ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
December 31, 2014 and 2013

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and Members
Armed Forces and Police Mutual Benefit Association, Inc.

Report on the Consolidated and Separate Financial Statements

We have audited the accompanying consolidated financial statements of Armed Forces and Police Mutual Benefit Association, Inc. (the "Parent Company") and its Subsidiary (collectively referred to as the "Group"), and the separate financial statements of the Parent Company, which comprise the consolidated and separate statements of financial position as at December 31, 2014 and 2013, and the consolidated and separate statements of income, consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in members' equity, and the consolidated and separate statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated and Separate Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements of the Group and separate financial statements of the Parent Company in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated and separate 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 consolidated and separate 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Armed Forces and Police Mutual Benefit Association, Inc. and Subsidiary as at December 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards. Also, in our opinion, the separate financial statements of the Parent Company present fairly, in all material respects, the unconsolidated financial position of the Parent Company as at December 31, 2014 and 2013, and its unconsolidated financial performance and its unconsolidated cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulation No. 15-2010 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic separate financial statements of the Parent Company taken as a whole. The supplementary information in Note 35 to the basic separate financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic separate financial statements of the Parent Company. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic separate financial statements of the Parent Company. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic separate financial statements of the Parent Company taken as a whole.

R.G. Manabat & Co.

March 31, 2015
Makati City, Metro Manila

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INC. AND SUBSIDIARY

STATEMENTS OF FINANCIAL POSITION

		December 31			
		Consolidated		**Separate**	
	Note	**2014**	2013	**2014**	2013
ASSETS					
Cash and cash equivalents	*5*	**P1,256,420,000**	P1,502,725,174	**P1,173,506,648**	P1,395,158,346
Short-term investments		**150,000,000**	-	**150,000,000**	-
Financial assets at fair value through profit or loss (FVPL)		**34,915,424**	26,828,833	**34,915,424**	26,828,833
Available-for-sale (AFS) securities	*6*	**1,938,345,550**	1,212,420,597	**1,554,962,504**	1,035,828,132
Held-to-maturity (HTM) investments	*7*	**1,478,009,864**	1,235,472,453	**1,410,908,057**	1,127,537,499
Loan receivables - net	*8*	**7,082,263,460**	6,597,351,962	**7,082,263,460**	6,597,351,962
Premiums due and insurance receivables - net	*9*	**71,047,052**	40,632,890	**1,106,874**	2,186,350
Other receivables - net	*10*	**70,179,200**	57,387,514	**62,370,157**	54,427,071
Investment properties	*11*	**2,127,739,561**	2,154,154,095	**2,096,918,205**	2,125,374,595
Assets held-for-sale	*12*	**212,439,015**	302,118,205	**212,439,015**	302,118,205
Investments in a subsidiary and associates - net	*13*	**14,426,158**	12,873,033	**198,265,704**	25,125,000
Property and equipment - net	*14*	**302,223,348**	298,362,272	**271,777,533**	274,435,089
Deferred reinsurance premiums	*15*	**6,180,934**	27,084,359	**-**	-
Deferred acquisition costs	*16*	**1,526,987**	2,273,447	**-**	-
Deferred tax assets - net	*29*	**12,090,068**	9,731,083	**-**	-
Other assets - net	*17*	**21,647,877**	21,337,716	**12,372,255**	19,590,004
		P14,779,454,498	P13,500,753,633	**P14,261,805,836**	P12,985,961,086
LIABILITIES AND MEMBERS' EQUITY					
Liabilities					
Claims and benefits payable	*20*	**P404,470,077**	P365,780,314	**P302,345,563**	P261,043,682
Accounts payable and accrued expenses	*18*	**685,744,964**	631,801,764	**662,816,415**	613,575,495
Legal policy reserves	*19*	**7,914,721,584**	7,479,085,284	**7,914,721,584**	7,479,085,284
Due to reinsurers and ceding companies	*20*	**5,164,813**	2,911,318	**-**	-
Funds held for reinsurers	*20*	**25,441,850**	4,744,559	**-**	-
Reserve for unearned premiums	*15*	**28,854,699**	52,555,412	**-**	-
Deferred reinsurance commission	*16*	**1,559,042**	3,884,385	**-**	-
Dividends payable	*21*	**261,832,278**	228,659,558	**261,832,278**	228,659,558
Reserve for refund of members' equity	*22*	**1,496,624,713**	1,273,449,537	**1,496,624,713**	1,273,449,537
Retirement liability	*28*	**32,012,575**	75,185,261	**31,457,551**	64,481,747
Total Liabilities		**10,856,426,595**	10,118,057,392	**10,669,798,104**	9,920,295,303
Members' Equity					
Members' contribution	*23*	**97,589,383**	99,004,776	**97,589,383**	99,004,776
Reserve for fluctuation in value of AFS securities	*6*	**52,108,965**	(29,704,698)	**58,250,156**	(20,884,216)
Employee benefit reserve	*28*	**(14,072,848)**	(73,878,593)	**1,429,909**	(48,478,695)
Retained surplus	*24*	**3,787,402,403**	3,387,274,756	**3,434,738,284**	3,036,023,918
Total Members' Equity		**3,923,027,903**	3,382,696,241	**3,592,007,732**	3,065,665,783
		P14,779,454,498	P13,500,753,633	**P14,261,805,836**	P12,985,961,086

See Notes to the Consolidated and Separate Financial Statements.

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INC. AND SUBSIDIARY

STATEMENTS OF INCOME

		Years Ended December 31			
		Consolidated		Separate	
	Note	**2014**	2013	**2014**	2013
REVENUES					
Premiums, net of reinsurance		**P2,136,653,979**	P2,118,804,715	**P2,069,408,387**	P2,004,289,929
Interest income	*5, 7, 25*	**876,314,462**	831,206,036	**871,449,548**	820,989,626
Policy income		**90,607,200**	81,318,935	**90,607,200**	81,318,935
Gain on sale of real estates	*12*	**27,938,126**	20,009,929	**27,938,126**	20,009,929
Commission income	*16*	**6,502,827**	10,489,942	**-**	-
Rental income	*11*	**29,009,996**	27,697,560	**27,740,508**	26,178,578
Dividend income	*6*	**4,764,153**	3,028,606	**2,269,189**	1,503,178
Gain on sale of AFS securities	*6*	**8,630,363**	42,481	**-**	42,481
Increase in fair value of investment properties	*11*	**2,691,149**	191,892,831	**-**	189,955,331
Other income		**8,889,016**	28,550,046	**15,061,763**	33,450,132
		3,192,001,271	3,313,041,081	**3,104,474,721**	3,177,738,119
BENEFITS AND EXPENSES					
Death and other policy benefits	*20*	**1,260,649,656**	1,122,125,433	**1,255,759,173**	1,062,552,978
Increase in legal policy reserves	*19*	**435,636,300**	837,213,429	**435,636,300**	837,213,429
General and administrative expenses	*26*	**881,845,825**	851,743,405	**799,925,437**	773,780,014
Commission expense	*16*	**125,606,924**	123,789,497	**119,001,033**	119,947,086
Dividend on participating policies	*21*	**95,438,412**	74,783,777	**95,438,412**	74,783,777
		2,799,177,117	3,009,655,541	**2,705,760,355**	2,868,277,284
INCOME FROM OPERATIONS		**392,824,154**	303,385,540	**398,714,366**	309,460,835
SHARE IN NET INCOME OF AN ASSOCIATE	*13*	**1,553,125**	-	**-**	-
INCOME BEFORE INCOME TAX		**394,377,279**	303,385,540	**398,714,366**	309,460,835
INCOME TAX BENEFIT	*29*	**5,750,368**	3,845,970	**-**	-
NET INCOME FOR THE YEAR		**P400,127,647**	P307,231,510	**P398,714,366**	P309,460,835

See Notes to the Consolidated and Separate Financial Statements.

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INC. AND SUBSIDIARY

STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31			
		Consolidated		Separate	
	Note	**2014**	2013	**2014**	2013
NET INCOME		**P400,127,647**	P307,231,510	**P398,714,366**	P309,460,835
OTHER COMPREHENSIVE INCOME					
Items that will never be reclassified to profit or loss					
Remeasurements of defined benefit obligations	*28*	**59,805,745**	(36,298,570)	**49,908,604**	(18,085,905)
Items that may be reclassified to profit or loss					
Net change in fair value of AFS securities	*6*	**75,076,879**	(30,165,472)	**79,134,372**	(21,188,257)
Net change in fair value of AFS securities transferred to profit or loss	*6*	**6,736,784**	-	**-**	-
TOTAL COMPREHENSIVE INCOME		**P541,747,055**	P240,767,468	**P527,757,342**	P270,186,673

See Notes to the Consolidated and Separate Financial Statements.

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INC. AND SUBSIDIARY

STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

		Consolidated					
					Retained Surplus (Note 24)		
	Note	**Members' Contribution** (Note 23)	**Reserve for Fluctuation in Value of AFS Securities**	**Employee Benefit Reserve**	**Appropriated**	**Unappropriated**	**Total**
Balance at December 31, 2012		P95,688,277	P460,774	(P37,580,023)	P792,480,017	P2,287,563,229	P3,138,612,274
Net income for the year		-	-	-	-	307,231,510	307,231,510
Other comprehensive loss		-	(30,165,472)	(36,298,570)	-	-	(66,464,042)
Increase in members' contribution		3,316,499	-	-	-	-	3,316,499
Reversal of prior year appropriated retained surplus		-	-	-	(694,781,948)	694,781,948	-
Appropriation	*24*	-	-	-	76,000,000	(76,000,000)	-
Balance at December 31, 2013		99,004,776	(29,704,698)	(73,878,593)	173,698,069	3,213,576,687	3,382,696,241
Net income for the year		**-**	**-**	**-**	**-**	**400,127,647**	**400,127,647**
Other comprehensive income		**-**	**81,813,663**	**59,805,745**	**-**	**-**	**141,619,408**
Decrease in members' contribution		**(1,415,393)**	**-**	**-**	**-**	**-**	**(1,415,393)**
Reversal of prior year appropriated retained surplus		**-**	**-**	**-**	**(113,698,069)**	**113,698,069**	**-**
Appropriation	*24*	**-**	**-**	**-**	**453,030,220**	**(453,030,220)**	**-**
Balance at December 31, 2014		**P97,589,383**	**P52,108,965**	**(P14,072,848)**	**P513,030,220**	**P3,274,372,183**	**P3,923,027,903**

See Notes to the Consolidated and Separate Financial Statements.

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INC.
AND SUBSIDIARY

STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

		Separate					
	Note	**Members' Contribution** (Note 23)	**Reserve for Fluctuation in Value of AFS Securities**	**Employee Benefit Reserve**	**Retained Surplus** (Note 24) **Appropriated**	**Unappropriated**	**Total**
Balance at December 31, 2012		P95,688,277	P304,041	(P30,392,790)	P742,480,017	P1,984,083,066	P2,792,162,611
Net income for the year		-	-	-	-	309,460,835	309,460,835
Other comprehensive loss		-	(21,188,257)	(18,085,905)	-	-	(39,274,162)
Increase in members' contribution		3,316,499	-	-	-	-	3,316,499
Reversal of prior year appropriated retained surplus		-	-	-	(694,781,948)	694,781,948	-
Appropriation	*24*	-	-	-	76,000,000	(76,000,000)	-
Balance at December 31, 2013		**99,004,776**	**(20,884,216)**	**(48,478,695)**	**123,698,069**	**2,912,325,849**	**3,065,665,783**
Net income for the year		**-**	**-**	**-**	**-**	**398,714,366**	**398,714,366**
Other comprehensive income		**-**	**79,134,372**	**49,908,604**	**-**	**-**	**129,042,976**
Decrease in members' contribution		**(1,415,393)**	**-**	**-**	**-**	**-**	**(1,415,393)**
Reversal of prior year appropriated retained surplus		**-**	**-**	**-**	**(113,698,069)**	**113,698,069**	**-**
Appropriation	*24*	**-**	**-**	**-**	**453,030,220**	**(453,030,220)**	**-**
Balance at December 31, 2014		**P97,589,383**	**P58,250,156**	**P1,429,909**	**P463,030,220**	**P2,971,708,064**	**P3,592,007,732**

See Notes to the Consolidated and Separate Financial Statements.

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INC. AND SUBSIDIARY

STATEMENTS OF CASH FLOWS

		Years Ended December 31			
		Consolidated		Separate	
	Note	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES					
Income before income tax		**P394,377,279**	P303,385,540	**P398,714,366**	P309,460,835
Adjustments:					
Depreciation and amortization	*14*	**38,365,988**	26,488,996	**31,953,774**	20,856,040
Share in net income of an associate	*13*	**(1,553,125)**	-	-	-
Impairment (reversal of) loss on loans and insurance receivables - net	*8, 9*	**18,414,837**	(937,492)	**17,156,568**	(937,492)
Impairment loss on investments and other assets - net	*10, 13, 17*	**566,294**	32,713,830	**566,294**	34,138,043
Decrease (increase) in fair value of financial assets at FVPL		**(8,086,591)**	4,448,364	**(8,086,591)**	4,448,364
Increase in fair value of investment properties	*11*	**(2,691,149)**	(191,892,831)	**-**	(189,955,331)
Gain on sale of real estates		**(27,938,126)**	(20,009,929)	**(27,938,126)**	(20,009,929)
Gain on sale of AFS securities		**(8,630,363)**	(42,481)	-	(42,481)
Gain on sale of investment properties		**(376,197)**	-	-	-
Decrease (increase) in:					
Reserve for unearned premiums		**(23,700,713)**	17,895,760	-	-
Deferred reinsurance commissions		**(2,325,343)**	167,407	-	-
Increase (decrease) in:					
Deferred reinsurance premiums		**20,903,425**	(19,759,585)	-	-
Deferred acquisition cost		**746,460**	(192,364)	-	-
Dividend income	*6*	**(4,764,153)**	(3,028,606)	**(2,269,189)**	(1,503,178)
Interest income	*25*	**(876,314,462)**	(831,206,036)	**(871,449,548)**	(820,989,626)
Interest expense		**140,096,367**	111,899,158	**140,096,367**	111,899,158
Retirement benefit expense	*27, 28*	**20,874,691**	9,750,697	**16,884,408**	8,830,829
Operating loss before working capital changes		**322,084,881**	(560,319,572)	**(304,371,677)**	(543,804,768)
Decrease (increase) in:					
Loans receivable		**(474,129,940)**	(496,720,811)	**(474,129,940)**	(496,720,811)
Premiums due and insurance receivables		**(31,672,431)**	(20,612,692)	**1,079,476**	1,783,770
Other receivables		**(4,875,005)**	13,430,201	**(659,373)**	11,945,955
Other assets		**(876,455)**	4,357,619	**6,651,454**	(701,407)
Increase (decrease) in:					
Claims and benefits payable		**38,689,763**	124,604,374	**41,301,881**	60,608,281
Accounts payable and accrued expenses		**53,943,200**	26,112,267	**49,240,920**	29,574,957
Legal policy reserves	*19*	**435,636,300**	837,213,429	**435,636,300**	837,213,429
Due to reinsurers and ceding companies		**2,253,495**	(3,059,226)	-	-
Funds held for reinsurers		**20,697,290**	1,381,346	-	-
Dividends payable		**33,172,720**	949,532	**33,172,720**	949,532

Forward

	Years Ended December 31			
	Consolidated		**Separate**	
	2014	2013	**2014**	2013
Net cash used in operations	**249,195,944**	(P72,663,533)	**(P212,078,239)**	(P99,151,062)
Interest received	**868,397,781**	831,877,602	**864,165,835**	819,279,157
Income taxes paid	**(850,248)**	3,243,004	**-**	-
Dividends received	**4,764,153**	3,028,606	**2,269,189**	1,503,178
Net cash provided by operating activities	**623,115,742**	758,999,671	**654,356,785**	721,631,273
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal (payments for acquisition) of:				
Short-term investments	**(150,000,000)**	-	**(150,000,000)**	-
Financial assets at FVPL	**-**	(31,277,197)	**-**	(31,277,197)
AFS securities	**635,453,157**	(1,082,872,738)	**(440,000,000)**	(930,879,408)
HTM investments	**(242,537,411)**	27,497,634	**(283,370,558)**	(14,104,891)
Investment properties	**810,110**	(2,234,652)	**(187,610)**	(2,234,652)
Assets held for sale	**118,323,190**	(87,210,949)	**118,323,190**	(87,210,949)
Property and equipment	**(42,227,064)**	(76,607,759)	**(29,296,218)**	(72,129,409)
Investment in a subsidiary and associates	**-**	-	**(173,140,704)**	-
Net cash used in investing activities	**(951,084,332)**	(1,252,705,661)	**(957,671,900)**	(1,137,836,506)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in reserve for refund of member's equity	**83,078,809**	63,807,981	**83,078,810**	63,807,981
Increase (decrease) in members' contribution	**(1,415,393)**	3,316,499	**(1,415,393)**	3,316,499
Net cash provided by financing activities	**81,663,416**	67,124,480	**81,663,417**	67,124,480
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(246,305,174)**	(426,581,510)	**(221,651,698)**	(349,080,753)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,502,725,174**	1,929,306,684	**1,395,158,346**	1,744,239,099
CASH AND CASH EQUIVALENTS AT END OF YEAR	**P1,256,420,000**	P1,502,725,174	**P1,173,506,648**	P1,395,158,346

See Notes to the Consolidated and Separate Financial Statements.

ARMED FORCES AND POLICE MUTUAL BENEFIT ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1. Organization and Operations

Armed Forces and Police Mutual Benefit Association, Inc. (the "Association" or the "Parent Company") was incorporated on September 1, 1965 with the Philippine Securities and Exchange Commission (SEC) as a non-stock corporation with soldiers, police, fire, jail management and coast guard personnel as members. On June 29, 2011, a resolution was approved by the majority vote of the Board of Trustees (BOT) and the vote of members representing at least two-thirds (2/3) of the membership extending the life of the Parent Company for another fifty (50) years from and after January 13, 2016, and for this purpose, amending the Parent Company's Articles of Incorporation. On June 28, 2012 the SEC approved the renewal of the Parent Company's corporate life up to 2066.

