereafter (or $1/24^{th}$ for every 15-day period after the issue month). The portion of the gross reinsurance premiums that relate to the unexpired periods of the policies at the end of the reporting period are accounted for as Reserve for Unearned Reinsurance Premiums and is presented in the liability section of the statement of financial position while the portion of the retroceded reinsurance premiums that relate to the unexpired periods of the policies at the end of the reporting period are accounted for as Deferred Reinsurance Premiums and is presented in the asset section of the statement of financial position. The net changes in the account Reserve for Unearned Reinsurance Premiums and Deferred Reinsurance Premiums between the end of the reporting periods are recognized in the statement of income.

(b) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

(c) *Dividend income* – Revenue is recognized when the Company's right to receive the payment is established.

(d) *Gain on sale of assets* – Revenue is recognized when the risks and rewards of ownership of the investments have passed to the buyer.

Costs and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred.

2.12 Claim Costs Recognition

Share in claims and losses relating to insurance contracts are accrued when insured events occur. The share in claims (including those for incurred but not reported) are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverables. Recoveries on settled claims are recognized in statement of income in the period the recoveries are made while estimated recoveries are presented as part of Reinsurance Balances Receivable in the statement of financial position.

2.13 Acquisition Costs

Costs that vary with and are primarily related to the acquisition of new and renewal reinsurance contracts such as commissions, certain underwriting costs and inspection fees, are deferred and charged to expense in proportion to reinsurance premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as Deferred Acquisition Costs.

2.14 Commissions on Retrocessions

Commissions on retrocessions are deferred and are subjected to the same amortization method as the related acquisition costs. Deferred portion are presented in the statement of financial position as Deferred Reinsurance Commissions.

2.15 Leases – Company as Lessee

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 as expense in the statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.16 Foreign Currency Transactions and Translation

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income as part of profit or loss from operations.

2.17 Impairment of Non-financial Assets

The Company's property and equipment, investment property and intangible assets are subject to impairment testing. All other individual assets 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, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.18 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance costs account under General and Administrative Expenses in the statement of income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.

(b) Defined Contribution Plans

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accounts Payable and Accrued Expenses account in the statements of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.19 Income Taxes

Tax expense recognized in the statement of income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense 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.

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

2.20 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close member of the family of any such individual; and, (d) the Company's retirement plan.

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

2.21 Equity

Capital stock represents the nominal value of shares that have been issued or reissued.

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

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise gains and losses due to the revaluation of AFS financial assets, and remeasurements of defined benefit liability.

Retained earnings represent all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amounts of dividends declared.

2.22 Earnings Per Share

Basic earnings per share is determined by dividing net profit by the weighted average number of shares issued, adjusted for stock dividends and stock split, less shares held in treasury during the period.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

2.23 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstance affecting the Company's AFS financial assets, management concluded that AFS financial assets are not impaired as of December 31, 2013 and 2012. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(b) Distinguishing Investment Properties and Owner-managed Properties

The Company determines whether a property qualifies as investment 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 the property but also to other assets used in the operations.

Some properties comprise a portion that is held to earn rental and another portion that is held for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Company accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held 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.

(c) Distinguishing Operating and Finance Leases

The Company has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 23.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Impairment of Reinsurance Balances Receivable and Loans and Receivables

Adequate amount of allowance for impairment is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates the amount of allowance for impairment based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

The carrying value of reinsurance balances receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6. The carrying value of loans and receivables is shown in Note 8.

(b) Fair Value Measurement of Financial Assets Other than Loans and Receivables

The Company carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

The carrying values of the Company's AFS financial assets and the amounts of fair value changes recognized are disclosed in Note 7.

(c) Estimating Useful Lives of Property and Equipment, Investment Property and Intangible Assets

The Company estimates the useful lives of property and equipment, investment property and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, investment property and intangible assets are reviewed periodically and are 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 amounts of property and equipment are analyzed in Note 9, and of investment property and intangible assets in Note 11. Based on management's assessment as at December 31, 2013 and 2012 there is no change in the estimated useful lives of those assets during these years. Actual results, however, may vary due to changes in estimates brought about by the changes in factors mentioned above.

(d) Impairment of Non-financial Assets

The Company's policy on estimating the impairment of non-financial assets is discussed in Note 2.17. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses were recognized on non-financial assets in 2013 and 2012.

(e) Determining Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at the end of each reporting period 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. As of December 31, 2013 and 2012, no deferred tax assets were recognized by the Company since management believes that they will not be able to utilize the amount prior to its expiration (see Note 17).

(f) Valuation of Post-employment Defined Benefit

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 16.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's main risk mitigation strategies generally include adoption of underwriting and investment policies and guidelines, annual budget provision and internal audit checks and assessments.

The Company's risk management, in close cooperation with the respective duly constituted Board Committees on Underwriting, Investment and Budget, Risk Management and Audit, focuses on implementing risk control measures addressing underwriting acceptances, claims control, securing short to medium–term cash flows by minimizing exposure to financial markets while managing long-term financial investments to generate lasting returns.

The most significant financial risks to which the Company may be exposed to are described below.

4.1 Reinsurance Risk

As a professional reinsurer, the Company underwrites reinsurance business from life and non-life insurance companies and brokers, with the objective of realizing profits and being a dependable partner to its clients. To attain this objective, it is essential for the Company to have a balanced portfolio, wherein there is diversification of risks. For non-life business, each risk that is accepted or treaty arrangement entered into is carefully evaluated based on the Company's underwriting guidelines, such as maximum limits per type of risk, existing exposures, premium adequacy, financial condition of the client and the like.

The Company's retention on the larger risks that the Company accepts, or possible accumulation of the same in a given area, including losses that could arise from catastrophes such as earthquakes and typhoons, is protected by an excess of loss coverage to limit the Company's exposure up to a specified amount. Significant risk concentrations may result in potential losses not only in certain areas but also within a particular type of business such as property, motor car and casualty. The Company therefore always monitors and controls its exposures in various lines.

The Company's reinsurance and retroceded premiums per line of risk for the years ended are shown below.

		Reinsurance Premiums		Retroceded Premiums		Retention
December 31, 2013						
Fire	₱	1,353,766,718	₱	1,203,345,007	₱	150,421,711
Casualty		619,889,521		277,372,841		342,516,680
Life		462,050,128		208,931,266		253,118,862
Marine and aviation		125,420,078		51,856,651		73,563,427
	₱	**2,561,126,445**	**₱**	**1,741,505,765**	**₱**	**819,620,680**
December 31, 2012						
Fire	₱	770,670,521	₱	653,305,344	₱	117,365,177
Casualty		1,609,744,510		1,323,412,512		286,331,998
Life		512,623,373		201,575,653		311,047,720
Marine and aviation		132,372,587		68,398,639		63,973,948
	₱	3,025,410,991	₱	2,246,692,148	₱	778,718,843
December 31, 2011						
Fire	₱	907,568,017	₱	615,649,126	₱	291,918,891
Casualty		1,883,019,992		1,462,942,310		420,077,682
Life		471,265,379		200,522,435		270,742,944
Marine and aviation		262,447,108		118,736,176		143,710,932
	₱	3,524,300,496	₱	2,397,850,047	₱	1,126,450,449

Retrocession or reinsuring what the Company had earlier accepted as reinsurance is resorted to enable the Company to write risk whose amounts are in excess of its retention, and to reduce the volatility of its results and protect its capital. In doing so, the Company also sets minimum requirements and standards in determining with whom it wishes to reinsure with, foremost of which is the rating of the particular security by international rating agencies such as Standard and Poor's and A.M. Best.

On the other hand, life business, which constitutes about 18% of gross premium written, follows a schedule of retention per life or group life as determined by the actuarial department. Any amount in excess of this is retroceded or reinsured with reputable foreign reinsurers whose ratings from the same rating agencies are above par and meet the Company's standards.

The Company has implemented an Enterprise Risk Management Process, which is an organization-wide approach to the identification, assessment, communication and management of enterprise risks which are, defined as issues which may prevent the Company from achieving its strategic objectives. This process has been fully integrated into the Company's operations and is overseen by a Risk Management Council, comprised of members of senior management. At the same time, a Risk Management Committee has been established by the Company's BOD to assist the Board in the development and oversight of the Company's risk management program. The Risk Management Council is required to provide the Board with a comprehensive enterprise risk assessment at least annually and to establish plans to ensure that risks are being managed and monitored effectively. The Risk Management Committee's main task is to oversee that risk management is an integral part of the planning and operations of the Company in order to meet corporate goals and objectives.

Also, the Company continues to practice prudent underwriting with the objective of attaining underwriting profits. In evaluating a claim, the Company follows set guidelines such as setting up of reserves upon its receipt of a preliminary loss advice, and requiring the cedant-claimant to submit other necessary documents such as the adjuster's report, affidavits and proof of loss, among others.

The Company's outstanding claims and the retrocessionaires' share in such claims per line of risk are shown below (see Note 6).

