



Philippine AXA Life Insurance Corporation

Financial Statements  
December 31, 2012 and 2011

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

**SGV&Co**  
 **ERNST & YOUNG**

# COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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(Business Address: No. Street City/Town/Province)

|                         |
|-------------------------|
| <b>Ronaldo San Jose</b> |
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(Contact Person)

|                 |
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| <b>885-0101</b> |
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(Company Telephone Number)

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| <b>12</b> | <b>31</b> |
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Month Day  
(Calendar Year)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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|----------------------------|--|
| Total Amount of Borrowings |  |
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Domestic Foreign

To be accomplished by SEC Personnel concerned

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## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Philippine AXA Life Insurance Corporation

### Report on the Financial Statements

We have audited the accompanying financial statements of Philippine AXA Life Insurance Corporation, which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditors' Responsibility*

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

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

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



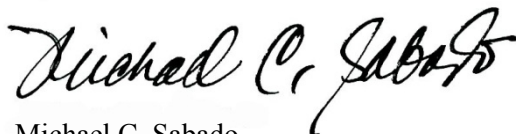
*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine AXA Life Insurance Corporation as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 29 and 30 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine AXA Life Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Michael C. Sabado

Partner

CPA Certificate No. 89336

SEC Accreditation No. 0664-AR-1 (Group A),  
March 11, 2011, valid until March 10, 2014

Tax Identification No. 160-302-865

BIR Accreditation No. 08-001998-73-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3670019, January 2, 2013, Makati City

March 20, 2013



**PHILIPPINE AXA LIFE INSURANCE CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

|   | December 31            |                 |
|---|------------------------|-----------------|
|   | 2012                   | 2011            |
| <b>ASSETS</b>   |                        |                 |
| <b>Cash and Cash Equivalents</b> (Notes 4, 23 and 24)                     | <b>₱2,065,521,134</b>  | ₱2,602,493,852  |
| <b>Insurance Receivables - net</b> (Notes 5, 23 and 24)                   | <b>131,824,860</b>     | 115,693,277     |
| <b>Financial Assets</b> (Notes 6, 23 and 24)                              |                        |                 |
| Financial assets at fair value through profit or loss                     | <b>1,285,882,035</b>   | 1,204,959,451   |
| Available-for-sale financial assets                                       | <b>6,652,583,140</b>   | 7,950,380,967   |
| Loans and receivables - net   | <b>536,394,865</b>     | 698,517,414     |
| <b>Accrued Income</b> (Notes 7, 23 and 24)                                | <b>111,509,946</b>     | 164,294,155     |
| <b>Investment Properties - net</b> (Notes 8 and 25)                       | <b>14,779,860</b>      | 15,634,485      |
| <b>Property and Equipment - net</b> (Note 9)                              | <b>202,845,877</b>     | 138,097,882     |
| <b>Intangible Assets - net</b> (Note 10)                                  | <b>2,655,192</b>       | 12,867,808      |
| <b>Deferred Tax Asset</b> (Note 22)                                       | <b>34,926,788</b>      | –               |
| <b>Other Assets</b> (Note 10)   | <b>53,624,127</b>      | 49,267,864      |
|   | <b>11,092,547,824</b>  | 12,952,207,155  |
| <b>Assets Held to Cover Unit-Linked Liabilities</b><br>(Notes 11 and 24)  | <b>33,758,320,127</b>  | 25,990,649,177  |
|   | <b>₱44,850,867,951</b> | ₱38,942,856,332 |
| <b>LIABILITIES AND EQUITY</b>   |                        |                 |
| <b>Liabilities</b>  |                        |                 |
| Insurance contract liabilities (Notes 12, 13, 23 and 24)                  | <b>₱6,158,985,189</b>  | ₱7,568,620,859  |
| Premium deposit fund (Note 23)  | <b>140,831,311</b>     | 188,886,299     |
| Life insurance deposits (Note 23)   | <b>111,508,076</b>     | 110,232,516     |
| Pension liability - net (Note 21)   | <b>3,527,934</b>       | 1,224,234       |
| Income tax payable (Note 22)  | –                      | 3,718,734       |
| Insurance payables (Notes 14 and 23)                                      | <b>57,104,042</b>      | 85,169,118      |
| Trade and other liabilities (Notes 15, 23, 24 and 25)                     | <b>660,293,352</b>     | 705,640,724     |
| Dividends payable (Note 16)   | –                      | 621,000,000     |
|   | <b>7,132,249,904</b>   | 9,284,492,484   |
| <b>Unit-Linked Liabilities</b> (Note 11)                                  | <b>33,758,320,127</b>  | 25,990,649,177  |
|   | <b>40,890,570,031</b>  | 35,275,141,661  |
| <b>Equity</b>   |                        |                 |
| Capital stock - net (Note 16)   | <b>659,231,922</b>     | 349,860,622     |
| Deposits for future stock subscriptions (Note 16)                         | –                      | 309,371,300     |
| Contributed surplus   | <b>50,000,000</b>      | 50,000,000      |
| Contingency surplus (Note 16)   | <b>9,343,183</b>       | 9,343,183       |
| Revaluation reserves for available-for-sale financial assets<br>(Note 17) | <b>1,262,214,606</b>   | 1,090,012,481   |
| Retained earnings (Note 16)   | <b>1,979,508,209</b>   | 1,859,127,085   |
|   | <b>3,960,297,920</b>   | 3,667,714,671   |
|   | <b>₱44,850,867,951</b> | ₱38,942,856,332 |