The Parent Company was also granted license by the Insurance Commission of the Philippines to operate as a mutual benefit association that extends benefits and services for the welfare and financial security of its members and their families, which includes providing housing, calamity assistance, educational and salary loans to members. The Insurance Commission also authorized the Parent Company to act as a life insurance arm of the Armed Forces of the Philippines (AFP), Philippine National Police (PNP), Bureau of Fire Protection (BFP), Bureau of Jail Management and Penology (BJMP) and Philippine Coast Guard (PCG).

On July 1, 2013, the Insurance Commission renewed the Parent Company's license as a mutual benefit association until December 31, 2015.

As provided in Section 30(e) of the National Internal Revenue Code, the Parent Company is exempt from the payment of income tax with respect to income it receives as a non-stock, non-profit organization.

The Association holds 100% interest in AFP General Insurance Corporation ("AFPGIC" or the "Subsidiary"). AFPGIC was incorporated in the Philippines on March 1, 1979. AFPGIC is engaged in the business of non-life insurance, indemnifying AFPMBAI, AFP, PNP and its members against loss, damage or liability arising from unknown or contingent events and acting as agent to other insurance or surety companies. Its lines of business include accident, fire and allied lines, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with and incidental to aforementioned lines. AFPGIC also renders coverages upon buildings, machineries, equipment, facilities, installations, houses, merchandises and other properties and effects, real or personal, to the general public, explicitly described as fire, marine, aviation, cargo, and all other types of non-life insurance.

Certificate of Authority No. 2013/108-R was granted to the Subsidiary by the Philippine Insurance Commission to transact in non-life insurance (fire, marine, casualty and surety) business until December 31, 2015. On October 31, 2014, the Subsidiary was granted a Certificate of Accreditation and Authority to issue Compulsory Insurance Coverage for Agency-Hired Overseas Filipino Workers valid until December 31, 2014.

The consolidated and separate financial statements as at and for the years ended December 31, 2014 and 2013 comprise the financial statements of the Parent Company and its Subsidiary (collectively referred to as the “Group”) and the Group’s interest in associates.

The registered principal office of the Group and the Parent Company is located at Col. Bonny Serrano corner E. Delos Santos Avenue, Quezon City.

2. Basis of Preparation

<u>Statement of Compliance</u>
The consolidated financial statements of the Group and the separate financial statements of the Parent Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations.

The accompanying consolidated financial statements of the Group and the separate financial statements of the Parent Company as at and for the year ended December 31, 2014 have been reviewed, approved and authorized for issue by the BOT on March 31, 2015.

<u>Basis of Measurement</u>
The consolidated and separate financial statements have been prepared on a historical cost basis, except for the following items, which are measured on an alternative basis at each reporting date.

Items	Measurement Bases
Financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) securities and investment properties	Fair value
Retirement benefit asset (liability)	Present value of the defined benefit obligation less fair value of plan assets

<u>Principles of Consolidation</u>
The consolidated financial statements include the financial statements of the Parent Company and the Subsidiary. The financial statements of the Subsidiary are prepared using the same reporting date and reporting period of the Parent Company, using consistent and similar accounting policies, except as allowed by PFRS 4, *Insurance Contracts.*

A subsidiary is an entity controlled by the Parent Company. The Parent Company controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls an entity. A subsidiary is fully consolidated from the date control is transferred to the Parent Company and cease to be consolidated from the date control is transferred out of the Group.

Intra-group balances and any unrealized gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated and separate financial statements, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Group and the Parent Company have adopted the following amendments to standards and new interpretations starting January 1, 2014 and accordingly changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Group's consolidated and Parent Company's separate financial statements.

- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32).* These amendments clarify that:

  - an entity currently has a legally enforceable right to set-off if that right is:
    - not contingent on a future event; and
    - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and

  - gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
    - eliminate or result in insignificant credit and liquidity risk; and
    - process receivables and payables in a single settlement process or cycle.

- *Recoverable Amount Disclosures for Non-financial Assets (Amendments to PAS 36).* These narrow-scope amendments to PAS 36, *Impairment of Assets*, address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarified that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

- *Measurement of short-term receivables and payables* (*Amendment to PFRS 13*). Amendment to PFRS 13, *Fair Value Measurement*, is part of the Annual Improvements to PFRS 2010-2012 Cycle. The amendment clarifies that in issuing PFRS 13 and making consequential amendments to PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9, *Financial Instruments*, the intention is not to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial. The amendments to PFRS 13 is effective immediately.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2014. However, the Group and the Parent Company have not applied the following new or amended standards in preparing these consolidated and separate financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the consolidated and separate financial statements of the Group and the Parent Company, respectively.

Effective July 1, 2014

- *Annual Improvements to PFRS: 2010 - 2012 and 2011 - 2013 Cycles* - Amendments were made to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted, in which case the related consequential amendments to other PFRS would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, *Share-based Payment*, PAS 16, *Property, Plant and Equipment*, PAS 38, *Intangible A*ssets and PAS 40, *Investment Property*. The following improvement or amendment to PFRS has no significant effect on the consolidated and separate financial statements of the Group and the Parent Company, respectively:

    - *Definition of 'related party' (Amendment to PAS 24).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24, *Related Parties* - e.g. loans.

Effective January 1, 2016

- *Equity Method in Separate Financial Statements (Amendments to PAS 27).* The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries.

  The amendments apply retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Annual Improvements to PFRS 2012 - 2014 Cycle.* This cycle of improvements contains amendments to four standards, none of which are expected to have significant impact on the consolidated and separate financial statements.

  - *Changes in method for disposal (Amendment to PFRS 5).* PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* is amended to clarify that:

    - if an entity changes the method of disposal of an asset (or disposal group) - i.e. reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag - then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognizes any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and

    - if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

  Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

Effective January 1, 2018

- PFRS 9, *Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

  The Group and the Parent Company are assessing the potential impact on its consolidated and separate financial statements resulting from the application of PFRS 9.

Classification of Insurance and Investment Contracts

The Group and the Parent Company issue contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes the possibility of having to pay benefits on the occurrence of an insured event such as death, accident or disability. The Group and the Parent Company may also transfer insurance risk in insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. Such contracts may also transfer financial risk. As a general guideline, the Group and the Parent Company define as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

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

Insurance Contracts

- Life Insurance

  Recognition and Measurement

  Premiums arising from insurance contracts are recognized as income when received and on the issue date which coincides with the effective date of the insurance policies for the first year premiums. For the renewal business, premiums are recognized as income when still in force and in the process of collection based on actuarial methods and assumptions.

  Insurance benefits and claims are recorded when incurred. These are recorded when notices of claims have been received and dividends have been incurred or when policies reach maturity. For unpaid benefits, a provision is made for the estimated cost of all claims but not settled as of reporting date less reinsurance recoveries, if any. Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on the Parent Company's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in profit or loss in later years. Unpaid benefits to life policies form part of claims and benefits payable in the consolidated and separate statements of financial position.

  Legal policy reserve represents the accumulated total liability for policies in force at the reporting dates. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions as approved by the Insurance Commission, subject to the liability adequacy test.

A number of life insurance contracts contain discretionary participating feature. This feature entitles policyholders to policy dividends whose amounts and timing of payments are contractually under the discretion of the Parent Company. The Parent Company's policy dividends are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under "Dividend on participating policies" account in the consolidated and separate statements of income while unpaid policyholders' dividends are included under "Dividends payable" account in the consolidated and separate statements of financial position.

Direct Costs and Expenses
Commissions and other expenses for the acquisition of insurance contracts are expensed as incurred.

Liability Adequacy Test
At each reporting date, a liability adequacy test is performed for the insurance contract liabilities. In performing this test, the current best estimates of future expected contractual cash flows and of related cash flows such as claims handling and administration expenses, as well as investment income from the asset backing such liabilities are used. Any deficiency is immediately charged against current operations.

Long-term insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

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

The benefits recoverable to which the Parent Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of amounts due from reinsurers classified within insurance receivables. Premiums payable for reinsurance contracts are recognized as an expense upon recognition of related premiums. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with terms of each reinsurance contract.

The Parent Company assesses its reinsurance assets for impairment at least annually. If there is objective evidence that the reinsurance asset is impaired, the Parent Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognize that impairment loss in profit or loss. The Parent Company gathers the objective evidence that a reinsurance asset is impaired using the same process for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for financial assets.

Receivables and Payables Related to Insurance Contracts
Receivables and payables are recognized when due. Premiums due and uncollected are recognized when due and measured on initial recognition at the fair value of the consideration. The carrying amount of premiums due and uncollected is reviewed for impairment whenever events or circumstances indicate the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss. Premiums due and uncollected are derecognized following the derecognition criteria for financial instruments.

- Non-life Insurance

Underwriting Income
Premiums from short-duration insurance contracts are recognized as revenue over the period of the insurance contracts using the 24^{th} method. The portion of the premiums written that relates to the unexpired periods of the policies at each reporting date is accounted for as reserve for unearned premiums and presented in the liability section of the consolidated statements of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at reporting dates accounted for as net changes in these accounts between reporting dates are credited to or charged against income for the year.

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

Receivables and Payables Related to Insurance Contracts
Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Subsidiary reduces the carrying amount of the insurance receivable and recognizes that impairment loss in profit or loss.

Claim Cost Recognition
Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur.

Losses and Claims
Losses and claims consist of benefits and claims paid to policyholders. Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of the claims IBNR at each reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision. Claims provisions are not discounted for the time value of money.

Liability Adequacy Test
At each reporting date, liability adequacy test is performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of all contractual cash flows, claims and claims handling cost. If the test shows that the liability is inadequate, the entire deficiency is recognized in profit or loss.

Reserve for Unearned Premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as provision for unearned premiums. The change in the provision for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24^{th} method over the life of the contract. Amortization is charged to profit or loss. The unamortized acquisition costs are shown as deferred acquisition costs (DAC) in the consolidated statements of financial position.

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

DAC is derecognized when the related contracts are settled or disposed of.

Reinsurance
The Subsidiary cedes insurance risk in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies. Amounts due from reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Subsidiary may not receive all amount due to it under the terms of the contract and when the impact on the amounts that the Subsidiary will receive from the reinsurer can be measured reliably. The impairment loss is charged to profit or loss.

Gains or losses on buying reinsurance, if any, are recognized in profit or loss immediately at the date of purchase and are not amortized.

Ceded reinsurance arrangements do not relieve the Subsidiary from its obligation to policyholders.

Ceded reinsurance are accounted for in the same period as the underlying claim.

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

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

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

Financial Instruments

Date of Recognition

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

Initial Recognition

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group and the Parent Company classify its financial assets into the following categories: financial assets at FVPL, AFS securities, held to maturity (HTM) investments and loans and receivables. The Group and the Parent Company classify its financial liabilities either as financial liabilities at FVPL or other financial liabilities.

The classification depends on the purpose for which the instruments were acquired or incurred and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments issued by the Group and the Parent Company are classified as equity in accordance with the substance of the contractual arrangement. Any interest, dividends, realized and unrealized gains and losses from financial instruments or component considered as a financial liability are recognized in profit or loss for the period. Distributions to holders of financial instruments classified as equity are treated as owner-related and thus charged directly to equity.

Financial Assets or Financial Liabilities at FVPL

This category consists of financial assets that are held for trading or financial instruments designated by management as at FVPL on initial recognition. In addition, derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets and financial liabilities at FVPL are recorded in the consolidated and separate statements of financial position at fair value, with any changes in fair value recognized in profit or loss. Interest earned from and interest incurred on these financial instruments are recognized on an accrual basis using the effective interest method, while dividend income is recorded when the right of payment has been established.

Financial assets or financial liabilities that are not held for trading but are classified under the FVPL category are allowed to be designated by management on initial recognition in this category when any the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be bifurcated.

As at December 31, 2014 and 2013, the Group and the Parent Company do not have any financial liabilities classified as FVPL.

AFS Securities
AFS securities are financial assets which are designated as such, or do not qualify to be classified or have not been classified under any other financial asset category. These are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. These include debt and equity securities.

After initial measurement, AFS securities are subsequently measured at fair value. Changes in fair value, other than impairment losses, interest accretion and foreign currency differences on AFS debt securities (which are all recognized in profit or loss), are reported as "Net change in fair value of AFS securities") account in other comprehensive income and presented in equity.

When the fair value of AFS securities cannot be measured reliably because of lack of reliable estimates of unobserved inputs such as in the case of unquoted equity instruments, these financial assets are allowed to be carried at cost less impairment, if any. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is recognized in profit or loss.

Interest earned on holding AFS financial assets are reported as "Investment income - net" in the statement of comprehensive income using the effective interest method. Dividends earned on holding AFS financial assets are recognized in the profit or loss when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as provision for credit and impairment losses in profit or loss.

When an AFS financial asset is derecognized, the cumulative gain or loss previously recognized in OCI and lodged under equity is transferred to profit or loss. Where the Company holds more than one investment in the same security, these are deemed to be disposed of on a weighted average basis.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income and lodged under equity is transferred to profit or loss.

As at December 31, 2014 and 2013, the Group and the Parent Company do not have investments in debt securities classified as AFS securities.

HTM Investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest method, less any impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included as part of "Interest income" account in the consolidated and separate statements of income. Gains and losses are recognized in profit or loss when the HTM investments are derecognized. Any impairment loss is also recognized in profit or loss.

Where the Group and the Parent Company sell or reclassify other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified at fair value as AFS securities. The Group and the Parent Company would then be unable to categorize financial instruments as HTM investments for the next two years in the consolidated and separate financial statements, respectively.

As at December 31, 2014 and 2013, the Group and the Parent Company have government bonds classified as HTM investments.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not held for trading, neither designated as financial asset at FVPL nor AFS securities.

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

Financial assets included under this category include cash and cash equivalents, short-term investments, loan receivables, premiums due and insurance receivables, deposits and other receivables.

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

Other Financial Liabilities
Issued financial instruments or their components, which are not classified as FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group and the Parent Company having an obligation either to deliver cash or another financial instrument to the holder or lender, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group and the Parent Company's own equity instruments.

After initial measurement, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. The amortization is included as part of interest expense for the period.

This category includes the accounts payable and accrued expenses (excluding taxes payable), claims and benefits payable, due to reinsurers and ceding companies, funds held for reinsurers and dividends payable.

"Day 1" Profit
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group and the Parent Company recognize the difference between the transaction price and fair value (a "Day 1" profit) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where data used as inputs in a valuation model are not observable, the difference between the transaction price and model value is recognized in profit or loss only when the inputs become observable or when the instrument is derecognized. For each transaction, the Group and the Parent Company determine the appropriate method of recognizing the "Day 1" profit.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated and separate statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, thus the related assets and liabilities are presented gross in the consolidated and separate statements of financial position.

Determination of Fair Value
When measuring the fair value of assets or liabilities, the Group and the Parent Company use market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- 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

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy, when applicable, is recognized at the end of the reporting period during which the change has occurred.

Impairment of Financial Assets

The Group and the Parent Company assess at each reporting date whether a financial asset or a group of financial assets is impaired.

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

AFS Securities Carried at Fair Value

In case of equity securities classified as AFS securities, impairment indicators would include a significant or prolonged decline in the fair value of the investments below cost. Where there is objective evidence of impairment, the cumulative loss lodged under equity, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss, is transferred to profit or loss. Impairment loss on equity securities is not reversed through profit or loss but directly to equity as part of other comprehensive income.

In the case of AFS debt securities, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the EIR on the reduced carrying amount of the asset and is recorded as part of interest income for the period. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss to the extent that the resulting carrying amount of the security does not exceed its carrying amount had no impairment loss been recognized.

AFS Securities Carried at Cost

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

HTM Investments

The Group and the Parent Company assess at each reporting date whether there is any objective evidence that its HTM investments are impaired. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

a. significant financial difficulty of the issuer or obligor;

b. breach of contract, such as a default or delinquency in interest or principal payments;

c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or

d. it becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Loans and Receivables
For loans and receivables, the Group and the Parent Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed accounts, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment. For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, credit and payment status and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of loan's carrying amount over its net realizable value, normally based on the present value of the estimated future cash flows excluding future credit losses that have not been incurred. The present value of the estimated future cash flows is discounted at the loan's original EIR. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateral-dependent loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The carrying amount of an impaired loan is reduced to its net realizable value through the use of an allowance account. Any impairment loss determined is charged to profit or loss. If, in a subsequent period, the amount of the allowance for impairment decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to profit or loss, to the extent that the resulting carrying amount of the asset does not exceed its carrying amount had no impairment loss been recognized.

Where loans and receivables has been ascertained to be worthless, the related amount is written-off against the corresponding allowance for impairment loss.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial Asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;

- the Group and the Parent Company retain the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group and the Parent Company have transferred its right to receive cash flows from the asset and either has: (a) transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group and the Parent Company have transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group and the Parent Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Parent Company could be required to pay.

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

<u>Investment Properties</u>
Properties held for long-term rental yields, for capital appreciation or both are classified as investment properties.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an investment property which is charge to profit or loss.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from the changes in the fair value of investment properties are included in profit or loss in the year in which they arise.

For a transfer from investment properties to owner-occupied properties or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group and the Parent Company as an owner-occupied property becomes an investment property, the Group and the Parent Company account for such property in accordance with the policy stated under property and equipment up to the date of change in use.

For transfer from inventories to investment properties that will be carried at fair value, any difference between the fair value of the property at the date and its previous carrying amount shall be recognized in profit or loss.

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

Rental income on investment properties are recognized over the term of the lease using the straight line method.

Expenses on investment properties are treated as ordinary operating expenses and are recognized when incurred.

Assets Held-for-Sale

Assets held-for-sale include real and other properties acquired through repossession or foreclosure which the Group and the Parent Company intend to sell within one year from the date of classification. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Group and the Parent Company's control and there is sufficient evidence that the Group and the Parent Company remain committed to its plan to sell the asset. These are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale and their fair value less costs of disposal. Impairment loss is recognized for any initial or subsequent write-down of the asset to the fair value less costs of disposal. These assets are not subject to depreciation or amortization.

The profit or loss arising from the sale of the assets held for sale is included in the "Gain on sale of real estates" account in profit or loss.