		Outstanding Claims		Retrocessionaires' Share in Claims		Net
December 31, 2013						
Fire	₱	3,951,800,331	₱	2,995,525,267	₱	956,275,064
Casualty		2,029,021,706		1,566,612,430		462,409,276
Marine and aviation		1,234,733,390		484,700,841		750,032,549
Life		55,715,095		13,455,575		42,259,520
	₱	**7,271,270,522**	**₱**	**5,060,294,113**	**₱**	**2,210,976,409**
December 31, 2012						
Fire	₱	2,840,667,108	₱	2,027,879,573	₱	812,787,535
Casualty		3,669,601,724		3,176,214,779		493,386,945
Marine and aviation		1,171,337,649		426,738,346		744,599,303
Life		40,340,907		5,501,023		34,839,884
	₱	7,721,947,388	₱	5,636,333,721	₱	2,085,613,667
December 31, 2011						
Fire	₱	1,737,565,947	₱	1,075,632,493	₱	661,933,454
Casualty		1,641,994,279		1,114,086,599		527,907,680
Marine and aviation		1,230,741,339		375,394,441		855,346,898
Life		51,125,515		24,472,792		26,652,723
	₱	4,661,427,080	₱	2,589,586,325	₱	2,071,840,755

The Company ensures that all valid claims are settled promptly and judiciously, as part of its commitment to its clients.

Most of the risks reinsured by the Company are situated in the domestic market with only a small portion coming from overseas market.

4.2 *Credit Risk*

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position (or in the detailed analysis provided in the notes to the financial statements) as summarized below:

	Notes	**2013**	2012
Cash and cash equivalents	5	₱ **605,028,681**	₱ 1,226,464,218
Reinsurance balances			
Receivable – net	6	**6,548,123,440**	7,068,319,259
AFS financial assets	7	**5,068,571,037**	4,731,540,976
Loans and receivables	8	**320,047,429**	715,296,547
		₱ **12,541,770,587**	₱ 13,741,621,000

The Company continuously monitors defaults of ceding companies and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on ceding companies and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties.

The Company's management considers that all the above financial assets that are not impaired or past due for each reporting period are of good credit quality.

As part of Company's policy, bank deposits are only maintained with reputable financial institution having high quality external credit ratings. Cash in banks which are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of ₱0.5 million per depositor per banking institution, as provided for under Republic Act (RA) No. 9576, *Amendment to Charter of PDIC*, are still subjected to credit risk. However, the credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. For the determination of credit risk, cash and cash equivalents do not include cash on hand amounting to ₱17,118 and ₱35,055 as of December 31, 2013 and 2012, respectively.

Some of the unimpaired reinsurance balance receivables are past due as at the end of the reporting period. No other financial assets are past due at the end of the reporting period. The reinsurance balance receivables that are past due but not impaired are as follows:

	2013	2012
More than six months but not more than one year	₱ **40,084,448**	₱ 26,783,201
More than one year	**247,618,046**	384,378,611
	₱ **287,702,494**	₱ 411,161,812

None of the Company's financial assets are secured by collateral or other credit enhancements.

4.3 *Liquidity Risk*

The Company manages its cash and investment position to meet its obligations arising from reinsurance agreements and other financial liabilities. Currently, the Company's excess cash is invested in AFS financial assets.

As of December 31, 2013, the Company's obligations arising from reinsurance agreements and other financial liabilities have contractual maturities which are presented below.

	Current	Non-current
Reinsurance balances payable	₱ 6,732,268,158	₱ 1,477,814,961
Accounts payable and accrued expenses	36,395,466	-
	₱ 6,768,663,624	**P 1,477,814,961**

This compares to the maturity of the Company's financial liabilities as of December 31, 2012 as follows:

	Current	Non-current
Reinsurance balances payable	₱ 7,105,496,128	₱ 1,559,743,053
Accounts payable and accrued expenses	101,372,359	-
	₱ 7,206,868,487	**₱ 1,559,743,053**

4.4 *Market Risk*

The market risks to which the Company may be exposed are as follows:

(a) Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the foreign currency-denominated investments, receivables and payables. The Company recognized net foreign currency gains of ₱10,095,088 in 2013, ₱21,115,982 in 2012 and ₱7,733,321 in 2011 (see Note 13).

Exposures to currency exchange rates arise from the Company's foreign currency reinsurance transactions, which are primarily denominated in United States (U.S.) dollars, Indonesian rupiah, Thailand baht, Malaysian ringgit, Euro, Singaporean dollars, Indian rupee, Japanese yen, South Korean won, Pakistan rupee, Hongkong dollars, Australian dollar, Nepalese rupee and Bangladesh taka. The Company also holds U.S. dollar-denominated cash and cash equivalents and investment in equity securities.

To mitigate the Company's exposure to foreign currency risk, foreign-currency denominated cash flows are monitored.

Foreign-currency denominated financial assets and liabilities, translated into Philippine pesos at the closing rate are as follows:

	2013		2012	
	U.S. Dollars	Other Currencies	U.S. Dollars	Other Currencies
Financial assets	₱ 1,970,727,399	₱ 277,989,491	₱ 614,982,215	₱ 244,399,816
Financial liabilities	(2,071,042,064)	(437,145,186)	(1,526,752,756)	(473,706,292)
Total net exposure	(₱ 100,314,665)	(₱ 159,155,695)	(₱ 911,770,541)	(₱ 229,306,476)

The following table illustrates the sensitivity of the Company's profit before tax with respect to changes on Philippine peso (Php) against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility rates, using standard deviation, in the previous 12 months at a 99% confidence level. If the Philippine peso had strengthened against the foreign currencies, the effect would be as follows:

	2013			2012		
	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Effect in Equity	Reasonably Possible Change in Rate	Effect in Loss Before Tax	Effect in Equity
Php - U.S. Dollars	23.61%	₱ 23,685,274	₱ 23,685,274	13.83%	₱ 126,052,960	₱ 126,052,960
Php - Indonesian Rupiah	40.76%	18,151,948	18,151,948	35.75%	(21,865,539)	(21,865,539)
Php - Singaporean Dollars	17.96%	9,786,111	9,786,111	7.07%	3,451,566	3,451,566
Php - Hongkong Dollars	23.73%	4,241,188	4,241,188	13.32%	34,326	34,326
Php - Euro	33.14%	1,529,812	1,529,812	23.67%	(649,930)	(649,930)
Php - Thailand Baht	9.70%	1,147,679	1,147,679	17.03%	41,534,117	41,534,117
Php - South Korean Won	22.09%	(249,461)	(249,461)	16.71%	(1,799,598)	(1,799,598)
Php - Malaysian Ringgit	10.93%	(104,966)	(104,966)	15.91%	(2,073,536)	(2,073,536)
Php - Indian Rupee	26.54%	(89,536)	(89,536)	35.75%	(955,194)	(955,194)
Php - Nepalese Rupee	25.31%	(9,793)	(9,793)	0.00%	-	-
Php - Bangladesh Taka	29.00%	(883)	(883)	0.00%	-	-
Php - Australian Dollar	20.94%	(50)	(50)	17.21%	(44)	(44)
Php - Pakistan Rupee	17.72 %	-	-	42.41%	(425,882)	(425,882)
Php - Japanese Yen	22.23%	-	-	26.38%	(299)	(299)
Total		₱ 58,087,323	₱ 58,087,323		₱ 143,302,947	₱ 143,302,947

If the Philippine peso had weakened against the foreign currencies, the effect would be the reverse of the above.

Exposures to foreign currency rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be a representative of the Company's currency risk.

(b) *Market Price Risk*

The Company's investments are regulated under the pertinent provisions of the New Insurance Code, otherwise known as R.A. 10607. The Insurance Code generally requires all insurance companies to obtain prior approval of the Insurance Commission (IC) for any and all of their investments. It further requires companies to submit to the IC a monthly report on all investments made during the previous month. The IC reviews the investments and may require the immediate sale or disposal of investments deemed too risky.

In the area of equity investments, Section 207 of the New Insurance Code further provides, among other things, that insurance companies may invest in listed equities of other financial institutions without need of prior approval by the Commissioner.

Beyond the provisions of the Insurance Code, the Company, through its Investment Committee, has established additional guidelines to control the risks inherent in equity investments. The Company's own investment policy requires that the Company invest only in shares of common stock of companies listed in the PSE. Furthermore, these listed companies must have profitable business operations and market capitalizations which are on a scale that would qualify them as blue chips.

The Investment Committee regularly reviews and approves a list of publicly traded stocks authorized for investments on the basis of the foregoing considerations. Furthermore, the Investment Committee seeks to avoid unwarranted concentration of funds in a single asset class by regularly monitoring and limiting the proportion of equity investments to the Company's total investment portfolio. As of December 31, 2013 and 2012, investments in listed equities amounted to 18% and 16%, respectively, of the Company's total investment portfolio.