*See accompanying Notes to Financial Statements.*



**PHILIPPINE AXA LIFE INSURANCE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**

|  | <b>Years Ended December 31</b> |                        |
|--|--------------------------------|------------------------|
|  | <b>2012</b>                    | <b>2011</b>            |
| <b>REVENUE</b>   |                                |                        |
| Gross premiums on contracts issued   | ₱12,312,035,343                | ₱10,006,622,914        |
| Premiums ceded to reinsurers   | (32,483,966)                   | (31,274,005)           |
| Net insurance premiums (Notes 18 and 24)   | 12,279,551,377                 | 9,975,348,909          |
| Subscriptions allocated to investment in unit-linked funds   | (9,168,670,283)                | (7,179,596,188)        |
|  | <b>3,110,881,094</b>           | <b>2,795,752,721</b>   |
| Income on assets held to cover unit-linked liabilities<br>(Notes 19 and 24)                          | <b>3,395,682,765</b>           | <b>1,201,115,724</b>   |
| Increase in unit-linked liabilities due to income on assets held<br>to cover unit-linked liabilities | <b>(3,395,682,765)</b>         | <b>(1,201,115,724)</b> |
| Investment income (Notes 18 and 24)  | <b>644,959,813</b>             | <b>772,714,866</b>     |
| Asset management fees (Note 24)  | <b>464,542,945</b>             | <b>369,764,447</b>     |
| Gain on sale of available-for-sale financial assets (Note 17)  | <b>157,650,638</b>             | <b>277,661,028</b>     |
| Fair value gain from financial assets at fair value through<br>profit or loss (Notes 6 and 24)       | <b>109,092,637</b>             | <b>67,850,555</b>      |
| Gain on sale of property and equipment   | <b>4,391,606</b>               | <b>376,718</b>         |
| Foreign exchange gains - net   | <b>—</b>                       | <b>19,073,359</b>      |
| Other income   | <b>89,137,092</b>              | <b>3,055,122</b>       |
|  | <b>4,580,655,825</b>           | <b>4,306,248,816</b>   |
| <b>BENEFITS, CLAIMS AND OPERATING EXPENSES</b>   |                                |                        |
| Gross benefits and claims  | <b>6,880,946,370</b>           | <b>7,048,244,475</b>   |
| Reinsurers' share of gross benefits and claims (Note 18)   | <b>(15,168,667)</b>            | <b>(989,073)</b>       |
| Policyholders' dividends and interest (Note 12)  | <b>40,172,847</b>              | <b>82,660,914</b>      |
| Decrease in unit-linked liabilities due to surrenders  | <b>(4,126,872,561)</b>         | <b>(5,283,795,548)</b> |
| Net benefits and claims incurred (Notes 18 and 24)   | <b>2,779,077,989</b>           | <b>1,846,120,768</b>   |
| Decrease in legal policy reserves (Note 12)  | <b>(1,467,350,370)</b>         | <b>(490,516,205)</b>   |
| Increase (decrease) in reserves for policyholders' dividends<br>(Note 12)                            | <b>4,792,535</b>               | <b>(8,181,414)</b>     |
| Net insurance benefits and claims  | <b>1,316,520,154</b>           | <b>1,347,423,149</b>   |
| Operating and administrative expenses (Notes 20 and 24)  | <b>1,584,765,662</b>           | <b>1,365,312,293</b>   |
| Commission expense (Note 24)   | <b>533,436,452</b>             | <b>422,479,677</b>     |
| Premium and documentary stamp taxes  | <b>48,548,882</b>              | <b>44,979,943</b>      |
| Agency development expenses  | <b>27,978,086</b>              | <b>12,236,682</b>      |
| Foreign exchange losses - net  | <b>13,101,190</b>              | <b>—</b>               |
| Interest on premium deposit fund   | <b>4,520,690</b>               | <b>4,150,792</b>       |
| Medical and inspection fees  | <b>3,832,621</b>               | <b>1,586,426</b>       |
|  | <b>3,532,703,737</b>           | <b>3,198,168,962</b>   |
| <b>INCOME BEFORE INCOME TAX</b>  | <b>1,047,952,088</b>           | <b>1,108,079,854</b>   |
| <b>PROVISION FOR INCOME TAX</b> (Note 22)  | <b>132,570,964</b>             | <b>140,607,995</b>     |
| <b>NET INCOME</b>  | <b>915,381,124</b>             | <b>967,471,859</b>     |
| <b>OTHER COMPREHENSIVE INCOME</b>  |                                |                        |
| Net change in fair value of available-for-sale financial assets<br>(Note 17)                         | <b>172,202,125</b>             | <b>251,424,422</b>     |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>₱1,087,583,249</b>          | <b>₱1,218,896,281</b>  |

See accompanying Notes to Financial Statements.