Investment in a Subsidiary

Subsidiary is an entity controlled by the Parent Company. The Parent Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the Subsidiary is included in the consolidated financial statements from the date on which the control commences until the date on which control ceases.

The Investment in a Subsidiary is carried in the separate statements of financial position at cost less any impairment in value. This includes the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition.

Investment in a Subsidiary is derecognized upon sale or disposal. Any gain or disposal arising from the derecognition is recognized in profit or loss. Gain or loss is computed as the difference between proceeds from the disposal and its carrying amount, is recognized in profit or loss at the time of sale or disposal.

Investments in Associates

Associates are entities in which it has significant influence and which are neither subsidiaries nor joint ventures of the Parent Company. The Parent Company's investments in associates are accounted in the separate financial statements using the cost method less any impairment in value. The investments in associates are carried in the separate statement of financial position at cost plus post-acquisition changes in the Parent Company's share in net assets of the associates, less any impairment in value. The consolidated statements of income reflect the Parent Company's share in the results of operations of the associates. Unrealized gains arising from transactions with its associates are eliminated to the extent of the Parent Company's interest in the associates against the related investments. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

When the Parent Company's accumulated share in net losses of an associate equals or exceeds the carrying amount of the investment, including advances for future conversion to equity, the Parent Company discontinues the recognition of its share in additional losses and the investment is reported at nil value. If the associate subsequently reports net income, the Parent Company will resume applying the equity method only after its share in that net income equals the share in net losses not recognized during the period the equity method was suspended.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, amortization and any impairment loss. The initial cost of property and equipment comprises its purchase price and other costs directly attributable to bringing the asset to its work condition and location for its intended use.

Depreciation and amortization are computed using the straight-line method over the estimated useful life of the assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the related lease, whichever is shorter. Land is not depreciated. The estimated useful lives of the different categories of property and equipment follow:

Category	Estimated Useful Life in Years
Buildings and land improvements	3 - 25
Computer equipment	5
Furniture, fixtures and other equipment	5
Transportation equipment	5 - 7
Computer Software	3

The assets' residual values, useful lives and depreciation and amortization method are reviewed periodically to ensure that the period, residual value and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Parent Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to profit or loss in the period when incurred.

Major renovations are depreciated over their respective remaining useful life or the remaining useful life of the related asset, whichever is shorter.

Construction in progress is stated at cost. This includes costs of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are substantially complete and available for use.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. 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 asset) is included in the profit or loss in the period when the asset is derecognized.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss.

Intangible assets which consists of computer software is amortized over its useful life of three (3) years and presented under property and equipment in the statements of financial position.

Intangible assets with definite lives are amortized on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with finite useful life are reviewed at reporting date. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets are derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in profit or loss in the year the asset is derecognized.

Impairment of Non-financial Assets

At each reporting date, the Group and the Parent Company assess whether there is any indication that its non-financial assets (such as investment properties, property and equipment and investment in a subsidiary and associates) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group and the Parent Company make a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit).

An impairment loss is charged to profit or loss in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the net recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its net recoverable amount. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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

Interest Income. For all interest-bearing financial instruments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income.

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

Policy Income. Policy income are surcharges and processing fee of the Parent Company in relation to its life and death claims.

Gain on Sale of Real Estates. Income from real estate sales is accounted for using the installment method. Under this method, gain on sale of real estate housing projects is recorded as unearned income (recorded as a deduction against real estate housing loans under loans receivable) and amortized by applying the gross profit rate to the collection of real estate housing loans receivable.

Rental Income. Rental income is recognized in profit or loss on a straight-line basis over the term of the lease.

Dividend Income. Dividend income is recognized when the Group and the Parent Company's right to receive payment is established.
Gain on sale of AFS securities. Realized gains and losses include gains and losses on the sale of AFS securities, which are calculated as the difference between net sales proceeds and the net carrying value. Realized gains and losses are recognized in profit or loss when the sales transaction occurred.

Costs and Expenses
Costs and expenses are recognized in profit or loss when a decrease in an asset or an increase in future economic benefits related to a decrease in asset or an increase in a liability has arisen that can be measured reliably.

Pension Benefit
The Group and the Parent Company have a funded, noncontributory, defined benefit retirement plan covering all qualified officers and employees.

The Group and the Parent Company's net obligation in respect of the defined benefit plans is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group and the Parent Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group and the Parent Company determine the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group and the Parent Company recognize gains and losses on the settlement of a defined benefit plan when the settlement occurs.

<u>Bonus Plans</u>
The Group and the Parent Company recognize a liability and an expense for bonuses and, in the case of the Subsidiary, profit-sharing based on a formula that takes into consideration the profit attributable to the Subsidiary's shareholders after certain adjustments. The Group and the Parent Company recognize a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

<u>Short-term Employee Benefits</u>
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group and the Parent Company have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

<u>Other Long-term Employee Benefits</u>
The Parent Company and Subsidiary's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

<u>Termination Benefits</u>
Termination benefits are expensed at the earlier of when the Group and the Parent Company can no longer withdraw the offer of those benefits and when the Group and the Parent Company recognize costs for restructuring. If benefits are not expected to be settled wholly within twelve months from the end of the reporting period, then they are discounted.

Leases

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

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;

b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or

d. there is a substantial change to the asset.

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

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

Group and the Parent Company as Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as Rent expense under "General and administrative expenses" account in profit or loss on a straight-line basis over the lease term.

Group and the Parent Company as Lessor

Leases where the Group and the Parent Company do not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rent income. Contingent rent is recognized as revenue in the year in which this is earned. Operating lease payments received by the Group and the Parent Company are recognized as income under "Rental income" account in profit or loss on a straight-line basis over the lease term

Related Party Transactions and Relationships

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the enterprise and its key management personnel, trustees, or its members.

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

Income Taxes of the Subsidiary

Income tax on the profit or loss for the year of the Subsidiary comprises current and deferred tax. Income tax is recognized in profit or loss.

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute this amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Income Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from Minimum Corporate Income Tax (MCIT) and unused Net Operating Loss Carry-Over (NOLCO) can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date.

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

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Provisions

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

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

Events After the Reporting Date
Any post year-end event that provides additional information about the Group and the Parent Company's consolidated and separate financial position at the reporting date (adjusting event) is reflected in the consolidated and separate financial statements. Any post year-end events that are not adjusting events, if any, are disclosed in the consolidated and separate financial statements when material.

4. Use of Judgments and Estimates

The following are the critical judgments, key estimates and assumptions that have a significant risk of material adjustments to the carrying amounts of assets, liabilities, income, expenses and disclosures of contingent assets and contingent liabilities.

Judgments
In the process of applying the Group and the Parent Company's accounting policies, management made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated and separate financial statements:

(a) Determination of Functional Currency
Based on the economic substance of the underlying circumstance relevant to the Group and the Parent Company, the functional currency of the Group and the Parent Company have been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group and the Parent Company operate. It is the currency that mainly influences the income and costs arising from the Group and the Parent Company's operations.

(b) Operating Leases
Group and the Parent Company as Lessor
The Group and the Parent Company have entered into various lease agreements on its investment properties which it considers as operating lease.

The Group and the Parent Company have determined, based on the evaluation of the terms and conditions of the lease agreements, that all the significant risks and rewards of ownership of these investment properties are retained by the Group and the Parent Company. The contracts of lease are considered as operating leases by the Group and the Parent Company since these do not transfer substantially all the risks and rewards incidental to ownership.

Group and the Parent Company as Lessee
The Group and the Parent Company lease the premises of its regional offices with various maturities that are renewable under certain terms and conditions.

The Group and the Parent Company have determined, based on the evaluation of the terms and conditions of the lease agreements, that all of the significant risks and rewards of ownership of these regional offices are retained by the Lessor.

The contracts of lease are considered as operating leases by the Group and the Parent Company since these do not transfer substantially all the risks and rewards incidental to ownership.

(c) *Financial Assets Quoted in an Active Market*
The Group and the Parent Company classify financial assets by evaluating, among others, whether a financial asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination of whether quoted prices are readily and regularly available, whether the market from which the price quotes were obtained can be considered deep enough to qualify as an "active" market, and whether those prices represent actual and regularly occurring market transactions on an arms' length basis.

(d) *Classification and Fair Value of Assets Held-for-Sale*
The Group and the Parent Company classify its acquired properties as assets held-for-sale if the Group and the Parent Company expect that the properties will be recovered through sale rather than continuing use. At initial recognition, the Group and the Parent Company determine the fair value of acquired properties through internally and externally-generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(e) *Impairment of Financial Assets*
The Group and the Parent Company treat AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group and the Parent Company treat "significant" generally as 20% or more and "prolonged" as greater than six months. In addition, the Group and the Parent Company evaluate other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

The Group and the Parent Company review its receivables at each reporting date to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Group and the Parent Company review the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

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

As at December 31, 2014 and 2013, AFS securities amounted to P1,938.35 million and P1,212.42 million, and P1,554.96 million and P1,035.83 million in the consolidated and separate statements of financial position, respectively (see Note 6).

As at December 31, 2014 and 2013, the loan receivables, net of allowance for impairment, amounted to P7,082.26 million and P6,597.35 million in the consolidated and separate statements of financial position, respectively (see Note 8).

As at December 31, 2014 and 2013, premiums due and insurance receivables, net of allowance for impairment, amounted to P71.05 million and P40.63 million, and P1.11 million and P2.19 million, in the consolidated and separate statements of financial position, respectively (see Note 9).

As at December 31, 2014 and 2013, other receivables, net of allowance for impairment, amounted to P70.18 million and P57.39 million, and P62.37 million and P54.43 million, in the consolidated and separate statements of financial position, respectively (see Note 10).

(f) Fair Value of Financial Instruments
The fair value of financial assets and liabilities recorded in the consolidated and separate statements of financial position that cannot be derived in an active market is determined by using valuation techniques. The Group and the Parent Company use its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

The Group and the Parent Company classify non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making the judgment, the Group and the Parent Company evaluate its intention and ability to hold its investments in bonds up to maturity. If the Group and the Parent Company fail to keep these investments to maturity other than for specific circumstances, it will be required to reclassify the whole class as AFS securities. The investments would therefore be measured at fair value and not at amortized cost.

(g) Contingencies
The Group and the Parent Company are currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with (in-house or external) legal counsels handling the Group and the Parent Company’s defense in the matter and is based upon an analysis of potential results.

Management and its legal counsel believe that the Group and the Parent Company have substantial legal and factual bases for its position and, is of the opinion, that losses arising from these legal actions, if any, will not have a material adverse impact on the Group and the Parent Company’s financial position and results of operations.

Estimates

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

(a) The Ultimate Liability Arising From Claims made under Insurance Contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group and the Parent Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Group and the Parent Company will ultimately pay for such claims. The major sources of uncertainties are the frequency of claims due to contingencies covered and the timing of benefit payments. Notes 19 and 20 to the consolidated and separate financial statements show the amount of estimates as at December 31, 2014 and 2013.

(b) Estimate of Future Benefit Payments and Premiums arising from Long-term Insurance Contracts

Estimates of future benefit payments depend on the expectations of future benefit payments for contingencies covered, the major ones being death and endowment benefits. The Group and the Parent Company base these estimates on mortality and other contingency tables approved by the IC as well as future investment earnings rate of the assets backing up these liabilities, subject to the maximum rate provided under the Insurance Code.

(c) Legal Policy Reserves

(i) Process Used to Decide on Assumptions

The Group and the Parent Company determine its legal policy reserves in accordance with the requirements of the Insurance Code. Estimates are made in two stages. At inception of the contract, the Group and the Parent Company determine assumptions in relation to mortality, morbidity, persistency, investment returns, and administration expenses. Assumptions are also set in relation to inflation rates, tax, dividend scale and sales commission plus other incentive. Certain profit targets are also set at this stage. These assumptions are used in calculating liabilities during the life of the contracts. A margin for risk and uncertainty is added to these assumptions. In order to minimize risk, the Group and the Parent Company ensure that the assumptions used are best estimates, taking into account current experience at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates and taking into consideration the provision of PFRS 4.

The following presents the comparison between statutory and PFRS assumptions which yielded into an adequate level of legal policy reserves as of reporting date:

(a) Investment Yield - This amounts to 7% per annum, which is higher than the statutory maximum of 6%. The Group and the Parent Company's actual experience for 2014 and 2013 is approximately 10% and 7%, respectively.

(b) Mortality - This is based on 100% of the 1971 Philippine Intercompany Mortality Table and the 1958/1980 Commissioner Standard Ordinary Mortality Table.

(c) Lapsation - There is no lapsation assumption in statutory valuation. The Group and the Parent Company's experience in 2014 and 2013 (based on figures as at December 2014 and 2013) are as follows:

	2014	2013
First year persistency	**90%**	90%
Second year persistency	**95%**	95%
Third year persistency	**95%**	95%

The assumptions used for long-term insurance contracts are as follows:

(a) Mortality

An appropriate base table of recognized standard mortality table is chosen depending on the type of contract and subject to the approval of the Insurance Commission.

(b) Persistency

In accordance with requirements of the Insurance Code, a 100% persistency rate has been assumed for all policies which are inforce and with no forfeiture option as of valuation date.

(ii) Liability Adequacy Test, Changes in Assumptions and Sensitivity Analysis

Legal policy reserves are conservatively calculated in accordance with the requirements of the IC. The liability adequacy test was performed using current best estimates on interest, mortality, lapsation and expenses. The net present value of future cash flows as at December 31, 2014 and 2013 computed under the requirements of PFRS 4, amounted to P4,852.70 million and P4,632.39 million, respectively. Accordingly, the recorded statutory reserves as at December 31, 2014 and 2013 of P7,914.79 million and P7,479.09 million, respectively, are adequate using best estimate assumptions. Testing under different interest rate scenarios and their impact on gross and net liabilities, equity and profit before tax are disclosed in Note 19 to the consolidated and separate financial statements.

(iii) Source of Uncertainty in the Estimation of Future Claim Payments

Although the Group and the Parent Company have taken necessary steps to mitigate the uncertainty in the estimation of future benefit payments and premium receipts, it is still subject to the unpredictability of changes in mortality levels. The Group and the Parent Company adopt the standard mortality table in assessing future benefit payments and premium receipts as approved by the Insurance Commission.

The liability under the insurance contracts includes provisions for IBNR claims and provisions for claims in course of settlement as of reporting dates. The IBNR provision is based on historical experience and is subject to a degree of uncertainty.

(d) Fair Values of AFS Securities and Financial Assets at FVPL

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

As at December 31, 2014 and 2013, AFS securities amounted to P1,938.35 million and P1,212.42 million, P1,554.96 million and P1,035.83 million, in the consolidated and separate financial statements, respectively (see Note 6).

As at December 31, 2014 and 2013, financial assets at FVPL amounted to P34.92 million and P26.83 million, respectively, in the consolidated and separate statements of financial position.

(e) Estimating Fair Value of Investment Properties

The Group and the Parent Company use the fair value model under which any gain or loss arising from change in fair value of investment properties are recognized in profit or loss for the period in which it arises. The fair value of investment properties are based on property appraisal reports determined by external appraisers on the basis of market value approach.

	Consolidated		**Separate**	
	2014	2013	**2014**	2013
Fair value	**P2,127,739,561**	P2,154,154,095	**P2,096,918,205**	P2,125,374,595
Increase in fair value during the year	**2,691,149**	191,892,831	**-**	189,955,331

(f) Impairment of Non-financial Assets

The Group and the Parent Company assess impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group and the Parent Company consider important which could trigger an impairment review include the following:

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

The Group and the Parent Company recognize an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets or holding of an investment, the Group and the Parent Company are required to make estimates and assumptions that can materially affect the consolidated and separate financial statements.

The following are the carrying amounts of the non-financial assets as at December 31:

		Consolidated		Separate	
	Note	**2014**	2013	**2014**	2013
Investment properties	*11*	**P2,127,739,561**	P2,154,154,095	**P2,096,918,205**	P2,125,374,595
Assets held-for-sale	*12*	**212,439,015**	302,118,205	**212,439,015**	302,118,205
Investment in a subsidiary and associates - net	*13*	**14,426,158**	12,873,033	**198,265,704**	25,125,000
Property and equipment - net	*14*	**302,223,348**	298,362,272	**271,777,533**	274,435,089
		P2,656,828,082	P2,767,507,605	**P2,779,400,457**	P2,727,052,889

(g) *Estimated Useful Lives of Property and Equipment*
The Group and the Parent Company review annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

As at December 31, 2014 and 2013, property and equipment amounted to P302.22 million and P298.36 million, and P271.78 million and P274.44 million, in the consolidated and separate financial statements, respectively (see Note 14).

(h) *Realizability of Deferred Tax Assets*
The Subsidiary reviews its deferred tax assets at each reporting date and reduces the carrying amounts 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 assets - net, to be utilized. As at December 31, 2014 and 2013, deferred tax assets, net, amounted to P12.09 million million and P9.73 million in the consolidated statements of financial position (see Note 29).

(i) *Pension and Other Employee Benefits*
The determination of the obligation and retirement benefit expense is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates.

As at December 31, 2014 and 2013, the Group and the Parent Company's retirement liability - net amounted to P32.01 million and P75.19 million, and P31.46 million and P64.48 million, respectively. In 2014 and 2013, the retirement benefit expense of the Group and the Parent Company amounted to P20.87 million and P9.75 million, and P16.88 million and P8.83 million, respectively. As at December 31, 2014 and 2013, cumulative actuarial loss of the Group amounted to P14.07 million and P73.88 million, while cumulative actuarial gain and loss for the Parent Company amounted to P1.43 million and P48.48 million, respectively (see Note 28).

5. Cash and Cash Equivalents

As at December 31, this account consists of:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Cash on hand and in banks	**P332,420,000**	P422,925,174	**P249,506,648**	P315,358,346
Short-term placements	**924,000,000**	1,079,800,000	**924,000,000**	1,079,800,000
	P1,256,420,000	P1,502,725,174	**P1,173,506,648**	P1,395,158,346

Cash in banks consist of peso and foreign currency denominated savings and current accounts and earn interest at respective bank deposit rates. Short-term placements are made for varying periods of up to three months depending on the immediate cash requirements of the Group and the Parent Company and earn interest from 0.25% to 5.00% in 2014 and from 1.25% to 5.00% in 2013.