The observed volatility rates of the fair values of the Company's AFS financial assets held at fair value and their impact on the Company's other comprehensive income (loss) as of December 31, 2013 and 2012 are summarized as follows:

	2013		2012	
	Observed Volatility Rates	Effect in Other Comprehensive Income	Observed Volatility Rates	Effect in Other Comprehensive Income
Government bonds	4.15%	₱ 117,047,619	4.77%	₱ 153,420,391
Equity securities listed in the Philippines:				
Common shares	18.63%	205,853,102	11.67%	85,650,546
Preferred shares	2.77%	5,175,804	2.91%	4,853,546
Corporate bonds			5.21%	
Peso	0.00%	-	5.21%	35,787,362
Dollar	4.54%	5,501,132	4.54%	6,109,058
Mutual funds	24.50%	131,157,801	1.99%	2,913,431
		₱ 464,735,458		₱ 288,734,334

(c) *Interest Rate Risk*

The Company has limited exposure to interest rate risk because of its fixed income investments which amounted to approximately 75% and 85% of the Company's total investment portfolio as of December 31, 2013 and 2012, respectively. The Company attempts to limit interest rate risk by establishing limits on the duration and average maturity of its variable income portfolio.

5. CASH AND CASH EQUIVALENTS

This account consists of:

		2013		2012
Short-term placements	₱	526,193,501	₱	1,155,116,069
Cash on hand and in banks		78,852,298		71,383,204
	₱	605,045,799	₱	1,226,499,273

Short-term placements include time deposits and special deposit accounts made for varying periods between one day and one month depending on the liquidity requirements of the Company.

Peso short-term placements earn annual interest rates ranging from 0.48% to1.38% in 2013 and from 1.50% to 3.68% in 2012, while dollar short-term placements earn annual interest rates ranging from 0.50% to 1.0% in 2013 and from 1.00% to 1.20% in 2012. Cash in banks generally earn interest at rates based on daily bank deposit rates. The Cash and Cash Equivalents account includes U.S. dollar denominated cash of $1,916,084 (₱85,100,933) as of December 31, 2013 and $3,066,726 (₱126,324,596) as of December 31, 2012.

6. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

		2013		2012
Reinsurance balances receivable:				
Reinsurance recoverable on unpaid losses	₱	5,060,294,113	₱	5,636,333,721
Reinsurance recoverable on paid losses		1,072,506,104		626,525,861
Due from ceding companies		833,040,221		974,562,134
Funds held by ceding companies		154,845,900		166,527,502
		7,120,686,338		7,403,949,218
Allowance for impairment	(	572,562,898)	(	335,629,959)
	₱	6,548,123,440	₱	7,068,319,259
Reinsurance balances payable:				
Claims payable	₱	7,271,270,522	₱	7,721,947,388
Due to retrocessionaires		858,462,597		856,526,244
Funds held for retrocessionaires		80,350,000		86,765,549
	₱	8,210,083,119	₱	8,665,239,181

Reinsurance balances receivable pertains to the following:

- Reinsurance recoverable on paid and unpaid losses represent amounts due from retrocessionaires under treaty and facultative agreements as their share in losses.
- Due from ceding companies refers to the premiums receivable from the cedants as a result of treaty and facultative acceptances.
- Funds held by ceding companies pertains to the portion of reinsurance premiums withheld by ceding companies in accordance with treaty and facultative agreements.

Reinsurance balances payable relates to the following:

- Claims payable are losses and claims due to ceding companies under treaty and facultative agreements.
- Due to retrocessionaires are unremitted share in premiums of retrocessionaires.
- Funds held for retrocessionaires represents portion of the reinsurance premium ceded to retrocessionaires which was withheld by the Company in accordance with treaty and facultative agreements.

All of the Company's reinsurance balances receivables have been reviewed for indicators of impairment. Certain reinsurance balances receivable were found to be impaired and provisions have been recorded accordingly.

A reconciliation of the allowance for impairment at the beginning and end of 2013 and 2012 is shown below.

	Note		2013		2012
Balance at beginning of year		₱	335,629,959	₱	315,629,959
Impairment losses during the year	15		236,932,939		20,000,000
Balance at end of year		₱	572,562,898	₱	335,629,959

The fair values of these short-term financial assets and liabilities are not individually determined as their carrying amounts are reasonable approximation of their fair values.

7. AFS FINANCIAL ASSETS

This account is composed of the following:

		2013		2012
Bonds	₱	**4,601,588,981**	₱	4,501,347,585
Equity securities		**1,318,680,165**		927,763,530
Investment in ARC		**4,444,847**		30,735,913
Various funds		**466,982,056**		230,193,391
	₱	**6,391,696,049**	₱	5,690,040,419

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting to P250,000,000 both 2013 and 2012, which are on deposit with the IC as security for the benefit of policyholders and creditors of the Company in accordance with the provisions of the Insurance Code.

Bonds earn interest at annual rates ranging from 2.13% to 15.00% and 3.90% to 15.00% as of December 31, 2013 and 2012, respectively. Interest income recognized are presented as part of Investment and Other Income in the statements of income (see Note 13).

The following presents the fair values of investments in bonds by contractual maturity dates:

		2013		2012
Due within one year	₱	**178,360,037**	₱	77,897,545
Due after one year through five years		**1,396,331,798**		1,204,696,350
Due after five years through ten years		**2,277,689,961**		2,024,673,568
Due after ten years		**749,207,185**		1,194,080,122
	₱	**4,601,588,981**	₱	4,501,347,585

The balance of equity securities classified as AFS financial assets consists of:

		2013		2012
Cost:				
Quoted in the stock exchange	₱	**1,302,628,348**	₱	811,603,964
Not quoted in the stock exchange		**40,636,735**		40,636,735
		1,343,265,083		852,240,699
Fair value gains (losses):				
Quoted in the stock exchange	(	**4,413,687)**		93,395,321
Not quoted in the stock exchange	(	**20,171,231)**	(	17,872,490)
	(	**24,584,918)**		75,522,831
	₱	**1,318,680,165**	₱	927,763,530

Equity securities consist mainly of investments in companies listed in the PSE.

The shares of ARC have been issued in the name of the Government of the Philippines (GoP) as the Philippine government's participation in the joint undertaking of Asian countries to organize a reinsurance company that will service the needs of the region. The GoP assigned such shares, including any interest accruing thereon, to the Company. The GoP designated the Company as the national institution authorized to subscribe and pay for the said shares of stock. The shares of stock of ARC, while not for sale, were classified under this category since these do not qualify for inclusion in any other categories of financial assets.

In 2013, the Company made retrospective adjustments to present the foreign exchange differences pertaining to investment in ARC as part of other comprehensive income [see Note 2.2 (a)(ii)]. These were previously presented in profit or loss. The fair value of investment in ARC shares amounted to ₱4,444,847 and ₱30,735,913, as of December 31, 2013 and 2012, respectively.

The reconciliation of the carrying amounts of AFS financial assets is as follows:

		2013		2012 (As Restated – see Note 2.2)
Balance at beginning of year	₱	**5,690,040,419**	₱	5,365,644,659
Additions		**4,477,286,405**		7,260,278,243
Disposals/maturities	(	**3,578,210,286)**	(	6,993,213,909)
Fair value gains (losses) – net	(	**211,065,818)**		62,986,832
Foreign currency (gains) losses		**13,645,329**	(	5,655,406)
Balance at end of year	₱	**6,391,696,049**	₱	5,690,040,419

Changes in fair value of AFS financial assets recognized as Fair Value Gains (Losses) account under Other Comprehensive Income (Loss) in the statements of comprehensive income amounted to ₱211,065,818 and ₱58,983,332 fair value loss in 2013 and 2011, respectively, and ₱62,986,832 fair value gains in 2012.

The fair values of AFS financial assets have been determined directly by reference to published prices in active market. Certain investments where fair value is not reliably determinable either through reference of similar instruments or valuation techniques, these are carried at cost.

Various funds pertain to the Company's investments in mutual funds.

8. LOANS AND RECEIVABLES

This account includes the following:

		2013		2012
Current:				
Accrued interest receivable	₱	61,189,232	₱	70,967,515
Term loans		-		130,000,000
Others		4,591,915		5,442,814
		65,781,147		206,410,329
Non-current:				
Term loans		247,500,000		498,950,000
Loans receivable		6,766,282		9,936,218
		254,266,282		508,886,218
	₱	320,047,429	₱	715,296,547

Loans and receivables are usually due within one to ten years. These financial assets are subject to credit risk exposure. However, the Company does not identify specific concentrations of credit risk with regard to loans and receivables.

Term loans mainly pertain to the Company's participation in syndicated loans of other companies. These loans are unsecured interest-bearing loans with a term ranging from two to five years. The annual effective interest rate on these loans ranges from 4.30% to 5.86% in 2013, 4.53% to 6.62% in 2012 and 5.50% to 6.63% in 2011.

Loans receivable includes unsecured housing and car loans to Company's employees which have annual effective interest rates of 11.00% to 13.00% both in 2013 and 2012. These loans are collected through salary deductions with a term of five to twenty years.

Others includes receivables from sale of various stocks amounting to ₱1.56 million and ₱4.08 million in 2013 and 2012, respectively.

The fair value of these financial assets is not individually determined as the carrying amount is a reasonable approximation of this fair value since the interest rates are approximately the same as the market interest rate.