**PHILIPPINE AXA LIFE INSURANCE CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**

|   | Capital Stock - net<br>(Note 16) | Deposits for<br>Future Stock<br>Subscriptions<br>(Note 16) | Contributed<br>Surplus | Contingency<br>Surplus<br>(Note 16) | Revaluation<br>Reserves for<br>Available-for-<br>sale Financial<br>Assets<br>(Note 17) | Retained<br>Earnings<br>(Notes 2 and 16) | Total                 |
|---|----------------------------------|--|------------------------|-------------------------------------|--|--|-----------------------|
| As of January 1, 2012                                 | <b>₱349,860,622</b>              | <b>₱309,371,300</b>  | <b>₱50,000,000</b>     | <b>₱9,343,183</b>                   | <b>₱1,090,012,481</b>  | <b>₱1,859,127,085</b>                    | <b>₱3,667,714,671</b> |
| Net income  | -                                | -  | -                      | -                                   | -  | 915,381,124                              | 915,381,124           |
| Other comprehensive income                            | -                                | -  | -                      | -                                   | 172,202,125  | -  | 172,202,125           |
| Total comprehensive income                            | -                                | -  | -                      | -                                   | 172,202,125  | 915,381,124                              | 1,087,583,249         |
| Cash dividends  | -                                | -  | -                      | -                                   | -  | (795,000,000)                            | (795,000,000)         |
| Issuance of shares                                    | 309,371,300                      | (309,371,300)  | -                      | -                                   | -  | -  | -                     |
| As of December 31, 2012                               | <b>₱659,231,922</b>              | <b>₱-</b>  | <b>₱50,000,000</b>     | <b>₱9,343,183</b>                   | <b>₱1,262,214,606</b>  | <b>₱1,979,508,209</b>                    | <b>₱3,960,297,920</b> |
| As of January 1, 2011                                 | ₱350,022,000                     | ₱-   | ₱50,000,000            | ₱313,633,083                        | ₱838,588,059   | ₱2,013,655,226                           | ₱3,565,898,368        |
| Net income  | -                                | -  | -                      | -                                   | -  | 967,471,859                              | 967,471,859           |
| Other comprehensive income                            | -                                | -  | -                      | -                                   | 251,424,422  | -  | 251,424,422           |
| Total comprehensive income                            | -                                | -  | -                      | -                                   | 251,424,422  | 967,471,859                              | 1,218,896,281         |
| Cash dividends  | -                                | -  | -                      | -                                   | -  | (1,122,000,000)                          | (1,122,000,000)       |
| Conversion of contingency surplus                     | -                                | 304,289,900  | -                      | (304,289,900)                       | -  | -  | -                     |
| Additions to deposit for future stock<br>subscription | -                                | 5,081,400  | -                      | -                                   | -  | -  | 5,081,400             |
| Acquisition of treasury stock                         | (161,378)                        | -  | -                      | -                                   | -  | -  | (161,378)             |
| As of December 31, 2011                               | <b>₱349,860,622</b>              | <b>₱309,371,300</b>  | <b>₱50,000,000</b>     | <b>₱9,343,183</b>                   | <b>₱1,090,012,481</b>  | <b>₱1,859,127,085</b>                    | <b>₱3,667,714,671</b> |