Interest income in cash in bank and short-term placements earned by the Group and the Parent Company amounted to P14.05 million and P24.12 million, and P13.65 million and P22.47 million, in 2014 and 2013, respectively, (see Note 25).

6. Available-for-Sale Securities

As at December 31, this account consists of:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Cost:				
Quoted in stock exchange	**P548,548,375**	P202,745,382	**P159,192,127**	P17,500,425
Not quoted in stock exchange	**1,346,952,003**	1,048,643,706	**1,337,520,220**	1,039,211,923
	1,895,500,378	1,251,389,088	**1,496,712,347**	1,056,712,348
Fair value movement:				
Quoted in stock exchange	**(3,887,736)**	(7,502,070)	**2,253,456**	1,318,412
Not quoted in stock exchange	**55,996,701**	(22,202,628)	**55,996,701**	(22,202,628)
	52,108,965	(29,704,698)	**58,250,157**	(20,884,216)
	1,947,609,343	1,221,684,390	**1,554,962,504**	1,035,828,132
Allowance for impairment loss	**(9,263,793)**	(9,263,793)	**-**	-
	P1,938,345,550	P1,212,420,597	**P1,554,962,504**	P1,035,828,132

Dividends earned by the Group and the Parent Company from these investments amounted to P4.76 million and P3.03 million and P2.27 million and P1.50 million in 2014 and 2013, respectively.

Realized gain on sale of AFS securities recognized by the Group and the Parent Company in profit or loss amounted to P8.63 million and P0.04 million and nil and P0.04 million in 2014 and 2013, respectively.

Unrealized gain (loss) recognized by the Group and the Parent in other comprehensive income pertaining to the revaluation of AFS securities is as follows:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Balance at beginning of year	**(P29,704,698)**	P460,774	**(P20,884,216)**	P304,041
Net change in fair value of AFS securities	**75,076,879**	(30,165,472)	**79,134,372**	(21,188,257)
Net change in fair value of AFS securities transferred to profit or loss	**6,736,784**	-	-	-
Balance at end of year	**P52,108,965**	(P29,704,698)	**P58,250,156**	(P20,884,216)

The movement in the allowance for impairment loss is as follows:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Balance at beginning of year	**P9,263,793**	P14,299,882	**P -**	P5,036,089
Write-offs for the year	-	(5,036,089)	-	(5,036,089)
Balance at end of year	**P9,263,793**	P9,263,793	**P -**	P -

7. Held-to-Maturity Investments

As at December 31, this account consists of:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Treasury bonds	**P633,259,864**	P724,472,453	**P566,158,057**	P616,537,499
Corporate bonds	**844,750,000**	511,000,000	**844,750,000**	511,000,000
	P1,478,009,864	P1,235,472,453	**P1,410,908,057**	P1,127,537,499

HTM investments carry interest rates ranging from 3.53% to 6.44% in 2014 and 3.53% to 12.38% in 2013. Interest income earned by the Group and the Parent Company amounted to P68.16 million and P62.32 million and P63.70 million and P53.76 million in 2014 and 2013, respectively (see Note 25).

Maturities of the above investments are as follow:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Short-term (up to one year)	**P243,259,864**	P90,194,683	**P196,158,057**	P50,000,000
Medium-term (more than one year up to five years)	**608,750,000**	850,277,770	**598,750,000**	792,537,499
Beyond five years	**626,000,000**	295,000,000	**616,000,000**	285,000,000
	P1,478,009,864	P1,235,472,453	**P1,410,908,057**	P1,127,537,499

As at December 31, 2014 and 2013, HTM investments include investments in government bonds amounting to P67.10 million and P97.00 million, respectively, that are designated as restricted investments and maintained with the Bureau of Treasury in compliance with the provisions of the Insurance Code as security for the benefit of the policy holders and creditors of the Group.

8. **Loan Receivables -** net

As at December 31, consolidated and separate statements of financial position, this account consists of:

	2014	2013
Salary loans	**P3,082,497,391**	P3,060,032,922
Optional policy loans	**2,532,683,024**	2,211,338,001
Calamity loans	**162,254,745**	127,361,271
Basic policy loans	**57,300,740**	57,878,613
Educational assistance loans	**34,089,376**	27,205,613
Motorcycle loans	**425,620**	654,330
Real estate mortgage loans	**1,037,390,126**	1,042,237,360
Real estate housing loans	**306,675,160**	188,396,534
Real estate contract	**6,763,710**	3,642,091
	7,220,079,892	6,718,746,735
Allowance for impairment loss	**(137,816,432)**	(121,394,773)
	P7,082,263,460	P6,597,351,962

Loan receivables bear annual interest rates ranging from 6.00% to 9.00% except for real estate mortgage and housing loans which bear annual rates ranging from 7.50% to 12.00% (9.00% to 14.00% prior to September 2005). Interest income earned from loan receivables amounted to P792.50 million and P744.26 million in 2014 and 2013, respectively (see Note 25).

The following is a reconciliation of the changes in allowance for impairment loss in the consolidated and separate statements of financial position:

	2014	2013
Balance at beginning of year	**P121,394,773**	P122,353,445
Provisions for the year	**21,732,945**	19,278,387
Recoveries for the year	**(734,909)**	(20,215,879)
Write-offs for the year	**(4,576,377)**	(21,180)
Balance at end of year	**P137,816,432**	P121,394,773

As at December 31, allowance for impairment loss may be analyzed as follows:

	2014	2013
Specific	**P111,951,971**	P93,428,912
Collective	**25,864,461**	27,965,861
Balance at end of year	**P137,816,432**	P121,394,773

The following table shows the breakdown of loan receivables as to secured and unsecured and the breakdown of secured loans as to type of security for secured loans as at December 31:

	2014	**%**	2013	%
Secured loans				
Real estate	**P1,350,828,996**	**18.71**	P1,234,275,985	18.37
Cash surrender value	**2,589,983,764**	**35.87**	2,269,216,614	33.77
	3,940,812,760	**54.58**	3,503,492,599	52.14
Unsecured loans	**3,279,267,132**	**45.42**	3,215,254,136	47.86
	P7,220,079,892	**100.00**	P6,718,746,735	100.00

9. Premiums Due and Insurance Receivables - net

As at December 31, this account consists of:

	Consolidated		**Separate**	
	2014	2013	**2014**	2013
Premiums receivable from policyholders, agents, and brokers	**P17,241,015**	P10,235,998	**P -**	P -
Reinsurance recoverable on paid and unpaid losses	**58,612,160**	32,971,484	**-**	-
Due from ceding companies	**1,945,517**	1,839,302	**-**	-
Premiums receivable from members	**1,106,874**	2,186,350	**1,106,874**	2,186,350
	P78,905,566	47,233,134	**1,106,874**	2,186,350
Allowance for impairment loss	**(7,858,514)**	(6,600,244)	**-**	-
	P71,047,052	P40,632,890	**P1,106,874**	P2,186,350

In 2014 and 2013, the Subsidiary recognized provision for impairment loss on insurance receivables amounting to P1.26 million and nil, respectively.

A reconciliation of changes in reinsurance recoverable on paid and unpaid losses is as follows:

	2014	2013
Balance at beginning of year	**P32,971,484**	P14,001,111
Reinsurer's share in paid losses during the year	**1,899,968**	2,900
Reinsurer's share in unpaid losses during the year	**23,740,708**	31,013,871
Recoveries from reinsurers during the year	**-**	(12,046,398)
Balance at the end of the year	**P58,612,160**	P32,971,484

10. Other Receivables - net

As at December 31, this account consists of:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Accrued interest receivable	**P37,364,049**	P30,142,275	**P35,091,200**	P27,807,487
Car loans receivable	**16,044,027**	16,149,307	**15,875,711**	15,811,401
Salary loans receivable	**5,526,741**	6,802,626	**5,507,473**	5,832,932
Advances to officers and employees	**1,241,688**	2,289,868	**1,070,201**	1,117,689
Accrued rental income	**1,581,579**	1,581,579	**1,581,579**	1,581,579
Receivable from Multi-ventures Capital Management Corporation (MCC)	**1,632,427**	1,632,427	**1,632,427**	1,632,427
Memorial service plan receivables	**-**	863,261	**-**	863,261
Receivables from contractors	**-**	-	**-**	-
Advances to agents	**6,070,094**	620,961	**884,065**	541,203
Others	**7,769,701**	5,124,362	**4,628,252**	3,604,807
	77,230,306	65,206,666	**66,270,908**	58,792,786
Allowance for impairment loss	**(7,051,106)**	(7,819,152)	**(3,900,751)**	(4,365,715)
	P70,179,200	P57,387,514	**P62,370,157**	P54,427,071

Receivable from MCC represents matured investments which have not yet been paid to the Group and the Parent Company by the said investment house. A 100% allowance for impairment has already been provided by the Group and the Parent Company on this receivable.

Salary and car loans receivable consist of loans granted to employees which bear annual interest ranging from 8% to 12% and collectible through salary deduction over a maximum of five (5) years.

As at December 31, 2014 and 2013, no additional provision for impairment loss in other receivables was recognized. However, the Group and the Parent Company recognized recoveries on impairment loss amounting to P0.77 million and nil and P0.46 million and nil, in 2014 and 2013, respectively.

11. Investment Properties

As at December 31, the movements of the account are as follow:

		Consolidated		Separate	
	Note	**2014**	2013	**2014**	2013
Carrying value at beg of year		**P2,154,154,095**	P1,960,026,612	**P2,125,374,595**	P1,933,184,612
Additions during the year		**187,610**	2,234,652	**187,610**	2,234,652
Increase in fair value		**2,691,149**	191,892,831	**-**	189,955,331
Reclassification	*12*	**(28,671,990)**	-	**(28,644,000)**	-
Disposals during the year		**(621,303)**	-	**-**	-
Carrying value at end of year		**P2,127,739,561**	P2,154,154,095	**P2,096,918,205**	P2,125,374,595

The Group and the Parent Company obtained an independent appraiser for the valuation of the investment properties. The fair values of the investment properties have been derived using Market Data Approach. In this approach, market values of real properties were arrived on the basis of recent sales of similar properties in the same areas where the investment properties are located taking into account the economic conditions prevailing at the time the valuations were made. These have been categorized as Level 2 fair value based on the inputs to the valuation technique described above (Note 32).

Rental income earned from investment properties recognized in the consolidated and separate financial statements amounted to P27.74 million and P26.18 million in 2014 and 2013, respectively.

Direct operating expenses incurred on investment properties in the consolidated and separate financial statements amounted to P10.14 million and P5.24 million and P10.24 million and P5.14 million, in 2014 and 2013, respectively.

12. Assets Held-for-Sale

As at December 31, this account was stated at carrying amount and composed of the following:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Real estate housing project	**P174,232,745**	P285,264,864	**P174,232,745**	P285,264,864
Foreclosed properties	**38,206,270**	16,853,341	**38,206,270**	16,853,341
	P212,439,015	P302,118,205	**P212,439,015**	P302,118,205

In 2014, the Group and the Parent Company reclassified its investment properties with carrying value of P28.67 million and P28.64 million, respectively, to assets held-for-sale.

There is no cumulative income or expense charged in other comprehensive income relating to the assets held-for-sale. However, the Group and the Parent Company recognized gain on sale of assets held-for-sale amounting to P27.94 million and P20.01 million, respectively.

13. Investments in a Subsidiary and Associates - net

As at December 31, the details of the account are as follow:

	Consolidated							
	Percentage of Ownership (%)		Acquisition Cost		Accumulated Impairment and Share in Net Losses		Carrying Amount	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Aguinaldo Theater Enterprises, Inc. (ATEI)	**28.13**	28.13	**P67,500,000**	P67,500,000	**(P67,500,000)**	(P67,500,000)	**P -**	P -
Centennial Financing Corporation (CFC)	**17.60**	17.60	**20,000,000**	20,000,000	**(5,573,842)**	(7,126,967)	**14,426,158**	12,873,033
			P87,500,000	P87,500,000	**(P73,073,842)**	(P74,626,967)	**P14,426,158**	P12,873,033

	Separate							
	Percentage of Ownership (%)		Acquisition Cost		Accumulated Impairment		Carrying Amount	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
APPGIC	**100.00**	100.00	**P178,265,704**	P5,125,000	**P -**	P -	**P178,265,704**	P5,125,000
ATEI	**28.13**	28.13	**67,500,000**	67,500,000	**(67,500,000)**	(67,500,000)	**-**	-
CFC	**17.60**	17.60	**20,000,000**	20,000,000	**-**	-	**20,000,000**	20,000,000
			P265,765,704	P92,625,000	**(P67,500,000)**	(P67,500,000)	**P198,265,704**	P25,125,000

During the year, the Parent Company made an additional investment to the Subsidiary amounting to P173.14 million with no issuance of additional shares.

The Parent Company's book value of investment in a Subsidiary is in excess of the recorded carrying amount of the said investment by P4.50 million and P4.90 million in 2014 and 2013, respectively. The excess pertains to the unamortized gain on sale of a building by the Parent Company's to the Subsidiary in 1996. This gain is being amortized over the estimated useful life of the building of 30 years. The income of the Subsidiary in 2014 and 2013 consolidated statements of income includes amortization on unrealized gain of P0.41 million for both years.

Impairment loss of nil and P34.14 million were recognized on the Parent Company's investment in ATEI in 2014 and 2013, respectively.

Share in net losses of Associates recognized in the consolidated statements of income amounted to P1.55 million and nil, in 2014 and 2013, respectively.

The summary of the financial information regarding the Associates is as follows:

	ATEI*		CFC*	
	2014	2013	**2014**	2013
Total assets	**P110,991,706**	P115,326,461	**P109,815,508**	P107,242,231
Total liabilities	**4,353,144**	3,615,620	**3,367,327**	3,421,410
Total equity	**106,638,562**	111,710,841	**106,448,181**	103,820,821
Net income	**(5,072,279)**	4,858,353	**4,550,393**	4,274,182

**Financial information is based on unaudited balances as at December 31, 2014 and 2013*

14. Property and Equipment - net

As at December 31, the roll forward analysis of the account are as follow:

	Consolidated					
	Land, Buildings and Land Improvements	**Computer Equipment**	**Furniture, Fixtures and Other Equipment**	**Transportation Equipment**	**Computer Software**	**Total**
Cost						
Balance, January 1, 2014	**P271,396,413**	**P193,099,910**	**P47,982,099**	**P36,499,667**	**P -**	**P548,978,089**
Additions	**1,396,743**	**24,739,338**	**6,348,262**	**8,427,505**	**3,650,000**	**44,561,848**
Retirements/disposals	**-**	**(5,193,021)**	**(6,587,723)**	**(5,203,190)**	**-**	**(16,983,934)**
Balance, December 31, 2014	**272,793,156**	**212,646,227**	**47,742,638**	**39,723,982**	**3,650,000**	**576,556,003**
Accumulated Depreciation and Amortization						
Balance, January 1, 2014	**74,690,976**	**128,244,787**	**31,691,316**	**15,988,738**	**-**	**250,615,817**
Depreciation and amortization for the year	**6,494,005**	**20,229,916**	**6,956,271**	**4,077,463**	**608,333**	**38,365,988**
Retirements/disposals	**-**	**(5,441,122)**	**(6,873,090)**	**(2,334,938)**	**-**	**(14,649,150)**
Balance, December 31, 2014	**81,184,981**	**143,033,581**	**31,774,497**	**17,731,263**	**608,333**	**274,332,655**
Net Book Value at December 31, 2014	**P191,608,175**	**P69,612,646**	**P15,968,141**	**P21,992,719**	**P 3,041,667**	**P302,223,348**

	Consolidated				
	Land, Buildings and Land Improvements	Computer Equipment	Furniture, Fixtures and Other Equipment	Transportation Equipment	Total
Cost					
Balance, January 1, 2013	P257,842,485	P154,105,412	P41,226,620	P26,209,199	P479,383,716
Additions	13,553,928	45,179,295	7,210,039	10,650,968	76,594,230
Retirements/disposals	-	(6,184,797)	(454,560)	(360,500)	(6,999,857)
Balance, December 31, 2013	271,396,413	193,099,910	47,982,099	36,499,667	548,978,089
Accumulated Depreciation and Amortization					
Balance, January 1, 2013	69,456,911	123,111,887	26,324,491	12,246,918	231,140,207
Depreciation and amortization for the year	5,234,065	11,457,162	5,782,973	4,014,796	26,488,996
Retirements/disposals	-	(6,324,262)	(416,148)	(272,976)	(7,013,386)
Balance, December 31, 2013	74,690,976	128,244,787	31,691,316	15,988,738	250,615,817
Net Book Value at December 31, 2013	P196,705,437	P64,855,123	P16,290,783	P20,510,929	P298,362,272

	Separate				
	Land, Buildings and Land Improvements	**Computer Equipment**	**Furniture, Fixtures and Other Equipment**	**Transportation Equipment**	**Total**
Cost					
Balance, January 1, 2013	**P250,996,443**	**P178,416,158**	**P48,711,723**	**P31,487,497**	**P509,611,821**
Additions	**218,361**	**16,956,415**	**6,028,720**	**8,427,505**	**31,631,001**
Retirements/disposals	**-**	**(811,469)**	**(5,503,126)**	**(5,203,190)**	**(11,517,785)**
Balance, December 31, 2014	**251,214,804**	**194,561,104**	**49,237,317**	**34,711,812**	**529,725,037**
Accumulated Depreciation and Amortization					
Balance, January 1, 2014	**69,798,686**	**120,029,022**	**32,649,793**	**12,699,231**	**235,176,732**
Depreciation and amortization for the year	**5,179,041**	**17,527,413**	**5,907,535**	**3,339,785**	**31,953,774**
Retirements/disposals	**-**	**(1,059,571)**	**(5,788,493)**	**(2,334,938)**	**(9,183,002)**
Balance, December 31, 2014	**74,977,727**	**136,496,864**	**32,768,835**	**13,704,078**	**257,947,504**
Net Book Value at December 31, 2014	**P176,237,077**	**P58,064,240**	**P16,468,482**	**P21,007,734**	**P271,777,533**