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2013 and 2012 are shown below.

	Condominium Units	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	Total
December 31, 2013						
Cost	₱ 154,882,915	₱ 14,845,258	₱ 10,095,760	₱ 10,426,898	₱ 34,391,666	₱ 224,642,497
Accumulated depreciation and amortization	(73,064,749)	(8,744,816)	(9,022,515)	(5,097,303)	(25,959,868)	(121,889,251)
Net carrying amount	**₱ 81,818,166**	**₱ 6,100,442**	**₱ 1,073,245**	**₱ 5,329,595**	**₱ 8,431,798**	**₱ 102,753,246**
December 31, 2012						
Cost	₱ 154,882,915	₱ 14,767,509	₱ 10,094,260	₱ 12,822,772	₱ 34,881,506	₱ 227,448,962
Accumulated depreciation and amortization	(68,348,425)	(7,790,629)	(8,685,698)	(5,144,167)	(22,527,374)	(112,496,293)
Net carrying amount	₱ 86,534,490	₱ 6,976,880	₱ 1,408,562	₱ 7,678,605	₱ 12,354,132	₱ 114,952,669
December 31, 2011						
Cost	₱ 154,882,913	₱ 12,241,691	₱ 10,455,422	₱ 13,957,307	₱ 39,009,102	₱ 230,546,435
Accumulated depreciation and amortization	(63,632,097)	(6,681,825)	(9,568,256)	(4,216,433)	(19,071,915)	(103,170,526)
Net carrying amount	₱ 91,250,816	₱ 5,559,866	₱ 887,166	₱ 9,740,874	₱ 19,937,187	₱ 127,375,909

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012, of property and equipment is shown below.

	Condominium Units	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	Total
Balance at January 1, 2013, net of accumulated depreciation and amortization	₱ 86,534,490	₱ 6,976,880	₱ 1,408,562	₱ 7,678,605	₱ 12,354,132	₱ 114,952,669
Additions	-	77,749	1,500	2,043,148	175,876	2,298,273
Disposals	-	-	-	(1,607,354)	-	(1,607,354)
Depreciation and amortization charges for the year	(4,716,324)	(954,187)	(336,817)	(2,784,804)	(4,098,210)	(12,890,342)
Balance at December 31, 2013, net of accumulated depreciation and amortization	**₱ 81,818,166**	**₱ 6,100,442**	**₱ 1,073,245**	**₱ 5,329,595**	**₱ 8,431,798**	**₱ 102,753,246**
Balance at January 1, 2012, net of accumulated depreciation and amortization	₱ 91,250,816	₱ 5,559,866	₱ 887,166	₱ 9,740,874	₱ 19,937,187	₱ 127,375,909
Additions	-	2,525,818	928,245	1,475,895	922,093	5,852,051
Transfer to intangible assets	-	-	-	-	(4,001,011)	(4,001,011)
Depreciation and amortization charges for the year	(4,716,326)	(1,108,804)	(406,849)	(3,538,164)	(4,504,137)	(14,274,280)
Balance at December 31, 2012, net of accumulated depreciation and amortization	₱ 86,534,490	₱ 6,976,880	₱ 1,408,562	₱ 7,678,605	₱ 12,354,132	₱ 114,952,669

In 2013, the Company sold certain assets at their net book value amounting to ₱1,607,354. In 2012 and 2011, the Company sold certain fully depreciated assets and recognized gain amounting to ₱26,786 and ₱6,786, respectively, which are presented as part of Investment and Other Income in the statements of comprehensive income (see Note 13).

In 2012, the Company transferred portion of its EDP Equipment with carrying value of ₱4,001,011 from Property and Equipment to Intangible assets under Other Assets account upon commencement of use of related asset which is identified as intangible asset (see Note 11).

The cost of fully depreciated property and equipment recorded in the books that are still in use amounting to ₱29,165,291 and ₱27,276,161 as of December 31, 2013 and 2012, respectively.

10. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts follows:

	Deferred Reinsurance Premiums		Reserve for Unearned Reinsurance Premiums	
	2013	2012	**2013**	2012
Balance at beginning of year	**₱ 400,632,000**	₱ 564,483,447	**₱ 734,563,495**	₱ 897,469,364
Decrease during the year	**(181,733,511)**	(163,851,447)	**(192,669,839)**	(162,905,869)
Balance at end of year	**₱ 218,898,489**	₱ 400,632,000	**₱ 541,893,656**	₱ 734,563,495

Deferred Reinsurance Premiums pertains to the portion of reinsurance premiums ceded out that relate to the unexpired periods of the policies at the end of each reporting period.

Reserve for Unearned Reinsurance Premiums is the portion of reinsurance premiums assumed that relate to the unexpired periods of the policies at the end of each reporting period.

The difference between the increase in Deferred Reinsurance Premiums and Reserve for Unearned Reinsurance Premiums for the year is presented as Decrease (Increase) in Reserve for Unearned Reinsurance Premiums in the statements of income.

11. OTHER ASSETS

The Other Assets account includes the following:

	Note	2013	2012
Creditable withholding tax		₱ 126,131,327	₱ 100,418,362
Deferred input VAT	28.1	74,123,058	68,437,058
Input VAT	28.1	68,517,247	52,472,376
Intangible assets – net		41,008,141	60,192,819
Deferred withholding VAT	28.1	9,200,181	9,200,181
Prepayments		4,729,864	4,493,607
Investment property – net		2,839,909	2,844,909
Deposit		619,385	284,616
Security fund		192,888	192,888
Others		2,598,974	3,182,317
		₱ 329,960,974	₱ 301,719,133

Input VAT includes unapplied input taxes resulting from unpaid premiums on ceded out transactions and unamortized input VAT on capital asset acquisitions.

Intangible assets pertain to acquired computer software licenses used in production and administration. The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of December 31, 2013 and 2012 follow:

	2013	2012
Cost	₱ 110,108,534	₱ 107,707,186
Accumulated amortization	(69,100,393)	(47,514,367)
Balance at end of year	₱ 41,008,141	₱ 60,192,819

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012, of intangible assets is shown below.

	Note	2013	2012
Balance at beginning of year, net of accumulated amortization		₱ 60,192,819	₱ 62,314,284
Additions		2,401,348	14,012,160
Amortization charges for the year	15	(21,586,026)	(20,134,636)
Transfers from property and equipment	9	-	4,001,011
Balance at end of year		₱ 41,008,141	₱ 60,192,819

Input VAT pertains to input VAT on commissions paid to ceding companies.

Deferred withholding VAT relates to the unapplied input VAT on unpaid premiums on ceded out transactions to the Company from a certain government entity.

Prepayments include substantially the prepaid insurance on property and equipment and the group life insurance.

Investment property consists mainly of land, with improvements, which are owned for capital appreciation. The changes to the carrying amounts of the investment property can be summarized as follows as of December 31:

	Note	2013	2012
Balance at beginning of year		₱ 2,844,909	₱ 2,849,909
Depreciation and amortization charges for the year	15	(5,000)	(5,000)
Balance at end of year		₱ 2,839,909	₱ 2,844,909

Security fund represents amount deposited with the IC, as required in the Insurance Code, to be used for the payment of valid claims against insolvent insurance companies. The balance of the fund earns interest at rates determined by the IC annually.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	Notes	2013	2012 (As Restated – see Note 2.2)
Defined benefit liability	16.2	₱ 64,429,415	₱ 93,981,694
Deferred output VAT	28.1	34,949,912	39,998,373
Accounts payable and other liabilities		31,355,892	93,120,827
Accrued expenses		5,039,574	8,251,532
Withholding taxes payable		1,954,261	2,099,082
		₱ 137,729,054	₱ 237,451,508

Management considers the carrying amounts of accounts payable and accrued expenses recognized in the statements of financial position to be a reasonable approximation of their fair values due to their short duration.

13. INVESTMENT AND OTHER INCOME

The details of this account follow:

	Notes	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Gain on sale of AFS financial assets	19.2	₱ 327,352,764	₱ 298,137,689	₱ 354,002,693
Interest income	5, 7, 8, 19.2	298,209,165	356,372,204	371,450,866
Dividend income		34,303,900	30,947,188	37,970,582
Foreign currency gains	4.4	10,095,088	21,115,982	7,733,321
Gain on sale of property and equipment	9	-	26,786	6,786
Other charges	19.2	(5,561,284)	(4,447,884)	(3,005,295)
		₱ 664,399,633	₱ 702,151,965	₱ 768,158,953

14. UNDERWRITING DEDUCTIONS

14.1 Share in Claims and Losses

This account represents the aggregate amount of the Company's share in net losses and claims relative to its acceptances under treaty and facultative reinsurances.

14.2 Commissions - net

This account consists of the following:

	2013	2012	2011
Commission expense	₱ 458,096,397	₱ 476,797,208	₱ 626,620,050
Reinsurance revenues	(168,191,674)	(177,889,361)	(281,013,432)
	₱ 289,904,723	₱ 298,907,847	₱ 345,606,618

Commission expense refers to fees deducted by ceding companies from reinsurance premiums assumed during the period under treaty and facultative agreements.