*See accompanying Notes to Financial Statements.*



**PHILIPPINE AXA LIFE INSURANCE CORPORATION**  
**STATEMENTS OF CASH FLOWS**

|   | <b>Years Ended December 31</b> |                 |
|---|--------------------------------|-----------------|
|   | <b>2012</b>                    | <b>2011</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                |                 |
| Income before income tax  | <b>₱1,047,952,088</b>          | ₱1,108,079,854  |
| Adjustments for:  |                                |                 |
| Depreciation on property and equipment (Note 9)                                   | <b>55,557,766</b>              | 47,252,101      |
| Unrealized foreign exchange losses  | <b>17,555,147</b>              | 176,886,634     |
| Amortization on intangible assets (Note 10)                                       | <b>4,079,838</b>               | 833,450         |
| Depreciation on investment properties (Note 8)                                    | <b>854,625</b>                 | 943,692         |
| Gain on sale of property and equipment  | <b>(4,391,606)</b>             | (376,718)       |
| Dividend income (Note 18)   | <b>(20,146,375)</b>            | (26,375,608)    |
| Fair value gain on financial assets at fair value through profit or loss (Note 6) | <b>(109,092,637)</b>           | (67,850,555)    |
| Gain on sale of available-for-sale financial assets (Note 17)                     | <b>(157,650,638)</b>           | (277,661,028)   |
| Interest income (Note 18)   | <b>(623,894,184)</b>           | (745,331,017)   |
| Operating income before changes in working capital                                | <b>210,824,024</b>             | 216,400,805     |
| Changes in operating assets and liabilities:                                      |                                |                 |
| Decrease (increase) in:   |                                |                 |
| Insurance receivables   | <b>(16,131,583)</b>            | 9,503,498       |
| Loans and receivables   | <b>162,122,549</b>             | (202,354,109)   |
| Other assets  | <b>2,136,515</b>               | (6,980,005)     |
| Increase (decrease) in:   |                                |                 |
| Insurance contract liabilities  | <b>(1,409,635,670)</b>         | (473,745,841)   |
| Premium deposit fund  | <b>(48,054,988)</b>            | (34,902,295)    |
| Life insurance deposits   | <b>1,275,560</b>               | (81,151,707)    |
| Pension liability - net   | <b>2,303,700</b>               | (8,733,386)     |
| Insurance payables  | <b>(28,065,076)</b>            | 21,004,852      |
| Trade and other liabilities   | <b>(45,347,372)</b>            | 129,857,211     |
| Net cash used in operations   | <b>(1,168,572,341)</b>         | (431,100,977)   |
| Proceeds from disposal/maturities of:   |                                |                 |
| Available-for-sale financial assets (Note 6)                                      | <b>1,801,667,336</b>           | 2,815,638,935   |
| Financial assets at fair value through profit or loss (Note 6)                    | <b>260,373,067</b>             | 1,655,354,622   |
| Acquisitions of:  |                                |                 |
| Available-for-sale financial assets (Note 6)                                      | <b>(196,582,950)</b>           | (3,292,411,079) |
| Financial assets at fair value through profit or loss (Note 6)                    | <b>(232,203,014)</b>           | -               |
| Interest received   | <b>698,504,426</b>             | 815,371,295     |
| Dividends received  | <b>20,886,546</b>              | 25,475,090      |
| Income taxes paid   | <b>(171,216,486)</b>           | (137,896,224)   |
| Net cash provided by operating activities   | <b>1,012,856,584</b>           | 1,450,431,662   |