	Separate				
	Land, Buildings and Land Improvements	Computer Equipment	Furniture, Fixtures and Other Equipment	Transportation Equipment	Total
Cost					
Balance, January 1, 2013	P237,734,244	P136,847,401	P42,570,804	P22,013,993	P439,166,442
Additions	13,262,199	42,715,549	6,304,128	9,834,004	72,115,880
Retirements/disposals	-	(1,146,792)	(163,209)	(360,500)	(1,670,501)
Balance, December 31, 2013	250,996,443	178,416,158	48,711,723	31,487,497	509,611,821
Accumulated Depreciation and Amortization					
Balance, January 1, 2013	65,754,979	112,278,397	28,012,358	9,958,988	216,004,722
Depreciation and amortization for the year	4,043,707	9,036,882	4,762,232	3,013,219	20,856,040
Retirements/disposals	-	(1,286,257)	(124,797)	(272,976)	(1,684,030)
Balance, December 31, 2013	69,798,686	120,029,022	32,649,793	12,699,231	235,176,732
Net Book Value at December 31, 2013	P181,197,757	P58,387,136	P16,061,930	P18,788,266	P274,435,089

15. Reserve for Unearned Premium and Deferred Reinsurance Premiums

As at December 31, the movements of the Subsidiary's reserve for unearned premiums and deferred reinsurance premiums are as follow:

	2014			2013		
	Direct Business	**Ceded**	**Net**	Direct Business	Ceded	Net
Balance at beg of year	**P52,555,412**	**P27,084,359**	**P25,471,053**	P34,659,652	P7,324,774	P27,334,878
Policies written during the year	**81,865,030**	**17,416,727**	**64,448,303**	163,598,433	50,947,470	112,650,963
Premiums earned during the year	**(105,565,743)**	**(38,320,152)**	**(67,245,591)**	(145,702,673)	(31,187,885)	(114,514,788)
Balance at end of year	**P28,854,699**	**P6,180,934**	**22,673,765**	P52,555,412	P27,084,359	P25,471,053

16. Deferred Acquisition Costs and Deferred Reinsurance Commission

As at December 31, the movements of the Subsidiary's deferred acquisition costs and deferred reinsurance commission are as follow:

Deferred acquisition costs:

	2014	2013
Balance at January 1	**P2,273,447**	P2,081,083
Cost deferred during the year	**5,859,432**	4,034,774
Amortization for the year	**(6,605,892)**	(3,842,410)
Balance at December 31	**P1,526,987**	P2,273,447

Deferred reinsurance commission:

	2014	2013
Balance at January 1	**P3,884,385**	P3,716,978
Reinsurance commission for the year	**4,177,484**	10,657,349
Reinsurance commission earned for the year	**(6,502,827)**	(10,489,942)
Balance at December 31	**P1,559,042**	P3,884,385

17. Other Assets - net

As at December 31, this account consists of:

	Consolidated		**Separate**	
	2014	2013	**2014**	2013
Prepaid expenses:				
Memorial plan	**P -**	P426,330	**P -**	P426,330
Others	**9,813,928**	4,538,867	**6,291,249**	4,538,867
Cash placements with closed local banks	**44,667,067**	44,667,067	**44,667,067**	44,667,067
Deposit for the acquisition of real estate property	**14,320,373**	14,320,373	**14,320,373**	14,320,373
Short-term investment	-	7,300,406	-	7,300,406
Unused supplies	**1,543,390**	2,430,249	**1,543,390**	2,430,249
Others	**10,856,853**	6,641,864	**5,103,910**	4,894,152
	81,201,611	80,325,156	**71,925,989**	78,577,444
Allowance for impairment loss	**(59,553,734)**	(58,987,440)	**(59,553,734)**	(58,987,440)
	P21,647,877	P21,337,716	**P12,372,255**	P19,590,004

Prepaid expenses - memorial plan represents the unused units of memorial service plans of Prudential Life Plan, Inc.

The cash placements with closed local banks represent various deposits and money market placements which cannot be withdrawn due to banks' closure. The amount is fully provided with allowance for impairment loss as at December 31, 2014 and 2013.

The following is a reconciliation of the changes in allowance for impairment loss in the consolidated and separate statements of financial position:

	2014	2013
Balance at beginning of year	**P58,987,440**	P58,987,440
Provisions for the year	**566,294**	-
Balance at end of year	**P59,553,734**	P58,987,440

18. Accounts Payable and Accrued Expenses

As at December 31, this account consists of:

	Consolidated		**Separate**	
	2014	2013	**2014**	2013
Accounts payable - refund	**P269,835,934**	P251,779,743	**P269,835,934**	P251,779,743
Unearned interest	**239,161,804**	212,964,599	**239,161,804**	212,964,599
Accrued expenses	**21,043,808**	39,771,990	**20,192,124**	36,590,375
Accounts payable	**92,965,699**	36,841,965	**74,233,656**	35,475,613
Taxes payable	**11,096,301**	19,367,563	**8,894,215**	6,591,359
Commissions payable	**1,354,881**	13,130,691	**888,762**	13,130,691
Experience refund	**1,526,424**	3,980,084	**1,526,424**	3,980,084
Trust deposit	**636,557**	636,557	**-**	-
Retention fee payable	**-**	6,465,449	**-**	6,465,449
Loans payable	**454,733**	292,309	**454,733**	292,309
Customers' deposits	**42,640,254**	-	**42,640,254**	-
Replenishment in transit	**2,404,790**	2,320,368	**2,404,790**	2,320,368
Others	**2,623,779**	44,250,446	**2,583,719**	43,984,905
	P685,744,964	P631,801,764	**P662,816,415**	P613,575,495

Accounts payable - refund refers to the over remittances from finance centers.

Unearned interest pertains to the interest deducted from the proceeds of policy loans granted to the members and amortized over the term of the loan.

19. Legal Policy Reserves

As at December 31, 2014 and 2013, the legal policy reserves amounted to P7,914.72 million and P7,479.09 million, respectively.

As at December 31, 2014 and 2013, for policies with incomplete information, reserves were calculated by approximate method using the reserve factors derived from the portfolio with complete information.

In 2013, the Parent Company changed its reserve factor from 6% to 5%. As a result, the legal policy reserve increased by P164.71 million.

On October 30, 2014, the Insurance Commission released Circular Letter No. 2014-42-A, *Valuation standards for life insurance policy reserves*, requiring all life insurance companies to calculate the reserves for traditional life insurance policies using the gross premium valuation. As at December 31, 2014, the Parent Company is evaluating the impact of the new reserving methodology on its financial statements.

As at December 31, 2014 and 2013, increase in legal policy reserves recognized in profit or loss amounted to P435.64 million and P837.21 million, respectively.

The legal policy reserves were certified by the Parent Company's consulting actuary who is accredited by the Insurance Commission and who also issued an unqualified opinion on the account.

Sensitivities
The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on the statement of income, statement of comprehensive income and statement of changes in members' equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

The assumptions that have the greatest effect on the 2014 statement of financial position and income are listed below:

	Change in Assumptions	Increase/ (Decrease) in Gross Liabilities	Increase/ (Decrease) in Net Liabilities	Increase/ (Decrease) in Profit before Tax	Increase/ (Decrease) in Equity
Mortality/morbidity	**+10%**	**P10,731,776**	**P10,731,776**	**(P10,731,776)**	**(P10,731,776)**
	-10%	**(10,825,447)**	**(10,825,447)**	**10,825,447**	**10,825,447**
Discount rate	**+1%**	**(285,262,177)**	**(285,262,177)**	**285,262,177**	**285,262,177**
	-1%	**322,232,498**	**322,232,498**	**(322,232,498)**	**(322,232,498)**

20. Insurance Contract Liabilities

As at December 31, this account consists of:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Claims and benefits payable	**P404,470,077**	P365,780,314	**P302,345,563**	P261,043,682
Due to reinsurers and ceding companies	**5,164,813**	2,911,318	**-**	-
Funds held for reinsurers	**25,441,850**	4,744,559	**-**	-
	P435,076,740	P373,436,191	**P302,345,563**	P261,043,682

The movement in claims and benefits payable is as follows:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Balance at beg of year	**P365,780,314**	P241,175,940	**P261,043,682**	P200,435,401
Claims and benefits incurred	**1,260,649,656**	1,122,125,433	**1,255,759,173**	1,062,552,978
Claims and benefits paid	**(1,221,959,893)**	(997,521,059)	**(1,214,457,292)**	(1,001,944,697)
Balance at end of year	**P404,470,077**	P365,780,314	**P302,345,563**	P261,043,682

21. Dividends Payable

At the option of the BOT of the Parent Company, dividends are provided to members with participating option policies which have been in-force for at least three (3) years.

Dividends declared and approved by the BOT amounted to P95.44 million and P74.78 million in 2014 and 2013, respectively.

The movements of the Parent Company's dividends payable are as follow:

	2014	2013
Balance at beg of year	**P228,659,558**	P223,980,866
Dividends declared during the year	**95,438,412**	74,783,777
Dividends paid during the year	**(62,265,692)**	(70,105,085)
Balance at end of year	**P261,832,278**	P228,659,558

22. Reserve for Refund of Members' Equity

In 1998, the BOT approved the refund, upon retirement of members, of membership dues for the period from 1986 onwards equivalent to 50% of membership dues collected on basic policies which have been in force for at least three (3) years, plus 4.5% interest per annum.

The basic premiums of the BJMP and BFP were upgraded effective January 2009 and February 2009, respectively, whereby part of the premium paid is recorded as deposit contribution subject to payment to the members upon retirement or separation. It will earn interest in accordance with the implementing rules and guidelines of the Parent Company. The basic premiums of the AFP and PCG were upgraded and modified, respectively, effective January 2010 and August 2010, respectively, whereby part of the premium paid is recorded as deposit contribution subject to payment to the members upon retirement or separation. It will earn interest in accordance with the implementing rules and guidelines.

As at December 31, 2014 and 2013, reserve for refund of members' equity amounted to P1,496.62 million and P1,273.45 million, respectively.

23. Members' Contribution

Members' contribution represents amounts contributed by the members of the Parent Company in addition to payments of premiums due, net of any refund made to retired members.

As at December 31, 2014 and 2013, members' contribution amounted to P97.59 million and P99.00 million, respectively.

24. Retained Surplus

Retained surplus pertains to the Group and the Parent Company's accumulated earnings.

In 2014 and 2013, the BOT of the Parent Company approved the appropriation of P453.03 million and P76.00 million retained surplus, respectively, to appropriate earnings for social services program, finance the land development of its Punta, Tanza property and other real estate projects, rehabilitation of its Annex Building and the construction of a 7 & 3-Storey Luzon Branch Operations building in Fort Bonifacio, Taguig City.

In 2014 and 2013, the Group and the Parent Company reversed appropriated retained earnings amounting to P113.70 million and P694.78 million upon turn-over of donations and completion of land and housing developments.

Retained surplus, excluding the amount of unrealized gains on fair value of investment properties and employee benefit reserves has not exceeded the maximum limit specified in Section 408 of the Insurance Code as amended, which states that "A mutual benefit association shall only maintain free and unassigned surplus of not more than 20% of its total liabilities as verified by the commissioner."

As at December 31, 2014 and 2013, the Group and the Parent Company are compliant with the above requirement.

25. Interest Income

For the year ended December 31, this account consists of:

		Consolidated		Separate	
	Note	**2014**	2013	**2014**	2013
Cash and cash equivalents	*5*	**P14,046,986**	P24,124,168	**P13,646,044**	P22,469,171
Short-term investments		**1,137,500**	-	**1,137,500**	-
Investments in bonds and government securities	*7*	**68,162,002**	62,318,634	**63,698,030**	53,757,220
Loan receivables	*8*	**792,502,974**	744,264,484	**792,502,974**	744,264,485
Others		**465,000**	498,750	**465,000**	498,750
		P876,314,462	P831,206,036	**P871,449,548**	P820,989,626

26. General and Administrative Expenses

For the year ended December 31, this account consists of:

		Consolidated		Separate	
	Note	**2014**	2013	**2014**	2013
Salaries and employee benefits	*27*	**P420,816,910**	P395,521,388	**P374,911,303**	P354,858,612
Interest		**140,096,367**	111,899,158	**140,096,367**	111,899,158
Donations and contributions		**62,925,275**	63,866,757	**62,659,625**	63,866,757
Collection incentive fee		**35,321,977**	42,912,626	**35,321,977**	42,912,626
Depreciation and amortization	*14*	**38,365,988**	26,488,996	**31,953,774**	20,856,040
Provisions for impairment loss on loans receivables	*8*	**21,732,945**	19,278,387	**21,732,945**	19,278,387
Representation and entertainment		**22,013,891**	18,756,618	**19,075,622**	17,275,564
Transportation and travel		**20,416,852**	20,241,760	**16,341,822**	16,749,639
Professional fees		**11,482,951**	16,230,554	**8,428,115**	12,769,238
Supplies		**13,607,013**	15,101,604	**12,450,290**	14,112,889
Repairs and maintenance		**13,164,069**	12,157,225	**11,950,607**	10,895,661
Utilities		**13,595,647**	13,725,102	**12,104,391**	12,484,812
Communication		**14,159,620**	13,686,165	**11,807,189**	11,491,845
Rent		**8,338,044**	4,392,613	**7,993,997**	4,392,613
Experience refund		**5,866,240**	3,980,084	**5,866,240**	3,980,084
Taxes and licenses		**6,651,687**	7,836,235	**5,201,994**	4,069,775
Promotional and business development		**6,264,058**	6,007,629	**4,658,474**	4,269,751
Sales incentives		**1,306,696**	5,544,390	**-**	-
Meetings and conferences		**2,368,102**	3,209,901	**1,810,785**	3,209,901
Litigation		**1,716,731**	4,324,669	**1,716,731**	4,324,669
Provisions for impairment loss on investments and other assets	*9, 13, 17*	**1,510,862**	32,713,830	**252,532**	34,138,043
Brokers' fee		**447,439**	1,817,496	**447,439**	1,817,496
Others		**19,676,461**	12,050,218	**13,143,218**	4,126,454
		P881,845,825	P851,743,405	**P799,925,437**	P773,780,014

27. Salaries and Employee Benefits

For the year ended December 31, this account consists of:

		Consolidated		Separate	
	Note	**2014**	2013	**2014**	2013
Salaries and allowances		**P249,041,143**	P215,977,949	**P221,164,886**	P188,299,166
Employee benefits		**134,169,366**	154,942,184	**124,001,580**	145,551,908
Directors' and trustees' fees		**14,151,156**	13,536,467	**10,279,875**	10,862,668
Retirement benefit expense	*28*	**20,874,691**	9,750,697	**16,884,408**	8,830,829
Seminars and training		**2,580,554**	1,314,091	**2,580,554**	1,314,041
		P420,816,910	P395,521,388	**P374,911,303**	P354,858,612

28. Retirement Liability

The Parent Company has a funded, non-contributory defined benefit plan covering all qualified officers and employees. Under this plan, the normal retirement age is 60. Normal retirement benefit consists of a lump sum benefit equivalent to 150% of basic monthly salary at the time of retirement for each year of service provided that the employee has rendered at least 5 years of service.

For early retirement, the benefit is equivalent to 50% of the employee's monthly basic salary for every year of service with the rate progressing to a maximum of 150% of basic monthly salary. Death and disability benefit on the other hand, shall be determined on the same basis as in normal retirement.

The Subsidiary maintains a separate tax-qualified, funded non-contributory defined benefit plan covering all regular full-time employees that is being administered by a Committee.