Reinsurance revenues pertain to fees charged by the Company related to reinsurance premiums retroceded during the period under treaty and facultative agreements.

15. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

	Notes	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Impairment losses	6	₱ 236,932,939	₱ 20,000,000	₱ 32,500,000
Salaries and employee benefits	16.1	127,150,814	119,604,651	116,470,971
Depreciation and amortization	9, 11	34,481,368	34,413,916	28,843,853
Professional fees		18,434,981	13,316,868	9,731,499
Repairs and maintenance		10,167,495	6,523,983	3,421,830
Finance costs	16.2	4,887,048	4,638,651	5,732,156
Taxes and licenses	28.1	4,517,157	5,238,242	8,535,220
Representation and entertainment		4,384,392	4,272,864	7,670,000
Association and pool expense		3,782,149	4,400,915	4,879,127
Light and water		3,748,705	4,511,400	5,003,744
Transportation and travel		2,667,442	3,182,223	4,684,800
Communication and postages		2,054,624	2,661,263	2,170,142
Contract labor		1,775,967	1,979,812	3,292,570
Advertising and publicity		1,490,267	1,383,533	1,864,393
Printing and office supplies		1,222,261	1,353,887	1,406,472
Insurance		1,049,218	1,021,647	1,107,128
Rental	23.1	763,003	655,989	1,510,719
Miscellaneous		8,984,244	7,592,337	4,372,530
		₱ 468,494,074	₱ 236,752,181	₱ 243,197,154

16. SALARIES AND EMPLOYEE BENEFITS

16.1 Salaries, Wages and Employee Benefit Expense

Expenses recognized for salaries and employee benefits are presented below.

		2013		2012 (As Restated – see Note 2.2)		2011 (As Restated – see Note 2.2)
Short-term employee benefits	₱	**102,703,527**	₱	105,659,720	₱	102,547,563
Post-employment defined benefit		**9,416,731**		9,276,730		9,855,313
Compensated absences		**9,212,541**		4,668,201		4,068,095
Separation benefits		**5,818,015**		-		-
	₱	**127,150,814**	₱	119,604,651	₱	116,470,971

16.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Company maintains a wholly-funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 10 years of credited service. Normal retirement benefit is an amount equivalent to 175% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised), see Note 2.2(a)(ii).

The amounts of defined benefit liability (presented as part of Accounts Payable and Accrued Expenses – see Note 12) recognized in the statements of financial position are determined as follows:

		2013		2012 (As Restated – see Note 2.2)		2011 (As Restated – see Note 2.2)
Present value of the obligation	₱	**144,762,543**	₱	174,933,081	₱	152,043,509
Fair value of plan assets	(	**80,333,128)**	(	80,951,387	) (	67,704,396)
Defined benefit liability	₱	**64,429,415**	₱	93,981,694	₱	84,339,113

The movements in the present value of the retirement benefit obligation are as follows:

		2013		2012 (As Restated – see Note 2.2)		2011 (As Restated – see Note 2.2)
Balance at beginning of year	₱	**174,933,081**	₱	152,043,509	₱	167,377,632
Current service cost		**9,581,702**		9,276,730		9,855,313
Interest expense		**9,096,520**		8,362,393		9,205,770
Remeasurement on actuarial losses (gains) arising from:						
Changes in financial assumptions		**11,708,682**		4,147,740	(	13,883,886)
Changes in demographic assumptions		**25,294**		-		-
Experience adjustments		**921,633**		5,486,134		749,283
Benefits paid other than settlement	(	**44,771,305)**		-		-
Settlement gain	(	**164,971)**		-		-
Benefits paid by the plan	(	**16,568,093)**	(	4,383,425)	(	21,260,603)
Balance at end of year	₱	**144,762,543**	₱	174,933,081	₱	152,043,509

The movement in the fair value of plan assets is presented below.

		2013		2012 (As Restated – see Note 2.2)		2011 (As Restated – see Note 2.2)
Balance at beginning of year	₱	**80,951,387**	₱	67,704,396	₱	63,156,618
Interest income		**4,209,472**		3,723,742		3,473,614
Return on plan assets (excluding amounts included in net interest)		**2,261,487**		5,283,655	(	570,578)
Contributions paid into the plan		**54,250,180**		8,623,019		22,905,345
Benefits paid by the plan	(	**61,339,398)**	(	4,383,425)	(	21,260,603)
Balance at end of year	₱	**80,333,128**	₱	80,951,387	₱	67,704,396

The plan assets as of December 31 consist of:

		2013		2012 (As Restated – see Note 2.2)		2011 (As Restated – see Note 2.2)
Cash and cash equivalents	₱	**4,798,403**	₱	22,707,549	₱	12,801,326
Equity securities		**26,137,227**		17,197,422		12,199,683
Philippine government bonds		**49,159,686**		39,631,244		41,375,637
Loans and receivables		**237,812**		1,415,172		1,327,750
Balance at end of year	₱	**80,333,128**	₱	80,951,387	₱	67,704,396

The fair values of the equity and government bonds are determined based on quoted market prices in active markets.

The plan assets earned a return of P6.5 million in 2013, P9.0 million in 2012 and P2.9 million in 2011.

Plan assets do not comprise any of the Company's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

		2013		2012 (As Restated – see Note 2.2)		2011 (As Restated – see Note 2.2)
Reported in profit or loss:						
Current service cost	₱	**9,581,702**	₱	9,276,730	₱	9,855,313
Settlement gain	(	**164,971)**		-		-
Net interest expense		**4,887,048**		4,638,651		5,732,156
	₱	**14,303,779**	₱	13,915,381	₱	15,587,469
Reported in other comprehensive loss (income):						
Actuarial losses arising from changes in:						
Financial assumptions	₱	**11,708,682**	₱	4,147,740	(₱	13,883,886)
Experience adjustments		**921,633**		5,486,134		749,283
Demographic assumptions		**25,294**		-		-
Return on plan assets (excluding amounts included in net interest)	(	**2,261,487)**	(	5,283,655)		570,578
	₱	**10,394,122**	P	4,350,219	(P	12,564,025)

Current service cost and settlement gain are presented as part of Salaries and employee benefits; while net interest expense is presented as Finance costs. These accounts are presented in the statements of income under General and administrative expenses (see Note 15).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2013	2012	2011
Discount rates	**5.2%**	5.2%	5.5%
Expected rate of salary increase	**5.0%**	5.0%	6.0%
Employee turn-over rate	**5.0% to 9.5%**	5.0% to 9.5%	5.0% to 9.5%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 25. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, loans receivables, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) Inflation Risk

A significant proportion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Company's liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Company's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding pages.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2013:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	(₱ 10,347,312)	₱ 10,347,312
Salary growth	+/- 1.0%	10,131,427	(10,131,427)
Turn-over rate	+/-10.00%	(722,277)	722,277

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

The Company applies asset-liability matching techniques to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement fund. Retirement funds are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations, and maximize opportunities for higher potential returns at the least risk.

The Company is guided by a formal Asset-Liability Management Study conducted by the Company's actuary. In the study, expected benefit payments are projected and classified into short-term, medium-term or long-term liabilities. Investment instruments that would match the liabilities are identified. Finally, the investment mixes that would yield the maximum returns at certain risk levels are identified using the Markowitz Portfolio Theory (MPT) or the Mean Variance Framework.

The study is conducted every three (3) years to capture changes in the demographic profile of the employees and changes in the economic environment affecting the amounts of maturing obligations and rates of return of available investment instruments.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2013 and 2012 consists of debt and equity securities, although the Company also invests in cash equivalents and loans receivables. The Company believes that debt securities offer the most secure returns over the long term as they have the least acceptable level of risk which is in line with their asset-liability matching techniques.

There has been no change in the Company's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by ₱64.4 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 20 years time when a significant number of employees is expected to retire.

The Company expects to make contribution of ₱16.9 million to the plan during the next financial year.

As of December 31, 2013, the maturity profile of undiscounted expected benefit payments from the plan for the next 20 years follows.

Amount	
Within one year	₱ 16,934,521
More than one year to five years	81,557,523
More than five years to ten years	100,542,579
More than ten years to 15 years	33,848,339
More than 15 years to 20 years	11,462,186
	₱ 244,345,148

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years.

17. CURRENT AND DEFERRED TAXES

The components of tax expense as reported in statements of income.