(Forward)





|  | <b>Years Ended December 31</b> |                |
|--|--------------------------------|----------------|
|  | <b>2012</b>                    | <b>2011</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                          |                                |                |
| Proceeds from disposals of property and equipment (Note 9)           | <b>₱5,040,520</b>              | ₱686,729       |
| Acquisitions of:   |                                |                |
| Intangible assets (Note 10)  | <b>(360,000)</b>               | (9,739,166)    |
| Property and equipment (Note 9)                                      | <b>(120,954,675)</b>           | (55,915,658)   |
| Net cash used in investing activities                                | <b>(116,274,155)</b>           | (64,968,095)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                          |                                |                |
| Deposit for future subscriptions                                     | -                              | 5,081,400      |
| Acquisition of treasury stock  | -                              | (161,378)      |
| Cash dividends paid (Note 16)  | <b>(1,416,000,000)</b>         | (501,000,000)  |
| Net cash used in financing activities                                | <b>(1,416,000,000)</b>         | (496,079,978)  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>          | <b>(519,417,571)</b>           | 889,383,589    |
| <b>EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS</b> | <b>(17,555,147)</b>            | 718,842        |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                | <b>2,602,493,852</b>           | 1,712,391,421  |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>             | <b>₱2,065,521,134</b>          | ₱2,602,493,852 |

*See accompanying Notes to Financial Statements.*



# **PHILIPPINE AXA LIFE INSURANCE CORPORATION**

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## **NOTES TO FINANCIAL STATEMENTS**

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### **1. Corporate Information**

Philippine AXA Life Insurance Corporation (the Company) was incorporated in the Philippines on November 30, 1962 to engage in selling personal and group insurance, including life insurance, accident and other insurance products that are permitted to be sold by a life insurance company in the Philippines. On May 22, 2003, the Insurance Commission (IC) approved the Company's license to sell variable or unit-linked insurance, a life insurance product which is linked to investment funds. On December 19, 2011, the Securities and Exchange Commission (SEC) approved the Company's application for extension of its corporate life.

On October 24, 2012, the Board of Directors (BOD) approved the change in principal place of business of the Company to 34th Floor, GT Tower International, 6813 Ayala Avenue, corner H.V. Dela Costa Street, Makati City. Prior to such date, the registered office address of the Company was Ground Floor, Philippine AXA Life Centre, Sen. Gil Puyat Avenue corner Tindalo Street, Makati City.