The following tables show reconciliation from the opening balances to the closing balances for net defined benefit liability (asset) and its components:

Consolidated

	Defined Benefit Obligation		Fair Value of Plan Assets		Net Retirement Plan Liability (Asset)	
	2014	2013	**2014**	2013	**2014**	2013
Balance at beg of year	**(P302,577,181)**	(P335,527,739)	**P227,391,920**	P306,391,745	**(P75,185,261)**	(P29,135,994)
Included in profit or loss						
Current service cost	**(17,487,490)**	(14,799,237)	**-**	-	**(17,487,490)**	(14,799,237)
Interest income (expense)	**(13,390,164)**	(13,181,743)	**10,002,963**	14,957,907	**(3,387,201)**	1,776,164
Settlement gain (loss)	**-**	3,272,376	**-**	-	**-**	3,272,376
	(30,877,654)	(24,708,604)	**10,002,963**	14,957,907	**(20,874,691)**	(9,750,697)
Included in OCI						
Remeasurement gain	**-**	-	**(822,690)**	-	**(822,690)**	-
Actuarial loss (gain) arising from:						
Demographic assumptions	**-**	(11,915,175)	**-**	-	**-**	(11,915,175)
Financial assumptions	**10,555,687**	(20,703,512)	**-**	-	**10,555,687**	(20,703,512)
Experience adjustment	**46,587,379**	(2,000,904)	**-**	-	**46,587,379**	(2,000,904)
Gain (loss) on plan assets	**-**	-	**7,727,001**	(1,678,979)	**7,727,001**	(1,678,979)
	57,143,066	(34,619,591)	**6,904,311**	(1,678,979)	**64,047,377**	(36,298,570)
Others						
Benefits paid	**1,938,338**	92,278,753	**(1,938,338)**	(92,278,753)	**-**	-
Balance at end of year	**(P274,373,431)**	(P302,577,181)	**P242,360,856**	P227,391,920	**(P32,012,575)**	(P75,185,261)

Separate

	Defined Benefit Obligation		Fair Value of Plan Assets		Net Retirement Plan Liability (Asset)	
	2014	2013	**2014**	2013	**2014**	2013
Balance at January 1	**(P277,696,009)**	(P321,687,580)	**P213,214,262**	P284,122,567	**(P64,481,747)**	(P37,565,013)
Included in profit or loss						
Current service cost	**(14,085,900)**	(13,390,487)	**-**	-	**(14,085,900)**	(13,390,487)
Interest income (expense)	**(12,021,700)**	(12,379,013)	**9,223,192**	13,666,295	**(2,798,508)**	1,287,282
Settlement gain	**-**	3,272,376	**-**	-	**-**	3,272,376
	(26,107,600)	(22,497,124)	**9,223,192**	13,666,295	**(16,884,408)**	(8,830,829)
Included in OCI						
Actuarial loss (gain) arising from:						
Demographic assumptions	**-**	(11,721,192)	**-**	-	**-**	(11,721,192)
Financial assumptions	**323,625**	(8,819,608)	**-**	-	**323,625**	(8,819,608)
Experience adjustment	**41,857,978**	3,872,443	**-**	-	**41,857,978**	3,872,443
Gain (loss) on plan assets		-	**7,727,001**	(1,417,548)	**7,727,001**	(1,417,548)
	42,181,603	(16,668,357)	**7,727,001**	(1,417,548)	**49,908,604**	(18,085,905)
Others						
Benefits paid	**1,938,338**	83,157,052	**(1,938,338)**	(83,157,052)	**-**	-
Balance at December 31	**(P259,683,668)**	(P277,696,009)	**P228,226,117**	P213,214,262	**(P31,457,551)**	(P64,481,747)

The retirement benefit expense under "Salaries and employee benefits" account recognized in profit or loss is as follows:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Current service cost	**P17,487,490**	P14,799,237	**P14,085,900**	P13,390,487
Settlement (gain)	**-**	(3,272,376)	**-**	(3,272,376)
Interest expense (income)	**3,387,201**	(1,776,164)	**2,798,508**	(1,287,282)
	P20,874,691	P9,750,697	**P16,884,408**	P8,830,829

The components of retirement benefits recognized in other comprehensive income are as follows:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Actuarial loss (gain) due to decrease in defined benefit obligation	**P57,143,066**	(P34,619,591)	**P42,181,603**	(P16,668,357)
Remeasurement gain (loss) on plan asset	**6,904,311**	(1,678,979)	**7,727,001**	(1,417,548)
	P64,047,377	(P36,298,570)	**P49,908,604**	(P18,085,905)

The Group and the Parent Company's plan assets consist of the following:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Cash in banks	**P68,269,524**	P74,830,917	**P67,342,173**	P70,695,294
AFS securities	**81,479,582**	75,627,921	**81,479,582**	75,627,921
HTM investments	**10,000,000**	-	**-**	-
Loans	**86,793,455**	75,704,475	**86,793,455**	75,704,475
Accounts receivable	**5,274,650**	1,169,646	**2,263,849**	1,169,646
Accrued interest	**330,133**	-	**330,132**	-
Fixed income	**-**	8,363,400	**-**	-
Other assets	**2,971,092**	1,678,635	-	-
Accounts payable and accrued expenses	**(12,757,580)**	(9,983,074)	**(9,983,074)**	(9,983,074)
	P242,360,856	P227,391,920	**P228,226,117**	P213,214,262

There is no expected contribution to the defined benefit retirement plan of the Parent Company and the Subsidiary in 2015.

The following were the principal actuarial assumptions at the reporting date:

	Parent Company		Subsidiary	
	2014	2013	**2014**	2013
Discount rate	**4.36%**	4.34%	**4.80%**	5.50%
Future salary growth	**5.00%**	5.00%	**5.00%**	10.00%

Assumptions regarding future mortality used by the Parent Company have been based on the adjusted 1994 Group Annuity Table. For the Subsidiary, assumptions regarding future mortality have been based on the adjusted 1985 Unisex Annuity Table (UAT). The 1985 UAT was derived from the experience of the Government Service Insurance System from January 1, 1977 to December 31, 1981.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

Parent Company

	Defined Benefit Obligation		Salary Increase Rate	
	Increase	**Decrease**	**Increase**	**Decrease**
Discount rate (1% movement)	**(7.20%)**	**8.18%**	**8.04%**	**7.22%**
Future salary growth (1% movement)	**5.00%**	**5.00%**	**6.00%**	**4.00%**

Subsidiary

	Defined Benefit Obligation		Salary Increase Rate	
	Increase	**Decrease**	**Increase**	**Decrease**
Discount rate (0.50% movement)	**5.30%**	**4.30%**	**4.80%**	**4.80%**
Future salary growth (0.50% movement)	**5.00%**	**5.00%**	**5.50%**	**4.50%**

Although the analysis does not take account the full distribution of cash flows expected under the retirement plans of the Parent Company and the Subsidiary, it does provide an approximation of the sensitivity of the assumption shown.

These defined benefit plans expose the Group and the Parent Company to actuarial risks, longevity risk, interest rate risk and market (investment) risk.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group and the Parent Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Group and the Parent Company monitor how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligations.

Maturity analysis of the benefit payments:

	Consolidated				
	2014				
	Carrying Amount	**Contractual Cash Flows**	**Within 1 Year**	**Within 1-5 Years**	**More than 5 Years**
Defined benefit obligation	**P274,373,431**	**P877,975,275**	**P10,122,600**	**P97,172,233**	**P770,680,442**

	Separate				
	2014				
	Carrying Amount	**Contractual Cash Flows**	**Within 1 Year**	**Within 1-5 Years**	**More than 5 Years**
Defined benefit obligation	**P259,683,668**	**P774,595,703**	**P10,122,600**	**P93,515,747**	**P670,957,356**

As at December 31, 2014 and 2013, the weighted average duration of the defined benefit obligation of the Parent Company and the Subsidiary is 12 years and 13 years, respectively.

29. Income Taxes

The provision for income tax expense of the Subsidiary for the year ended December 31 is as follows:

	2014	2013
Final tax	**P1,398,255**	P2,625,214
Current tax	**600,260**	692,342
Deferred	**(7,748,883)**	(7,163,526)
Income tax benefit	**(P5,750,368)**	(P3,845,970)

The reconciliation of income tax expense computed at the statutory income tax rate to the income tax expense in the statements of comprehensive income is as follows:

	2014	2013
Income before income tax	**(P6,298,901)**	(P9,845,687)
Income tax computed at statutory tax rate	**(P1,889,670)**	(P2,953,706)
Tax effects of:		
Income subject to capital gains tax	**(3,835,798)**	-
Income subjected to final tax	**(1,459,474)**	(3,522,552)
Final tax	**1,398,255**	2,625,214
Non-deductible expenses	**784,808**	5,074
Dividend income	**(748,489)**	-
	(P5,750,368)	(P3,845,970)

The deferred tax assets - net as at December 31 relate to the following:

	2014	2013
Recognized in Profit and Loss		
Allowance for impairment loss:		
AFS securities	**P2,779,138**	P2,779,138
Insurance and other receivable	**3,302,681**	3,016,104
Deferred acquisition costs - net	**9,615**	483,282
Retirement Liability	**1,197,085**	-
Unrealized gain on investment properties due to change in fair value	**(807,345)**	-
Excess of reserve for unexpired risk	**(3,718,727)**	(7,678,345)
MCIT	**1,292,602**	692,341
NOLCO	**13,424,918**	10,438,563
Amount Charged to Profit and Loss	**17,479,967**	9,731,083
Recognized in OCI		
Reserve for fluctuation in value of AFS securities	**(1,148,267)**	-
Employee benefit reserve	**(4,241,632)**	-
Amount Charged to OCI	**(5,389,899)**	-
	P12,090,068	P9,731,083

The details of the Subsidiary's NOLCO which can be claimed as a credit against future taxable income are as follow:

	Amount	**Balance**		
Year Incurred	Incurred	**2014**	2013	Expiry Date
2013	P34,795,209	**P34,795,209**	P34,795,209	2016
2014	9,954,518	**9,954,518**	-	2017
	P44,749,727	**P44,749,727**	P34,795,209	

The details of the Subsidiary's MCIT which can be claimed as a credit against future tax payable are as follow:

Year Incurred	Amount Incurred	Balance 2014	Balance 2013	Expiry Date
2013	P692,342	**P692,342**	P692,342	2016
2014	600,260	**600,260**	-	2017
	P1,292,602	**P1,292,602**	P692,342	

The Subsidiary opted to use the itemized method of deduction for its income tax returns in 2014 and 2013.

30. Related Party Transactions

The following transactions are carried out with related parties in the separate financial statements:

Category/ Transaction	Year	*Note*	Amount of the Transaction	Outstanding Balance Due to Related Parties	Terms	Conditions
Subsidiary						
Armed Forces and Police General Insurance Corporation						
▪ Insurance expense	**2014**	*a*	**P1,507,750**	**P -**	**On demand; non-interest bearing**	**Unsecured**
	2013	*a*	952,875	-	On demand; non-interest bearing	Unsecured
TOTAL	**2014**		**P1,507,750**	**P -**		
TOTAL	2013		P952,875	P -		

Notes:

a.) The Parent Company has an insurance agreement with its Subsidiary covering certain mortgage loans. Insurance expense included in the separate financial statements amounted to P1.51 million and P0.95 million in 2014 and 2013, respectively.

b.) Salaries and employee benefits includes compensation of key management personnel for the years ended December 31 which consist of the following:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Short-term employee benefits	**P14,658,501**	P39,233,550	**P5,459,024**	P28,547,562
Post-employee benefits	**5,078,232**	8,463,456	**5,078,232**	8,463,456
	P19,736,733	P47,697,006	**P10,537,256**	P37,011,018

c.) On April 28, 2013, the Board of Directors of the Subsidiary approved and declared stock dividends of 75,000 shares of stocks with par value of P1,000 per share to the Parent Company.

The remuneration of the Trustees of the Parent Company amounted to P10.28 million in 2014 and P10.86 million in 2013 while the remuneration of Directors of the Subsidiary amounted to P3.87 million in 2014 and P2.67 million in 2013.

31. Contingencies

As at December 31, 2014, the Subsidiary is contingently liable to the following lawsuits and claims:

- The Subsidiary has various legal proceedings on insurance claims-related and resigned employee claims, arising from the ordinary course of business. Management believes that the ultimate liability for the abovementioned lawsuits and claims, if any, would not be material in relation to the financial position and operating results of the Subsidiary.

- On April 22, 2010, the Subsidiary filed a petition in the Court of Tax Appeal in Quezon City for the cancellation of tax assessment for the year 2006 based on the Formal Letter of Demand received from BIR on April 6, 2010. As at December 31, 2014 and 2013, the Subsidiary recognized a liability for certain portion of the tax deficiencies to which the Management believes they are liable as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

- On December 11, 2013, the Subsidiary received a copy of the Notice of Disallowance (ND) issued by the Commission on Audit (CoA) to Armed Forces of the Philippines (AFP) informing the latter that the amount of P5.75 million representing premiums paid by the AFP to the Subsidiary for the insurance of AFP's properties was disallowed in audit because the insurance of the properties of AFP with the Subsidiary is not in accordance with RA No. 656 dated June 16, 1951. Such transaction pertains to the Fire Insurance of General Headquarters (GHQ) Unified Commands/AFPWSSUs buildings for 2013. On March 12, 2014, the Subsidiary submitted an appeal memorandum to CoA for the petition of ND to clarify the validity of insurance contract with AFP.

  On September 16, 2014, the Subsidiary received a notification dated August 27, 2014 from the Director of Defense and Security National Government Sector (DSNGS) informing that the case has been elevated to the Commission Proper of CoA for automatic review, pursuant to Section 18.5, Chapter IV of the Rules and Regulations on the Settlement of Accounts and Section 7, Rule V of the Revised Rules of Procedure of the CoA. This means that the decision of the Director of DSNGS is favorable to the Subsidiary and AFP.

  The CoA Commission Proper referred the case to the CoA Legal Services Sector (LSS) to review the case. As per follow up at the LSS, the Director III of the LSS had drafted a resolution and forwarded it to the Director IV of LSS. After the review of the Director IV of LSS, the case will be forwarded to the CoA Legal Counsel, then the CoA Legal Counsel will bring the case back to the Commission Proper for deliberation and issuance of the final resolution.

32. Insurance and Financial Risk Management Objectives and Policies

Life Insurance Risk

Nature of Risk

The principal risk the Parent Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Parent Company is to ensure that sufficient reserves are available to cover these liabilities.

Insurance risk includes premium/benefits risk, actuarial reserve risk and reinsurance risk. Premium/benefits risk is the risk of having to pay, from a premium that may be fixed for a specific term, benefits that can be affected by uncontrollable event when they become due. Adequacy of the actuarial reserves is monitored by an in-house actuary on a regular basis in accordance with local regulations. Reinsurance risk arises from underwriting direct business or reinsurance business in relation to reinsurers and brokers.

Monitoring and Controlling

The Parent Company regularly assesses the reserving methodology in accordance with local regulations. Underwriting guidelines and limits for insurance and reinsurance contracts have been well established to clearly regulate responsibility and accountability.

Frequency and Severity of Claims

The frequency and severity of claims is dependent on the type of contracts as follows:

a. For contracts where death is the insured risk, the most significant factor would be epidemics that result in earlier or more claims than expected.

b. For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted.

c. For contracts with discretionary participating feature, the participating nature of these insurance contracts results in a portion of the insurance risk being shared with the insured party.

The Parent Company manages these risks through its underwriting strategy and reinsurance program. However, the risk is also dependent on the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely.

The following represents the Parent Company's concentration of insurance risk as at December 31:

	2014		2013	
	Exposure, Net of Reinsurance	**Concentration**	Exposure, Net of Reinsurance	Concentration
Individual	**P22,785,263,471**	**98%**	P14,094,964,350	97%
Group	**524,300,000**	**2%**	461,450,000	3%
	P23,309,563,471	**100%**	P14,556,414,000	100%

Classification by Attained Age (Based on 2014 Data of Inforce Policies)

The tables below present the concentration of risk across the 14 age brackets. For individual insurance, exposure is concentrated on age brackets less than 20 and from 25-29 to 40-44. For group insurance, exposure is concentrated on age brackets 25-29 and for 40-44 to 55-59.

	Individual			
Attained	**Gross of Reinsurance**		**Net Reinsurance**	
Age	**Exposure**	**Concentration (%)**	**Exposure**	**Concentration (%)**
<20	**P2,567,394,575**	**11.27%**	**P2,567,394,575**	**11.27%**
20 - 24	**1,661,103,005**	**7.29%**	**1,661,103,005**	**7.29%**
25 - 29	**4,517,918,188**	**19.83%**	**4,517,918,188**	**19.83%**
30 - 34	**4,234,994,587**	**18.59%**	**4,234,994,587**	**18.59%**
35 - 39	**3,578,351,311**	**15.70%**	**3,578,351,311**	**15.70%**
40 - 44	**2,539,937,723**	**11.15%**	**2,539,937,723**	**11.15%**
45 - 49	**1,923,604,206**	**8.44%**	**1,923,604,206**	**8.44%**
50 - 54	**1,380,469,690**	**6.06%**	**1,380,469,690**	**6.06%**
55 - 59	**273,619,333**	**1.20%**	**273,619,333**	**1.20%**
60 - 64	**63,505,330**	**0.28%**	**63,505,330**	**0.28%**
65 - 69	**22,848,184**	**0.10%**	**22,848,184**	**0.10%**
70 - 74	**9,568,476**	**0.04%**	**9,568,476**	**0.04%**
75 - 79	**5,207,036**	**0.02%**	**5,207,036**	**0.02%**
80+	**6,741,827**	**0.03%**	**6,741,827**	**0.03%**
Total	**P22,785,263,471**	**100.00%**	**P22,785,263,471**	**100.00%**

	Group			
Attained	**Gross of Reinsurance**		**Net Reinsurance**	
Age	**Exposure**	**Concentration (%)**	**Exposure**	**Concentration (%)**
<20	**P -**	**0.00%**	**P -**	**0.00%**
20 - 24	**13,950,000**	**2.66%**	**13,950,000**	**2.66%**
25 - 29	**55,450,000**	**10.58%**	**55,450,000**	**10.58%**
30 - 34	**47,550,000**	**9.07%**	**47,550,000**	**9.07%**
35 - 39	**48,100,000**	**9.17%**	**48,100,000**	**9.17%**
40 - 44	**67,300,000**	**12.84%**	**67,300,000**	**12.84%**
45 - 49	**104,300,000**	**19.89%**	**104,300,000**	**19.89%**
50 - 54	**116,500,000**	**22.22%**	**116,500,000**	**22.22%**
55 - 59	**63,000,000**	**12.02%**	**63,000,000**	**12.02%**
60 - 64	**8,150,000**	**1.55%**	**8,150,000**	**1.55%**
65 - 99	**-**	**0.00%**	**-**	**0.00%**
70 - 74	**-**	**0.00%**	**-**	**0.00%**
75 - 79	**-**	**0.00%**	**-**	**0.00%**
80+	**-**	**0.00%**	**-**	**0.00%**
Total	**P524,300,000**	**100.00%**	**P524,300,000**	**100.00%**

Classification by Attained Age (Based on 2013 Data of Inforce Policies)

The tables below present the concentration of risk across the 14 age brackets. For individual insurance, exposure is concentrated on age brackets 25-29 to 40-44. For group insurance, exposure is concentrated on age brackets 35-39 to 50-54.

	Individual			
Attained	Gross of Reinsurance		Net Reinsurance	
Age	Exposure	Concentration (%)	Exposure	Concentration (%)
<20	P1,235,970,657	8.77%	P1,235,970,657	8.77%
20 - 24	1,388,154,706	9.85%	1,388,154,706	9.85%
25 - 29	2,834,213,661	20.11%	2,834,213,661	20.11%
30 - 34	2,717,219,495	19.28%	2,717,219,495	19.28%
35 - 39	2,247,247,844	15.95%	2,247,247,844	15.95%
40 - 44	1,620,100,283	11.49%	1,620,100,283	11.49%
45 - 49	1,242,236,092	8.81%	1,242,236,092	8.81%
50 - 54	643,165,481	4.56%	643,165,481	4.56%
55 - 59	128,604,430	0.91%	128,604,430	0.91%
60 - 64	23,190,128	0.16%	23,190,128	0.16%
65 - 69	7,970,398	0.06%	7,970,398	0.06%
70 - 74	3,691,924	0.03%	3,691,924	0.03%
75 - 79	1,433,807	0.01%	1,433,807	0.01%
80 +	1,765,444	0.01%	1,765,444	0.01%
Total	P14,094,964,350	100.00%	P14,094,964,350	100.00%

	Group			
Attained	Gross of Reinsurance		Net Reinsurance	
Age	Exposure	Concentration (%)	Exposure	Concentration (%)
<20	P17,600,000	3.81%	P17,600,000	3.81%
20 - 24	34,500,000	7.48%	34,500,000	7.48%
25 - 29	43,550,000	9.44%	43,550,000	9.44%
30 - 34	33,700,000	7.30%	33,700,000	7.30%
35 - 39	76,950,000	16.67%	76,950,000	16.67%
40 - 44	96,750,000	20.97%	96,750,000	20.97%
45 - 49	106,900,000	23.17%	106,900,000	23.17%
50 - 54	51,500,000	11.16%	51,500,000	11.16%
55 - 59	-	0.00%	-	0.00%
60 - 64	-	0.00%	-	0.00%
65 - 99	-	0.00%	-	0.00%
70 - 74	-	0.00%	-	0.00%
75 - 79	-	0.00%	-	0.00%
80+	-	0.00%	-	0.00%
Total	P461,450,000	100.00%	P461,450,000	100.00%

Source of Uncertainty in the Estimation of Future Claim Payment

Estimation of future claim payments and premium receipts is subject to unpredictability of changes in mortality and morbidity levels. The Parent Company adopts standard industry data in assessing future benefit payments and premium receipts as approved by the Insurance Commission. Adjustments are made, if necessary, according to the experience of the Parent Company.