	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Current tax expense:			
Final tax at 20% and 7.5%	**₱ 55,281,861**	₱ 66,272,420	₱ 72,022,408
Minimum corporate income tax (MCIT)	**-**	-	111,174
	₱ 55,281,861	₱ 66,272,420	P 72,133,582

The reconciliation of the tax on pretax profit computed at the applicable statutory rates to tax expense in profit or loss is as follows:

	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Tax on pretax profit at 30%	**₱ 22,203,109**	₱ 30,110,206	₱ 125,413,421
Adjustment for income subjected to lower tax rates	**(75,972,541)**	(62,556,657)	(60,468,827)
Tax effects of:			
Unrecognized net operating loss carry–over (NOLCO)	**110,698,445**	146,993,990	49,351,226
Non-taxable income	**(58,136,454)**	(67,111,951)	(91,714,793)
Net unrecognized deferred tax assets	**56,429,302**	18,836,832	48,977,374
Non-deductible expenses	**60,000**	-	575,181
Tax expense reported in statements of income	**₱ 55,281,861**	₱ 66,272,420	₱ 72,133,582

In accordance with the applicable accounting standards, the Company has taken a conservative position by not recognizing the net deferred tax assets on the following temporary differences as of December 31, 2013 and 2012:

	2013 Tax Base	2013 Tax Amount	2012 (As Restated – see Note 2.2) Tax Base	2012 (As Restated – see Note 2.2) Tax Amount
Deferred tax assets:				
NOLCO	**₱ 1,023,478,868**	**₱ 307,043,661**	₱ 1,744,737,302	₱ 523,421,191
Allowance for impairment	**572,562,898**	**171,768,870**	335,629,959	100,688,988
Unamortized past service cost	**60,944,728**	**18,283,418**	24,002,811	7,200,843
Defined benefit liability	**64,429,415**	**19,328,824**	93,981,694	28,194,508
Accrued leave benefits	**2,822,635**	**846,790**	3,358,461	1,007,538
Revaluation reserves on AFS financial assets	**716,392**	**214,917**	(27,007,459)	(8,102,238)
Accrued expense	**890,669**	**267,201**	3,401,780	1,020,534
MCIT	**111,174**	**111,174**	111,174	111,174
Deferred tax liabilities:				
Excess of reserves for unearned reinsurance premiums per books over tax basis	**(193,760,536)**	**(58,128,160)**	(156,536,358)	(46,960,907)
Deferred acquisition costs - net	**(61,620,251)**	**(18,486,076)**	(53,438,282)	(16,031,485)
Unrealized foreign currency gains	**(6,854,810)**	**(2,056,443)**	(9,477,111)	(2,843,133)
Net Unrecognized Deferred Tax Assets	**₱ 1,463,721,182**	**₱ 439,194,176**	₱ 1,958,763,971	₱ 587,707,013

The details of the unrecognized NOLCO is shown below.

Year Incurred	Amount	Expired	Balance	Until
2013	₱ 368,994,815	₱ -	₱ 368,994,815	2016
2012	489,979,965	-	489,979,965	2015
2011	164,504,088	-	164,504,088	2014
2010	1,090,253,249	1,090,253,249	-	2013
	₱ 2,113,732,117	₱ 1,090,253,249	₱ 1,023,478,868	

The Company is subject to MCIT which is computed at 2% of gross income, or regular corporate income tax (RCIT), whichever is higher. In 2013 and 2012, the Company has not paid MCIT because the Company resulted in a gross loss. In 2011, however, the Company recognized MCIT amounting to ₱111,174 as this is higher than the computed RCIT. The 2011 MCIT can be applied against future RCIT until 2014.

In 2013, 2012 and 2011, the Company claimed itemized deductions.

18. EQUITY

18.1 Capital Stock

Capital stock (net of Treasury Shares) consists of common shares with P1 par value per share with details as follows:

	Number of Shares		
	2013	2012	2011
Authorized – 3,000,000,000 shares			
Issued and outstanding			
Balance at beginning of year	**2,123,605,600**	2,123,605,600	2,159,677,600
Reacquired during the year	**-**	-	(36,072,000)
Balance at end of year	**2,123,605,600**	2,123,605,600	2,123,605,600

	Amount		
	2013	2012	2011
Authorized – 3,000,000,000 shares			
Issued and outstanding			
Balance at beginning of year	**₱ 2,123,605,600**	₱ 2,123,605,600	₱ 2,159,677,600
Reacquired during the year	**-**	-	(36,072,000)
Balance at end of year	**₱ 2,123,605,600**	₱ 2,123,605,600	₱ 2,123,605,600

On April 27, 2007, the SEC approved the listing of the Company's shares totalling 741,902,600. The shares were initially issued at an offer price of ₱3.80 per share. As of December 31, 2013 and 2012, there are 281 holders of the listed shares, respectively. Such listed shares closed at ₱1.36 and ₱1.70 per share, as of those dates, respectively,

18.2 Treasury Shares

In 2011, the Company acquired 36,072,000 of its own shares at a total cost of ₱60,443,621. There are no treasury stock transactions in 2012 and 2013. As of December 31, 2013 and 2012, total shares in treasury is 58,349,000 amounting to ₱100,525,432.

18.3 Appropriation for Contingencies

On April 18, 1989, the Company's BOD approved the establishment of a special reserve which will serve as cushion to the paid-up capital in the event of extraordinarily high loss occurrences or severe catastrophic losses. As such, at December 31 of each year where there is profit, 10% of such profit is set aside as additional reserve for contingencies. The reserve balance, which is shown as Appropriated under Retained Earnings account in the statements of changes in equity, should not exceed, at any time, the amount of paid-up capital. The balance of appropriation for contingencies amounted to ₱270,342,396, ₱268,469,546 and ₱265,673,762 as of December 31, 2013, 2012 and 2011, respectively.

18.4 Declaration of Cash Dividends

The BOD approved the declaration of cash dividends of ₱0.02 per share (or a total of ₱42,472,112) on May 16, 2013, P0.10 per share (or a total of ₱212,360,560) on May 17, 2012 and ₱0.02 per share (or a total of ₱43,193,552) on May 19, 2011, payable to stockholders of record as of June 14, 2013, June 1, 2012 and June 3, 2011, respectively. There were no outstanding dividends payable as of December 31, 2013 and 2012.

19. RELATED PARTY TRANSACTIONS

The Company's related parties include its principal stockholders, related parties under common ownership, retirement plan and the Company's key management personnel with which the Company had transactions as described below.

19.1 Reinsurance Contracts with Related Parties

The Company accepts and cedes insurance business under various reinsurance contracts with related parties. The details of which follow:

	2013		2012	
	Stockholders	**Related Parties Under Common Ownership**	Stockholders	Related Parties Under Common Ownership
Premiums	**₱ 365,120,220**	**₱ 4,074,436**	₱ 606,272,630	₱ 35,659,571
Retrocessions	**1,221,459**	**(1,343,046)**	16,355,172	1,600,177
Commission income	**59,360**	**-**	1,692,371	-
Commission expenses	**97,893,969**	**-**	135,320,711	-
Losses incurred	**352,657,903**	**5,304,356**	137,730,775	5,543,290
Losses recoveries	**8,262**	**122,875**	70,917	281,218

As a result of the above transactions, reinsurance balances receivable from and payable to related parties are as follows (see Note 6):

	2013		**2012**	
	Stockholders Stockholders	**Related Parties Under Common With Significant Ownership**	Dollars Stockholders	Related Parties Under Common Currencies Ownership
Due from ceding companies	**₱ 252,395,929**	**₱ 5,531,868**	₱ 325,821,318	₱ 21,324,607
Reinsurance recoverable on losses	**97,064,646**	**-**	96,014,808	124,685
Funds held by ceding companies	**63,791,182**	**-**	60,967,241	-
Claims payables	**1,778,046,311**	**4,458,459**	1,083,635,002	9,762,815
Due to retrocessionaires	**13,568,173**	**166,279**	9,558,961	265,740
Funds held for retrocessionaire	**164,032**	**-**	164,032	-

The balance of due from ceding companies pertaining to related parties is presented net of P30.7 million allowance for impairment both in December 31, 2013 and 2012. There are no other impairment losses recognized on other receivables.

19.2 Other Transactions

The Company's other transactions with related parties follow:

		2013		2012	
	Notes	**Amount of Transactions**	**Outstanding Balance**	Amount of Transactions	Outstanding Balance
Stockholders					
Cash and cash equivalents	(a)	**(₱ 183,905)**	**₱ 2,960,806**	(₱ 1,313,195)	₱ 3,144,711
AFS financial assets	(b)	**-**	**-**	(200,000,000)	-
Interest income – bank accounts	(a)	**19,380**	**-**	499,314	-
Interest income – AFS financial assets	(b)	**-**	**-**	6,139,195	-
Trading gains	(b)	**(100,197)**	**-**	-	-
Service fees	(d)	**31,526**	**-**	3,827,855	-
Related Party Under Common Ownership					
Cash and cash equivalents	(a)	**(195,025,988)**	**185,405,635**	(231,151,025)	380,431,623
AFS financial assets	(b)	**(101,632,209)**	**187,295,747**	(32,218,972)	288,927,956
Loans and receivables	(c)	**(132,059,922)**	**3,201,308**	(20,354,843)	135,081,230
Interest income – bank accounts	(a)	**6,898,130**	**-**	36,230,048	-
Interest income – AFS financial assets	(b)	**16,528,796**	**-**	17,919,652	-
Interest income – loans and receivables	(c)	**5,308,681**	**-**	4,359,722	-
Trading gains	(b)	**1,285,723**	**-**	156,051	-
Service fees	(d)	**454,541**	**-**	-	-

(a) Cash and Cash Equivalent

The Company maintains several savings and current accounts with a stockholder and related party under common ownership. Interest income recognized is presented as part of interest income under Investment and Other Income in the statements of income (see Note 13).

(b) AFS Financial Assets

The Company has AFS financial assets with a stockholder and related party under common ownership. Relative to these transactions, the Company recognized interest income and trading gains which are presented as part of Investment and Other Income in the statements of income (see Note 13).

(c) Loans and Receivables

The Company has term loans with certain related parties under common ownership. Relative to this, the Company recognized interest income which are presented as part of interest income under Investment and Other Income in the statements of income (see Note 13). The term loan is unsecured and earns interest of 5.00% to 5.50% in 2013, 2012 and 2011 and has matured in 2013. As of December 31, 2012, management assessed that these term loans are not impaired.

(d) Investment Management and Custodianship

The Company has entered into agreements known as "Investment Management Agreement" and "Custodianship Agreement" with a stockholder and an affiliate bank for the management and custodianship of certain investible funds of the Company subject to terms and conditions in the said agreements. In consideration for the services rendered, the Company pays the stockholder and the affiliate bank service fees equivalent to a certain percentage of the market value of the investments. Total service fees paid is charged against Other income (charges) under Investment and Other Income account (see Note 13) in the statements of income. There are no outstanding liabilities from these transactions as of December 31, 2013 and 2012.

19.3 Retirement Fund Investment Management

In 2007, the Company entered into a "Retirement Fund Investment Management Agreement" with its stockholder for the management of the investments of the Company's retirement funds subject to the terms and conditions in the said agreement.

19.4 Transactions with Retirement Fund

As discussed in Note 16.2, the Company maintains a wholly-funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. The Company has no other transaction with its retirement fund in 2013 except for its contribution of ₱54,250,180.

19.5 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows:

		2013		2012 (As Restated – see Note 2.2)		2011 (As Restated – see Note 2.2)
Short-term benefits	**₱**	**41,126,946**	₱	41,419,166	₱	46,724,804
Post-employment benefits		**2,671,986**		1,017,770		1,191,408
	₱	**43,798,932**	₱	42,436,936	₱	47,916,212

20. SOLVENCY

Under the New Insurance Code, an insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital, and net worth requirements as prescribed by the Commissioner. Such solvency requirements shall be based on internationally accepted solvency frameworks and adopted only after due consultation with the insurance industry associations.

Whenever the aforementioned requirement is found to be less than the required to be maintained, the Commissioner shall direct the Company to make good any such deficiency by cash, to be contributed by all stockholders of record in proportion with their respective interests, and paid to the treasurer of the Company, within 15 days from receipt of the order. Provided, that the Company in the interim shall not be permitted to take any new risk of any kind or character unless and until it make good any such deficiency: In case that a stockholder pays the contribution due from another stockholder by reason of failure or refusal of the latter to do so, shall have a lien on the certificates of stock of the Company appearing in its books in the name of the defaulting stockholder on the date of default, as well as on any interests or dividends that have accrued or will accrue to the said certificates of stocks, until the corresponding payment or reimbursement is made by the defaulting stockholder.

21. RECONCILIATION OF NET PROFIT UNDER PFRS TO STATUTORY NET PROFIT (LOSS)

The reconciliation of net profit under PFRS and statutory net profit (loss) follows:

		2013		2012 (As Restated – see Note 2.2)		2011 (As Restated – see Note 2.2)
PFRS net profit	**₱**	**18,728,502**	₱	34,094,934	₱	345,911,154
Difference in change in reserve for unearned reinsurance premiums – net	**(**	**37,224,178)**		47,302,566		131,851,695
Deferred acquisition costs – net	**(**	**8,181,969)**		5,209,927		9,285,340
Statutory net profit (loss)	**(₱**	**26,677,645)**	₱	86,607,427	₱	487,048,189

22. EARNINGS PER SHARE

The earnings per share amounts are as follows:

		2013		2012 (As Restated – see Note 2.2)		2011 (As Restated – see Note 2.2)
Net profit available to common shareholders	**₱**	**18,728,502**	₱	34,094,934	₱	345,911,154
Divided by the average number of outstanding common shares		**2,123,605,600**		2,123,605,600		2,158,184,230
	₱	**0.01**	₱	0.02	₱	0.16

Diluted earnings per share is not determined since the Company does not have dilutive shares as of December 31, 2013, 2012 and 2011.

23. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Company:

23.1 Operating Lease Commitments – Company as Lessee

The Company is a lessee under various operating leases covering warehouse and parking lots having a term of one year with renewal options. The future minimum rentals payable under this non-cancellable operating lease as of December 31, 2013 and 2012 are ₱4,417,671 and ₱166,228, respectively.

Rental expense recognized amounted to ₱763,003, ₱655,989, and ₱1,510,719 in 2013, 2012 and 2011, respectively, and is presented in the statements of income as Rental account under General and Administrative Expenses (see Note 15).

23.2 Legal Claims

The Company is a defendant in a third party claim filed by a government agency against the Company and other reinsurers. Management believes that as of December 31, 2013, the reserve set up relating to this case is adequate to cover any liability that may arise from the ultimate outcome of the case.

23.3 Others

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements. Management believes that losses as of December 31, 2013, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

24. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

24.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the statements of financial position are shown below.

		2013		2012	
	Notes	**Carrying Values**	**Fair Values**	Carrying Values	Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	**₱ 605,045,799**	**₱ 605,045,799**	₱ 1,226,499,273	₱ 1,226,499,273
Reinsurance balances receivables	6	**6,548,123,440**	**6,548,123,440**	7,068,319,259	7,068,319,259
Loans and receivables	8	**320,047,429**	**320,047,429**	715,296,547	715,296,547
		₱ 7,473,216,668	**₱ 7,473,216,668**	₱ 9,010,115,079	₱ 9,010,115,079
AFS financial assets:	7				
Debt securities		**₱ 4,601,588,981**	**₱ 4,601,588,981**	₱ 4,501,347,585	₱ 4,501,347,585
Equity securities		**1,318,680,165**	**1,318,680,165**	927,763,530	927,763,530
Investment in ARC		**4,444,847**	**4,444,847**	30,735,913	30,735,913
Various funds		**466,982,056**	**466,982,056**	230,193,391	230,193,391
		₱ 6,391,696,049	**₱ 6,391,696,049**	₱ 5,690,040,419	P 5,690,040,419
Financial liabilities					
Financial liabilities at amortized cost					
Reinsurance balances payable	6	**₱ 8,210,083,119**	**₱ 8,210,083,119**	₱ 8,665,239,181	₱ 8,665,239,181
Accounts payable and other accrued expenses	12	**36,395,466**	**36,395,466**	101,372,359	101,372,359
		₱ 8,246,478,585	**₱ 8,246,478,585**	₱ 8,766,611,540	₱ 8,766,611,540

Due to the short-term duration, management considers the carrying values of the Company's financial assets and financial liabilities approximate their fair values as of the end of the reporting periods.

See Notes 2.3 and 2.8 for a description of the accounting policies for each category of financial instrument including the determination of fair values. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 4.

24.2 Offsetting of Financial Assets and Financial Liabilities

For financial assets and financial liabilities, particularly, reinsurance balances, subject to enforceable master netting agreements or similar arrangements, each agreement between the Company and counterparties, including related parties, allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis.

Reinsurance balances as at December 31 are as follows.

	Note	**2013**	2012
Reinsurance balances receivable	6	**₱ 7,120,686,338**	₱ 7,403,949,218
Reinsurance balances payable	6	**8,210,083,119**	8,665,239,181

25. FAIR VALUE MEASUREMENT AND DISCLOSURES

25.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

i. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

ii. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

iii. Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

25.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Company's financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis, as of December 31, 2013 and 2012 (amounts in thousand Philippine Peso).

	Level 1	Level 2	Level 3	Total
December 31, 2013				
AFS financial assets	**₱ 4,312,494**	**₱ 487,448**	**₱ 494,103**	**₱ 5,294,045**
December 31, 2012				
AFS financial assets	₱ 5,667,276	₱ -	₱ -	₱ 5,667,276

The Company's AFS financial assets includes certain investments measured at cost amounting to ₱1,097,652 and ₱22,764 (amounts in thousand Philippine Peso) as of December 31, 2013 and 2012, respectively.

The Company has no financial liabilities measured at fair value as of December 31, 2013 and 2012.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

Described below are the information about how the fair values of the Company's classes of financial assets are determined.

a) Equity securities

As of December 31, 2013 and 2012, instruments included in Level 1 comprise equity securities classified as AFS financial assets. These securities were valued based on their market prices quoted in the Philippine stock exchanges at the end of each reporting period.

Golf club shares classified as AFS financial assets are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period. Moreover, equity security held in a private company is included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the fair value of a comparable instrument adjusted for inputs internally developed by management to consider the differences in corporate profile and historical performance of the entity.

b) Debt securities

The fair value of the Company's debt securities which consist of government and corporate bonds is estimated by reference to quoted bid price in active market at the end of the reporting period and is categorized within Level 1.