For individual life insurance, no adjustment is made by the Parent Company to the standard mortality table. For group life, accident and health insurance, the mortality table is adjusted to reflect the Parent Company's actual and projected experience which are given weights or credibility depending on the amount and length of exposure under consideration. The Parent Company currently monitors its actual experience on individual business on a per policy basis and on an aggregate basis, and reporting the same to management.

The liability for these contracts comprises the IBNR provision, a provision for reported claims not yet paid and a provision for unexpired risk at reporting dates. The IBNR provision is based on historical experience and is subject to a degree of uncertainty.

Non-life Insurance Risk

The major classes of general insurance written by the Subsidiary include fire, motor car, marine, and bonds. Risks under these policies usually cover 12-month duration. The risks under insurance contracts is the possibility of occurrence of insured event and uncertainty of the amount and timing of resulting claims. The primary risk the Subsidiary faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. By the very nature of insurance contracts, this risk is random and therefore, unpredictable.

The Subsidiary manages insurance risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The Subsidiary has developed its non-life insurance underwriting strategy to diversify the type of insurance risk accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate non-life insurance risk include lack of diversification in terms of type and amount of risk, geographical location and type of industry covered. The Subsidiary's major strategy is geared towards a wide premium base from both commercial and personal lines so that there is a sufficient spread of risks in its book to cushion the adverse effects of catastrophic losses.

The Subsidiary's premiums per line of risk are shown below:

	For the Year Ended December 31, 2014			
Line of Risk	**Direct Premiums Written**	**Premiums Assumed**	**Premiums Ceded**	**Retention**
Motor car	**P27,813,708**	**P10,406,646**	**P88,878**	**P38,131,476**
Fire	**16,463,617**	**5,465,745**	**7,656,626**	**14,272,736**
Bonds	**6,516,362**	**1,246,828**	**803,967**	**6,959,223**
Marine cargo	**9,988,304**	**176,999**	**7,256,746**	**2,908,557**
Miscellaneous	**3,416,532**	**370,289**	**1,610,510**	**2,176,311**
	P64,198,523	**P17,666,507**	**P17,416,727**	**P64,448,303**

	For the Year Ended December 31, 2013			
Line of Risk	Direct Premiums Written	Premiums Assumed	Premiums Ceded	Retention
Fire	P61,439,877	P7,444,644	P20,477,568	P48,406,953
Motor car	39,358,060	807,605	412,901	39,752,764
Bonds	5,447,900	1,480,761	579,968	6,348,693
Marine cargo	72,009	63,000	-	135,009
Miscellaneous	45,451,197	2,033,380	29,477,033	18,007,544
	P151,769,043	P11,829,390	P50,947,470	P112,650,963

Exposure to loss within non-life insurance operations is also limited through participation in reinsurance arrangements. This does not, however, discharge the Subsidiary from its liability as primary insurer. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented as part of "Insurance receivables" account in the statements of financial position. If a reinsurer fails to pay a claim for any reason, the Subsidiary remains liable for the payment to the policyholder. The creditworthiness of reinsurers is evaluated on an annual basis by reviewing their financial strength prior to finalization of any contract.

The reinsurance business being accepted by the Subsidiary is properly evaluated by a committee, composed of the underwriter, the reinsurance head and the operations head. The business being written by the Subsidiary, on the other hand, is adequately reinsured to licensed and financially stable reinsurers.

The following tables set out the concentration of the claims liabilities by type of contract:

	December 31, 2014		
	Gross Claims Liabilities*	**Reinsurers' Share of Claims Liabilities**	**Net Claims Liabilities**
Fire	**P48,583,475**	**P26,152,550**	**P22,430,925**
Bonds	**19,865,721**	**2,804,800**	**17,060,921**
Marine cargo/aviation	**27,067,400**	**24,300,000**	**2,767,400**
Motor car	**20,766**	**-**	**20,766**
Miscellaneous	**3,583,547**	**1,500,000**	**2,083,547**
	P99,120,909	**P54,757,350**	**P44,363,559**

**Excluding IBNR*

	December 31, 2013		
	Gross Claims Liabilities*	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	P72,107,065	P26,711,843	P45,395,222
Motor car	1,241,506	-	1,241,506
Bonds	24,049,483	2,804,800	21,244,683
Marine cargo/aviation	3,000,000	-	3,000,000
Miscellaneous	1,799,215	1,500,000	299,215
	P102,197,269	P31,016,643	P71,180,626

**Excluding IBNR*

Terms and Conditions
The major classes of general insurance written by the Subsidiary include motor, fire and marine insurance. Risks under these policies usually cover a twelve-month duration.

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

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported.

The measurement process primarily includes projection of future claim costs through a statistical projection technique. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by class of business. In addition, larger claims are usually separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

Key Assumptions
The principal assumptions underlying the estimates made by the Subsidiary depend on the past claim experience and industry levels. These include assumptions in respect to average claims costs, inflation factor, claim number for each accident year and handling cost. Judgment is used to assess the extent to which external factors such as judicial decision and government legislation affect the estimates.

Sensitivity Analysis
The General Insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, among others is not possible to quantify.

Claims Development Table
The Subsidiary aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. Amounts of estimate at the accident year were based from adjusters' report who handles major accounts of the Subsidiary, usually for fire and marine claims. Other estimates are based on reasonable approximation after doing thorough evaluation of reported claims. Adjustments to actual claims versus the loss reserves are made in the year the ultimate cost of claim becomes more certain. Reserves are either released or increased depending on the amount. In accordance with the claims development methodology described earlier, the Subsidiary has come out with the following claims development table:

	Gross Insurance Contract Liabilities for 2014					
Accident Year	**2010 and Prior Years**	**2011**	**2012**	**2013**	**2014**	**Total**
Estimate of ultimate claims costs at the end of accident year	**P47,102,773**	**P15,790,726**	**P19,068,800**	**P66,802,339**	**P16,606,439**	**P16,606,439**
One year later	**28,290,203**	**7,527,425**	**3,069,400**	**94,682,248**	**-**	**94,682,248**
Two years later	**20,841,941**	**15,261**	**1,699,216**	**-**	**-**	**1,699,216**
Three years later	**20,489,380**	**44,643**	**-**	**-**	**-**	**44,643**
Four years later	**19,660,308**	**-**	**-**	**-**	**-**	**19,660,308**
Current estimate of cumulative claims	**19,660,308**	**44,643**	**1,699,216**	**94,682,248**	**16,606,439**	**132,692,854**
Cumulative payments to date	**-**	**44,643**	**199,216**	**20,373,210**	**9,951,271**	**30,568,340**
Liability recognized in the statements of financial position	**P19,660,308**	**P -**	**P1,500,000**	**P74,309,038**	**P6,655,168**	**P102,124,514**

	Gross Insurance Contract Liabilities for 2013					
Accident Year	2009 and Prior Years	2010	2011	2012	2013	Total
Estimate of ultimate claims costs at the end of accident year	P57,909,707	P3,883,393	P15,790,726	P23,389,095	P88,970,866	P88,970,866
One year later	35,433,962	8,082,107	7,527,425	14,443,717	-	14,443,717
Two years later	12,823,265	1,711,806	142,304	-	-	142,304
Three years later	17,843,703	1,691,433	-	-	-	1,691,433
Four years later	18,797,947	-	-	-	-	18,797,947
Current estimate of cumulative claims	18,797,947	1,691,433	142,304	14,443,717	88,970,866	124,046,267
Cumulative payments to date	-	-	127,042	11,374,317	7,808,277	19,309,636
Liability recognized in the statements of financial position	P18,797,947	P1,691,433	P15,262	P3,069,400	P81,162,589	P104,736,631

Claims and benefits payable of P102.12 million and P104.74 million as at December 31, 2014 and 2013, respectively, includes an estimated IBNR of P3.00 million and P2.54 million, respectively. Recoveries from reinsurers amounted to P54.76 million and P31.02 million for 2014 and 2013, respectively. Hence, net claims and benefits payable as at December 31, 2014 and 2013 amounted to P47.37 million and P73.72 million, respectively (see Note 20).

Details of the net loss presented in the following table reflect the cumulative incurred claims, including both claims notified and claims IBNR, for each successive accident year at each reporting date, together with the cumulative payments to date.

	Net Insurance Contract Liabilities for 2014					
Accident Year	**2010 and Prior Years**	**2011**	**2012**	**2013**	**2014**	**Total**
Estimate of ultimate claims costs at the end of accident year	**P5,386,246**	**P6,593,218**	**P4,800,000**	**P26,148,918**	**P -**	**P -**
One year later	**3,870,087**	**-**	**1,500,000**	**40,925,533**	**-**	**40,925,533**
Two years later	**3,194,205**	**125**	**1,500,000**	**-**	**-**	**1,500,000**
Three years later	**3,367,326**	**-**	**-**	**-**	**-**	**-**
Four years later	**6,910,307**	**-**	**-**	**-**	**-**	**6,910,307**
Current estimate of cumulative claims	**6,910,307**	**-**	**1,500,000**	**40,925,533**	**-**	**49,335,840**
Cumulative payments to date	**-**	**-**	**-**	**1,909,208**	**56,696**	**1,965,904**
Liability recognized in the statements of financial position	**P6,910,307**	**P -**	**P1,500,000**	**P39,016,325**	**(P56,696)**	**P47,369,936**

	Net Insurance Contract Liabilities for 2013					
Accident Year	2009 and Prior Years	2010	2011	2012	2013	Total
Estimate of ultimate claims costs at the end of accident year	P46,651,245	P3,753,740	P 9,197,508	P18,586,323	P68,852,537	P68,852,537
One year later	23,889,526	7,410,409	7,527,425	1,500,000	-	1,500,000
Two years later	9,673,184	1,711,806	680,684	-	-	680,684
Three years later	14,917,595	1,503,095	-	-	-	1,503,095
Four years later	2,966,336	-	-	-	-	2,966,336
Current estimate of cumulative claims	2,966,336	1,503,095	680,684	1,500,000	68,852,537	75,502,652
Cumulative payments to date	97,818	1,004,287	680,559	-	-	1,782,664
Liability recognized in the statements of financial position	P2,868,518	P498,808	P125	P1,500,000	P68,852,537	P73,719,988

Financial Risk Management

The Group and the Parent Company's risk management program is a continuing, proactive and systematic process that focuses on the identification and assessment of risks. To enable management to make strategic and informed decisions, the Group and the Parent Company recognize the importance of an effective financial risk management program.

The BOT adopted a number of policies to address these financial risks and their effects on financial performance. Risk management is carried out by the Finance Department and significant exposures are discussed in the BOT meetings.

Financial Instruments

Fair Values and Carrying Amount

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- Cash and cash equivalents and premiums due and insurance balances, receivables, other receivables and other financial liabilities - carrying amount approximate fair values at reporting dates due to the relative short-term maturities of these financial assets and liabilities.

- AFS securities and financial assets at FVPL - fair values are based on quoted market prices.

- HTM investments and loans receivables - the fair values are determined by computing the present value of the expected future cash flows of the loans using the predetermined market rate for similar instrument as discount rate.

Fair Value Hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method as at December 31, 2014 and 2013. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- 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).

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

	Consolidated			
	Level 1	**Level 2**	**Level 3**	**Total**
AFS Securities				
2014	**P1,775,462,042**	**P162,715,518**	**P -**	**P1,938,177,560**
2013	1,094,387,440	117,893,158	-	1,212,280,598
Financial Assets at FVPL				
2014	**34,915,424**	**-**	**-**	**34,915,424**
2013	26,828,833	-	-	26,828,833

	Separate			
	Level 1	**Level 2**	**Level 3**	**Total**
AFS Securities				
2014	**P1,554,962,504**	**P -**	**P -**	**P1,554,962,504**
2013	1,035,828,132	-	-	1,035,828,132
Financial Assets at FVPL				
2014	**34,915,424**	**-**	**-**	**34,915,424**
2013	26,828,833	-	-	26,828,833

AFS Securities
Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. The market price reference in determining the market values is derived from Philippine Dealings and Exchange Corporation (PDEX) as at December 29, 2014.

<u>Financial Risk</u>
The Group and the Parent Company are exposed to financial risk through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations to the Group and the Parent Company's members and policyholders. The most important components of these financial risk are credit risk, liquidity risk and market risk.

Market risks arise from open positions in interest rate, currency and equity prices, all of which are exposed to general and specific market movements. The risk that the Group and the Parent Company primarily face due to the nature of its investments and liabilities is price risk and interest rate risk, respectively.

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group and the Parent Company manage the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group and the Parent Company; setting up of exposure limits by each counterparty or group of counterparties; right of offset where counterparties are both debtors and creditors; reporting of credit risk exposures; monitoring compliance with credit policy; and review of credit risk policy for pertinence and changing environment.

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

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

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are netted off against amounts receivable from them to reduce the risk of doubtful debts. The credit risk in respect of member balances, incurred on nonpayment of fees, will only persist during the grace period specified in the agreement.

The Group and the Parent Company strictly monitor the status of the financial assets and regularly evaluates the financial condition of the counterparties, provides the necessary allowance to the extent of the amount deemed unrecoverable.

The Group and the Parent Company's maximum exposure to credit risk is presented gross of allowance for impairment loss.

The table below provides information regarding the credit quality of the Group and the Parent Company by classifying assets according to the Group and the Parent Company's credit ratings of counterparties:

Consolidated

	December 31, 2014			
	Neither Past Due nor Impaired			
	Satisfactory	**Unsatisfactory**	**Past Due**	**Total**
Cash and cash equivalents*	**P1,248,634,664**	**P -**	**P -**	**P1,248,634,664**
Short-term investments	**150,000,000**	**-**	**-**	**150,000,000**
AFS securities	**27,990**	**-**	**-**	**27,990**
HTM investments	**1,478,009,864**	**-**	**-**	**1,478,009,864**
Loans and receivables:				
Loan receivables	**7,082,263,460**	**-**	**137,816,432**	**7,220,079,892**
Premiums due and insurance receivables	**16,289,702**	**-**	**7,858,513**	**24,148,215**
Other receivables	**70,179,200**	**-**	**7,051,106**	**77,230,306**
Total	**P10,045,404,880**	**P -**	**P152,726,051**	**P10,198,130,931**

**Excluding cash on hand*

	December 31, 2013			
	Neither Past Due nor Impaired			
	Satisfactory	Unsatisfactory	Past Due	Total
Cash and cash equivalents*	P1,494,815,674	P -	P -	P1,494,815,674
HTM investments	1,235,472,453	-	-	1,235,472,453
Loans and receivables:				
Loan receivables	6,597,351,962	-	121,394,773	6,718,746,735
Premiums due and insurance receivables	9,616,247	-	6,600,244	16,216,247
Other receivables	57,387,514	-	7,819,152	65,206,666
Total	P9,394,643,850	P -	P135,814,169	P9,530,457,775

**Excluding cash on hand*

Separate

	December 31, 2014			
	Neither Past Due nor Impaired			
	Satisfactory	**Unsatisfactory**	**Past Due**	**Total**
Cash and cash equivalents*	**P1,165,925,312**	**P -**	**P -**	**P1,165,925,312**
Short-term investments	**150,000,000**	**-**	**-**	**150,000,000**
HTM investments	**1,410,908,057**	**-**	**-**	**1,410,908,057**
Loans and receivables:				
Loan receivables	**7,082,263,460**	**-**	**137,816,432**	**7,220,079,892**
Premiums due and insurance receivables	**1,106,874**	**-**	**-**	**1,106,874**
Other receivables	**62,370,157**	**-**	**3,900,751**	**66,270,908**
Total	**P9,872,573,860**	**P -**	**P141,717,183**	**P10,014,291,043**

**Excluding cash on hand*

	December 31, 2013			
	Neither Past Due nor Impaired			
	Satisfactory	Unsatisfactory	Past Due	Total
Cash and cash equivalents*	P1,387,430,846	P -	P -	P1,387,430,846
HTM investments	1,127,537,499	-	-	1,127,537,499
Loans and receivables:				
Loan receivables	6,597,351,962	-	121,394,773	6,718,746,735
Premiums due and insurance receivables	2,186,350	-	-	2,186,350
Other receivables	54,427,071	-	4,365,715	58,792,786
Total	P9,168,933,728	P -	P125,760,488	P9,294,694,216

**Excluding cash on hand*

The Group and the Parent Company use a credit rating concept based on the borrowers and counterparties' overall creditworthiness. A satisfactory rating is given to borrowers and counterparties who possess strong to very strong capacity to meet their obligations in accordance with the agreed terms and conditions and unsatisfactory rating to borrowers and counterparties who possess average capacity.