25.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the 2013 statement of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	₱ 605,045,799	₱ -	₱ -	₱ 605,045,799
Reinsurance balances receivables	-	-	6,548,123,440	6,548,123,440
Loans and receivables	-	-	320,047,429	320,047,429
	₱ 605,045,799	**₱ -**	**₱ 6,868,170,869**	**₱ 7,473,216,668**
Financial liabilities:				
Reinsurance balances payable	₱ -	₱ -	₱ 8,210,083,119	₱ 8,210,083,119
Accounts payable and other accrued expenses	-	-	36,395,466	36,395,466
	₱ -	**₱ -**	**₱ 8,246,478,585**	**₱ 8,246,478,585**

For financial assets, other than AFS investments, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

25.4 Fair Value Measurement for Non-financial Assets

The Company used market comparable approach as a valuation technique in measuring the fair values of its investment properties to arrive at fair values that are more representative of the investment properties' highest and best use. As of December 31, 2013 and 2012, the fair values of the investment properties is P5,880,000 and P5,640,000, respectively, and are classified as under Level 3 of the fair value hierarchy. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

26. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are (a) to ensure the Company's ability to continue as a going concern; and, (b) to provide an adequate return to shareholders by complying with the capital requirements and limitation enforced by the IC and by aligning the Company's operational strategy to its corporate goals. The capital requirements and limitations are as follows:

26.1 Minimum Capitalization

Under section 289 of the New Insurance Code, any partnership, association, or corporation authorized to transact solely reinsurance business must have a capitalization of at least ₱3,000,000,000 paid in cash of which at least 50% is paid-up capital and the remaining portion thereof is contributed surplus, which in no case shall be less than ₱400,000,000 or such capitalization as may be determined by the Secretary of Finance, upon the recommendation of the Commissioner. The Company has met the minimum capital requirements for both years.

26.2 Risk-Based Capital Requirements

As per Insurance Memorandum Circular No. 7-2006, every non-life insurance company is annually required to maintain a minimum Risk-Based Capital (RBC) ratio of 100%. RBC ratio is computed by dividing the Company's net worth by an RBC requirement prescribed by the IC. The RBC requirement is determined after considering the admitted value of certain financial statement accounts whose final amounts can be determined only after the examination by the IC.

26.3 Limitation on Dividend Declaration

The Company's BOD is authorized to declare dividends. A cash dividend declaration does not require any further approval from the stockholders. However, a stock dividend declaration requires further approval of the stockholders holding or representing not less than two-thirds of the Company's outstanding capital stock. Dividends may be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the BOD may determine and in accordance with law.

Section 201 of the New Insurance Code provides that a domestic insurance company shall declare or distribute dividends on its outstanding stock unless it has met the minimum paid-up capital and net worth requirements under Section 194 and except from profits attested in a sworn statement to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the solvency requirements defined by Section 200;
- the legal reserve fund required by Section 219; and,
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

The Company is required to report such dividend declaration or distribution to the IC within 30 days from the date of such declaration.

Moreover, the SEC, through its Memorandum Circular 11 dated December 5, 2008 has set guidelines in determining the appropriate amount of Retained Earnings available for dividend distribution. This shall be based on the net profit for the year based on the audited financial statements, adjusted for unrealized items which are considered not available for dividend declaration. These unrealized items consist of the following:

- share/equity in net income of the associate or joint venture;
- unrealized foreign currency gains, except those attributable to cash andcash equivalents;
- unrealized actuarial gains arising from the exercise of the option of recognizing actuarial gains or losses directly to the statement of comprehensive income;
- fair value adjustment arising only from marked-to-market valuation which are not yet realized;
- the amount of deferred tax asset that reduced the amount of income tax expense;
- adjustment due to deviation from PFRS/Generally Accepted Accounting Principles which results to gain; and,
- other unrealized gains or adjustments to the retained earnings.

27. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic ratios measure the financial performance of the Company:

	2013	2012 (As Restated – see Note 2.2)
Current ratio	**1.66**	1.65
Asset-to-equity	**2.57**	2.63
Liability-to-equity	**1.57**	1.63

28. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR

Presented below is the supplementary information which is required by the BIR under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

28.1 Requirements under RR 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

(a) Output VAT

In 2013, the Company declared output VAT amounting to ₱20,362,478, which is set off against input VAT (see Note 28.1b), based on the following gross receipts:

	Tax Base	Output VAT
Commission earned on retrocession	₱ 169,687,313	₱ 20,362,478
Exempt receipts	2,147,743,693	-
	₱ 2,317,431,006	**₱ 20,362,478**

Pursuant to RR 04-07 effective April 6, 2007, "Non-life insurance premiums are subject to VAT whereas non-life reinsurance premiums are not subject to VAT, the latter being already subject to VAT upon receipt of the insurance premiums".

The tax bases of commission earned on retrocession are included as net of Underwriting Deductions account in the 2013 statement of income. The tax bases for commission are based on the Company's gross receipts for the year, hence, may not be the same with the amounts accrued in the 2013 statement of income.

As of December 31, 2013, the Company also has Deferred output VAT amounting to ₱34,949,912 pertaining to uncollected commission income from retrocessionaires (see Note 12).

(b) Input VAT

The movements in input VAT in 2013 are summarized below.

Balance at beginning of year	₱ 52,472,376
Services lodged under other accounts	36,653,968
Goods other than for resale or manufacture	3,534,512
Capital goods subject to amortization	1,167,456
Applied against output VAT	(20,362,478)
Input VAT on exempt sales	(4,948,587)
Balance at end of year	**₱ 68,517,247**

The balance of Input VAT as of December 31, 2013 is recorded under Other Assets account in the 2013 statement of financial position (see Note 11).

As of December 31, 2013, the Company also has Deferred Input VAT amounting to ₱74,123,058 pertaining to VAT on unpaid commission to ceding companies, and Deferred Withholding VAT amounting to ₱9,200,181 representing VAT on unapplied input VAT on unpaid premiums on ceded out transactions to the Company from a certain government entity (see Note 11).

(c) Taxes on Importation

The Company does not have any customs duties or tariff fees in 2013 since it does not have any importation.

(d) Excise Tax

The Company does not have excise tax in 2013 since it does not have any transactions which are subject to excise tax.

(e) Documentary Stamp Tax (DST)

Reinsurance contracts are not subject to DST. The Company is liable to DST when it issues original shares of stocks or transfer certificate of stock. The Company did not issue original shares of stocks nor transfer certificate of stocks for the year ended December 31, 2013.

(f) Taxes and Licenses

The details of Taxes and Licenses account for the year ended December 31, 2013 presented under General and Administrative is broken down as follows (see Note 15):

Municipal license and permits	₱	2,908,946
Registration		576,680
Real estate taxes		573,773
Fringe benefit tax		443,827
Notarial fees		13,931
	₱	**4,517,157**

(g) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2013 are shown below.

Compensation and benefits	₱	26,071,505
Final		3,981,131
Expanded		3,440,775
	₱	**33,493,411**

(h) Deficiency Tax Assessments and Tax Cases

As of December 31, 2013, the Company does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

28.2 Requirements Under RR 19-2011

RR 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2013 statement of comprehensive income.

(a) Taxable Revenues

The Company's taxable revenues from rendering of services amounted to P819,620,680 for the year ended December 31, 2013.

(b) Deductible Costs of Services

Deductible cost of services for the year ended December 31, 2013 comprises the following:

Claims and losses	₱	662,547,481
Commission – net		298,086,692
Salaries and allowances		46,095,883
Increase in unearned reinsurance premiums		26,287,850
Interest expense		2,059,593
	₱	**1,035,077,499**

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2013, which are subject to regular tax rate are shown below.

Interest income	₱	30,309,407
Realized foreign currency gains		12,717,386
Gain on sale of AFS		313,166
Miscellaneous		24,655
	₱	**43,364,614**

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2013 are as follows:

Salaries and allowances	₱	61,868,288
Depreciation and amortization		34,481,368
Professional fees		18,452,481
Repairs and maintenance		11,570,752
Amortization of past service cost		9,581,702
Current service cost		7,726,561
Separation benefit		5,818,015
Other investment expenses		5,585,937
Directors' fees		4,594,117
Taxes and licenses		4,517,407
Representation and entertainment		4,377,288
Light and water		4,125,997
Association dues		3,782,349
Transportation and travel		2,890,450
Communication and postage		2,239,276
Other services		1,918,489
Meetings and conferences		1,711,664
Advertising and promotions		1,490,267
Office supplies		1,231,298
Insurance		1,049,218
Rental		762,369
Training and seminars		583,869
Miscellaneous		6,543,448
	₱	**196,902,610**

PhilNaRe
National Reinsurance Corporation of the Philippines

31/F, Ayala Life-FGU Center
6811 Ayala Avenue, Makati City 1227, Philippines
Trunk Line: +632 988-7400 • Fax: +632 988-7457
E-mail Address: nrcp@nrcp.com.ph

www.nrcp.com.ph