In accordance with the foregoing credit rating framework, the Group and the Parent Company have arrived at the following analysis of financial assets that are past-due:

Consolidated

	December 31, 2014						
	Age Analysis of Financial Assets Past Due but not Impaired				**Total Past Due but not Impaired**	**Past Due and Impaired**	**Total**
	7 to12 Mos	**13 to 24 Mos**	**25 to 36 Mos**	**>36 Mos**			
Financial assets:							
Loans and receivables	**P109,218,643**	**P134,112,564**	**P60,984,316**	**P125,754,152**	**P430,069,675**	**P137,816,432**	**P567,886,107**
Premiums due and insurance receivables	**-**	**-**	**-**	**-**	**-**	**7,858,513**	**7,858,513**
Other receivables	**2,173,167**	**4,507,334**	**9,636,992**	**-**	**16,317,493**	**7,051,106**	**23,368,599**
Total	**P111,391,810**	**P138,619,898**	**P70,621,308**	**P125,754,152**	**P446,387,168**	**P152,726,051**	**P599,113,219**

	December 31, 2013						
	Age Analysis of Financial Assets Past Due but not Impaired				Total Past Due but not Impaired	Past Due and Impaired	Total
	7 to12 Mos	13 to 24 Mos	25 to 36 Mos	>36 Mos			
Financial assets:							
Loans and receivables	P134,707,213	P102,215,729	P47,502,076	P72,431,137	P356,856,155	P121,394,773	P478,250,928
Premiums due and insurance receivables	-	-	-	-	-	6,600,244	6,600,244
Other receivables	-	-	-	-	-	7,819,152	7,819,152
Total	P44,943,212	P103,073,726	P48,483,966	P72,431,137	P356,856,155	P135,814,169	P492,670,324

Separate

	December 31, 2014						
	Age Analysis of Financial Assets Past Due but not Impaired				**Total Past Due but not Impaired**	**Past Due and Impaired**	**Total**
	7 to12 Mos	**13 to 24 Mos**	**25 to 36 Mos**	**>36 Mos**			
Financial assets:							
Loans and receivables	**P109,218,643**	**P134,112,564**	**P60,984,316**	**P125,754,152**	**P430,069,675**	**P137,816,432**	**P567,886,107**
Other receivables	**2,173,167**	**4,507,334**	**9,636,992**	**-**	**16,317,493**	**3,900,751**	**20,218,244**
Total	**P111,391,810**	**P138,619,898**	**P70,621,308**	**P125,754,152**	**P446,387,168**	**P141,717,183**	**P588,104,351**

	December 31, 2013						
	Age Analysis of Financial Assets Past Due but not Impaired				Total Past Due but not Impaired	Past Due and Impaired	Total
	7 to12 Mos	13 to 24 Mos	25 to 36 Mos	>36 Mos			
Financial assets:							
Loans and receivables	P134,707,213	P102,215,729	P47,502,076	P72,431,137	P356,856,155	P121,394,773	P478,250,928
Other receivables	-	-	-	-	-	4,365,715	4,365,715
Total	P134,707,213	P102,215,729	P47,502,076	P72,431,137	P356,856,155	P125,760,488	P482,616,643

Liquidity Risk

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

The major liquidity risk confronting the Group and the Parent Company is the daily calls on its available cash resources in respect of claims from members and policyholders.

The Group and the Parent Company manage liquidity risks through specifying a minimum proportion of funds to meet operational requirements; specifying the sources of funding; concentration of funding sources; reporting of liquidity risk exposures; monitoring compliance with liquidity risk policy; and reviewing the liquidity risk policy for pertinence and changing environment.

The Subsidiary also manages its liquidity by carefully monitoring schedules of debt servicing payments of long-term financial liabilities as well as cash outflows due on a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Subsidiary maintains cash to meet its liquidity requirements for up to 60 days. Excess cash is invested in time deposits or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The table below analyzes the financial assets and liabilities of the Group and the Parent Company into their relevant maturity groups using contractual undiscounted amounts based on the remaining period at the reporting dates to their contractual maturities or based on the estimated timing of the net cash outflows:

Consolidated

	December 31, 2014			
	Up to a Year*	1-5 Years	Over 5 Years	Total
Cash and cash equivalents	P1,256,420,000	P -	P -	P1,256,420,000
Short-term investments	150,000,000	-	-	150,000,000
Financial assets at FVPL	34,915,424	-	-	34,915,424
AFS securities	1,938,345,550	-	-	1,938,345,550
HTM investments	243,259,864	608,750,000	626,000,000	1,478,009,864
Loan receivables - net	4,292,099,119	2,766,969,507	23,194,834	7,082,263,460
Premiums due and insurance balance receivables - net	8,987,856	7,076,047	225,799	16,289,702
Other receivables - net	69,477,738	701,462	-	70,179,200
Total Financial Assets	7,993,505,551	3,383,497,016	649,420,633	12,026,423,200
Claims and benefits payable	328,661,039	75,809,038	-	404,470,077
Accounts payable and accrued expenses**	664,866,452	1,182,077	-	666,048,529
Due to reinsurers and ceding companies	5,161,783	3,030	-	5,164,813
Funds held for reinsurers	25,441,850	-	-	25,441,850
Reserve for refund of members' equity	1,496,624,713	-	-	1,496,624,713
Dividends payable	261,832,278	-	-	261,832,278
Total Financial Liabilities	2,782,588,115	76,994,145	-	2,859,582,260
Net Liquidity	P5,210,917,436	P3,306,502,871	P649,420,633	P9,166,840,940

** Including all commitments which are either due within the time frame or are payable on demand.*
***Excluding taxes payable*

	December 31, 2013			
	Up to a Year*	1-5 Years	Over 5 Years	Total
Cash and cash equivalents	P1,502,725,174	P -	P -	P1,502,725,174
Financial assets at FVPL	26,828,833	-	-	26,828,833
AFS securities	1,212,420,597	-	-	1,212,420,597
HTM investments	90,194,683	690,277,770	455,000,000	1,235,472,453
Loan receivables - net	1,113,152,817	4,257,819,577	1,226,379,568	6,597,351,962
Premiums due and insurance balance receivables - net	40,632,890	-	-	40,632,890
Other receivables - net	57,387,514	-	-	57,387,514
Total Financial Assets	4,043,342,508	4,948,097,347	1,681,379,568	10,672,819,423
Claims and benefits payable	342,183,353	23,596,961	-	365,780,314
Accounts payable and accrued expenses**	613,119,028	-	-	613,119,028
Due to reinsurers and ceding companies	2,911,318	-	-	2,911,318
Funds held for reinsurers	4,744,559	-	-	4,744,559
Dividends payable	228,659,558	-	-	228,659,558
Reserve for refund of members' equity	1,273,449,537	-	-	1,273,449,537
Total Financial Liabilities	2,465,067,353	23,596,961	-	2,488,664,314
Net Liquidity	P1,578,275,155	P4,924,500,386	P1,681,379,568	P8,184,155,109

* *Including all commitments which are either due within the time frame or are payable on demand.*
***Excluding taxes payable*

Separate

	December 31, 2014			
	Up to a Year*	**1-5 Years**	**Over 5 Years**	**Total**
Cash and cash equivalents	**P1,173,506,648**	**P -**	**P -**	**P1,173,506,648**
Short-term investments	**150,000,000**	**-**	**-**	**150,000,000**
Financial assets at FVPL	**34,915,424**	**-**	**-**	**34,915,424**
AFS securities	**1,554,962,504**	**-**	**-**	**1,554,962,504**
HTM investments	**196,158,057**	**598,750,000**	**616,000,000**	**1,410,908,057**
Loans and receivables - net	**4,292,099,119**	**2,766,969,507**	**23,194,834**	**7,082,263,460**
Premiums due and insurance balance receivables - net	**1,106,874**	**-**	**-**	**1,106,874**
Other receivables - net	**62,370,157**	**-**	**-**	**62,370,157**
Total Financial Assets	**7,465,118,783**	**3,365,719,507**	**639,194,834**	**11,470,033,124**
Claims and benefits payable	**302,345,563**	**-**	**-**	**302,345,563**
Accounts payable and accrued expenses**	**653,048,951**	**-**	**-**	**653,048,951**
Dividends payable	**261,832,278**	**-**	**-**	**261,832,278**
Reserve for refund of members' equity	**1,496,624,713**	**-**	**-**	**1,496,624,713**
Total Financial Liabilities	**2,713,851,505**	**-**	**-**	**2,713,851,505**
Net Liquidity	**P4,751,267,278**	**P3,365,719,507**	**P639,194,834**	**P8,756,181,619**

* *Including all commitments which are either due within the time frame or are payable on demand.*
***Excluding taxes payable*

	December 31, 2013			
	Up to a Year*	1-5 Years	Over 5 Years	Total
Cash and cash equivalents	P1,395,158,346	P -	P -	P1,395,158,346
Financial assets at FVPL	26,828,833	-	-	26,828,833
AFS securities	1,035,828,132	-	-	1,035,828,132
HTM investments	50,000,000	632,537,499	445,000,000	1,127,537,499
Loans and receivables - net	1,113,152,817	4,257,819,577	1,226,379,568	6,597,351,962
Premiums due and insurance balance receivables - net	2,186,350	-	-	2,186,350
Other receivables - net	54,427,071	-	-	54,427,071
Total Financial Assets	3,677,581,549	4,890,357,076	1,671,379,568	10,239,318,193
Claims and benefits payable	261,043,682	-	-	261,043,682
Accounts payable and accrued expenses**	605,634,979	-	-	605,634,979
Dividends payable	228,659,558	-	-	228,659,558
Reserve for refund of members' equity	1,273,449,537	-	-	1,273,449,537
Total Financial Liabilities	2,368,787,756	-	-	2,368,787,756
Net Liquidity	P1,308,793,793	P4,890,357,076	P1,671,379,568	P7,870,530,437

** Including all commitments which are either due within the time frame or are payable on demand.*
***Excluding taxes payable*

Market Risk
Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, interest rate risk and price risk.

The following policies and procedures are in place to mitigate the Group and the Parent Company's exposure to market risk:

- Market risk policy which sets out the assessment and determination of what constitutes market risk for the Group and the Parent Company. Compliance with the policy is monitored and exposures and breaches are reported to the management committee. The policy is reviewed regularly for pertinence and changes in the risk environment.

- Asset allocation and portfolio limit structures are established to ensure that assets back specific liabilities.

- Diversification benchmarks by type of instrument are established.

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

The Group and the Parent Company are not exposed to currency risk having no material transaction in foreign currency and financial assets or liabilities denominated in foreign currency.

Interest Rate Risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group and the Parent Company's fixed rate investments and receivables in particular are exposed to fair value interest rate risk.

Long-term investments in bonds have fixed rates of interest and the Group has not entered into derivative transactions to manage interest rate risk.

The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration on the maturity profile of the security.

The Group and the Parent Company are not significantly affected by changes in interest rates because of its immaterial exposure on the revaluation of financial assets subject to interest rate risk.

Price Risk
The Group and the Parent Company's price risk exposure at year-end relate to financial assets whose values will fluctuate as a result of changes in market prices, principally, listed equity securities classified as AFS securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Group and the Parent Company's market risk policy require it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, and limits on investment in each sector and market.

A 5% increase in stock prices would have increased carrying values of the investments of the Group and the Parent Company at P28.96 million and P11.63 million, and P9.76 million and P2.83 million as at December 31, 2014 and 2013, respectively. An equal change in the opposite direction would have decreased the carrying values of these investments by an equal but opposite amount.

In 2014 and 2013, the Group determined the reasonably possible change in Philippine Stock Exchange (PSE) Index based on the historical fluctuation of equity securities the Group holds as of the reporting date.

33. Capital Management Objectives, Policies and Procedures

Management closely monitors the Group and the Parent Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The Group and the Parent Company's capital management objectives are:

- to ensure the Group and the Parent Company's ability to continue as a going concern; and

- to provide an adequate return to members and stakeholders by complying with the capital requirements and limitation enforced by the Insurance Commission and by aligning the Group and the Parent Company's operational strategy to its corporate goals.

The Group and the Parent Company consider its entire equity as its capital. As at December 31, 2014, there is no change in the capital management policy of the Group and the Parent Company. The capital requirements and limitation are as follows:

Risk-Based Capital Requirements
Parent Company
As per Insurance Commission Memorandum Circular (IMC) No. 11-2006, every mutual benefit entity is annually required to maintain a minimum Risk Based Capital (RBC) ratio of 100% and not to fail the trend test. RBC ratio is computed using the formula prescribed by the Insurance Commission. 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 Insurance Commission. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

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

The RBC ratio shall be calculated as networth divided by the RBC requirement. Networth shall include the subsidiary's paid-up capital, capital in excess of par, contributed and contingency surplus and retained earnings. Revaluation and fluctuation reserve accounts shall form part of networth only to the extent authorized by the IC.

RBC requirement is calculated based on a formula contained in IMC 7-2006. Specific instructions are provided for the computation of data that will be incorporated in the RBC requirements. The RBC requirements classified instruments and insurance risks into: R1 - Fixed Income Securities, R2 - Equity Securitites, R3 - Credit Risk, R4 - Loss Reserves and R5 - Net Written Premiums.

As at December 31, 2014 and 2013, the Parent Company and the Subsidiary have complied with the RBC ratio requirement based on their internal computation.

The following table shows how the RBC ratio as calculated by the Parent Company and the Subsidiary:

	Parent Company		**Subsidiary**	
	2014	2013	**2014**	2013
Equity	**P3,114,144,479**	P3,080,665,783	**P510,269,179**	P319,631,791
RBC requirement	**1,521,288,298**	1,147,940,838	**52,476,296**	55,104,476
RBC ratio	**205%**	268%	**972%**	580%

The final amount of the RBC ratio can be determined only after the accounts have been examined by the Insurance Commission specifically as to admitted and non-admitted assets as defined under the same code.

Limitation on Dividend Declaration
Section 201 of the Insurance Code provides that no domestic insurance corporation shall declare or distribute dividends on its outstanding stock unless it has met the minimum paid-up capital and net worth requirements 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 margin of solvency required;
- the legal reserve fund required; and
- A sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

The Group and the Parent Company complied with the above limitation on dividend declaration.

Net Worth Requirements
Under the Insurance Code, every insurance company doing business in the Philippines is required to comply with the following net worth requirements:

Net Worth	Compliance Date
P250,000,000	On or before June 30, 2013
550,000,000	On or before December 31, 2016
900,000,000	On or before December 31, 2019
1,300,000,000	On or before December 31, 2022

Margin of Solvency
Under the 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.

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

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

As at December 31, 2014 and 2013, the Group and the Company complied with the MOS requirement of the Insurance Commission.

34. Lease Commitments

a. Operating Leases - Group and the Parent Company as Lessor

   The Group and the Parent Company have entered into various lease agreements on its investment properties which it considers as operating lease. These have remaining terms ranging from 1 to 5 years. The lease may be renewed under mutually acceptable terms and conditions.

Future minimum rental income receivable as at December 31, 2014 and 2013 are as follows:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Not later than one year	**P7,761,674**	P6,731,832	**P6,492,187**	P5,212,850
Later than one year and not later than five years	**153,084,773**	79,983,307	**151,475,773**	78,374,307
Total	**P160,846,447**	P86,715,139	**P157,967,960**	P83,587,157

Total rental income in 2014 and 2013 amounted to P29.01 million and P27.3 million, respectively, in the consolidated financial statements and P27.74 million and P26.18 million, respectively in the separate financial statements.

b. Operating Leases - Group and the Parent Company as Lessee

The Group and Parent Company lease the premises of its regional offices with various maturities that are renewable under certain terms and conditions. Rental expense amounted to P4.46 million and P3.19 million in 2013 and 2012, respectively, in the consolidated financial statements and P4.39 million and P3.19 million respectively, in the separate financial statements and is shown as part of the "General and administrative expenses" account in the consolidated and separate statements of income.

The basic lease period ranges from 1 to 5 years. Most of the lease agreements contain renewal options which provide for the right to extend the lease for varying periods at terms agreeable with the lessors.

The future minimum lease payments under non-cancellable operating leases are as follows:

	Consolidated		Separate	
	2014	2013	**2014**	2013
Not later than one year	**P2,073,799**	P1,767,387	**P2,073,799**	P1,767,387
Later than one year and not later than five years	**262,308**	690,529	**262,308**	690,529
Total	**P2,336,107**	P2,457,916	**P2,336,107**	P2,457,916

35. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010 of the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the separate financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the separate financial statements which were prepared in accordance with PFRS. The following are the Parent Company's tax information required for the taxable year ended December 31, 2014:

A. Value Added Tax (VAT)

	2014
1. Output VAT	
Account title used:	
Basis of the Output VAT:	
Vatable sales	**P30,216,816**
Exempt sales	**-**
Zero rated sales	**-**
	P3,626,018
2. Input VAT	
Beginning of the year	**P1,543,410**
Current year's domestic purchases:	**-**
a. Services lodged under cost of goods sold	**1,432,380**
Claims for tax credit/refund and other adjustments	**(2,298,499)**
Balance at the end of the year	**P677,291**

B. Withholding Taxes

	2014
Tax on compensation and benefits	**P55,005,446**
Creditable withholding taxes	**-**
Final withholding taxes	**-**
Expanded withholding taxes	**25,066,420**
	P80,071,866

C. All Other Taxes (Local and National)

	2014
Other taxes paid during the year recognized under "Taxes and licenses" account under General and Administrative Expenses	
Real estate taxes	**P4,308,832**
License and permit fees	**333,776**
Others	**551,512**
	P5,194,120

D. Documentary Stamp Tax

	2014
On loan instruments	**P -**
On shares of stocks	**-**
On others	**7,874**
	P7,874

E. Tax Cases and Tax Assessments.

The Parent Company has no pending litigation or tax cases.

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

2 8 4 6 1

Company Name

A R M E D F O R C E S A N D P O L I C E M U T U A L
B E N E F I T A S S O C I A T I O N , I N C .
A N D S U B S I D I A R Y

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

C o l . B o n n y S e r r a n o c o r n e r
E . D e l o s S a n t o s A v e n u e
Q u e z o n C i t y

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
afpmbai.com.ph	**911-4051**	**0920-952-6224**

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
N/A	**N/A**	**December 31**

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
MGen Edgardo Rene C. Samonte, AFP (RET)	ec.samonte@ afpmbai.com.ph	911-3613	0947-528-3514

Contact Person's Address

Col. Bonny Serrano Corner E. Delos Santos Avenue, Quezon City

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