The Company is 45% owned by the AXA Group of Companies through AXA S.A., a company based in France, 28% owned by First Metro Investment Corporation (FMIC), a domestic corporation and 25% owned by GT Capital Holdings, Inc. (GT Capital), a domestic corporation.

The accompanying financial statements were authorized for issue by the BOD through the Board Risk Management, Audit and Compliance Committee (BRMACC) on March 20, 2013.

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### **2. Summary of Significant Accounting Policies**

#### Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is the Company's functional currency and recorded to the nearest peso.

#### Statement of Compliance

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

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRSs, which were adopted as of January 1, 2012.

#### *PFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)*

The Amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the Amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The application of this amended standard did not have an impact on the Company's financial position or performance since the Company has not transferred any of its financial assets.



Philippine Accounting Standards (PAS) 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)*

This Amendment clarifies the determination of deferred tax on investment property measured at fair value. The Amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the Amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The application of this amended standard did not have an impact on the Company's financial position or performance since it has no properties carried at fair value.

Future Changes in Accounting Policies

The Fund will adopt the following new and amended Standards and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) Interpretations enumerated below when these become effective.

*Effective January 1, 2013*

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*

The Amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The Amendments affect presentation only and have no impact on the Company's financial position or performance. The Amendment becomes effective for annual periods beginning on or after July 1, 2012. The application of this amended standard is not expected to have an impact on the Company's financial position or performance since it has only one item presented in OCI.

PAS 19, *Employee Benefits (Revised)*

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The Amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.



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

| <i>Statements of Financial Position</i>   | As of<br>December 31,<br>2012 | As of<br>January 1,<br>2012 |
|---|-------------------------------|-----------------------------|
| <i>Increase (decrease) in:</i>            |                               |                             |
| Pension liability - net                   | ₱5,294,394                    | ₱11,855,104                 |
| Deferred tax asset                        | (1,145,912)                   | -                           |
| Other comprehensive income                | (12,440,902)                  | (11,522,674)                |
| Retained earnings                         | 11,580,702                    | 8,284,685                   |
| <i>Statements of Comprehensive Income</i> |                               |                             |
| <i>2012</i>                               |                               |                             |
| <i>Increase in:</i>                       |                               |                             |
| Net benefit expense                       |                               | ₱4,708,596                  |
| Income tax expense                        |                               | 1,412,579                   |
| Profit for the year                       |                               | 3,296,017                   |
| Other comprehensive income                |                               | 5,275,900                   |

*PAS 27, Separate Financial Statements (as revised in 2011)*

As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The application of this amended standard is not expected to have any impact in the financial position or performance of the Company since it has no investments in subsidiaries, joint ventures or associates.

*PAS 28, Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The application of this amended standard is not expected to have any impact in the financial position or performance of the Company since it has no investments in joint ventures or associates.

*PFRS 7, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

These Amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The Amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;



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

The Amendments are to be applied retrospectively. The application of this amended standard is expected to affect disclosures only and will have no impact on the Company's financial position or performance since the Company does not offset its financial instruments.

#### *PFRS 10, Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The application of this new standard is not expected to have any impact in the financial position or performance of the Company since it has no investment in subsidiary, associate or joint venture.

#### *PFRS 11, Joint Arrangements*

PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly-controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this amended standard is not expected to have an impact on the Company's financial position or performance since the Company has not entered into any joint arrangements.

#### *PFRS 12, Disclosure of Interests in Other Entities*

PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The application of this new standard is not expected to have any impact in the financial position or performance of the Company since it has no investment in subsidiary, associate or joint venture.

#### *PFRS 13, Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The Company does not consider that the definition of fair value that is applied in PFRS 13 differs in a material way from its current approach and consequently anticipates there will not be any impact from this standard on its financial position. However, PFRS 13 does expand the disclosure requirements in respect of fair value measurement.



*Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*  
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The application of this interpretation is not expected to have any impact on the financial position or performance since the Company is not involved in mining activities.

*Annual Improvements to PFRSs (2009-2011 cycle)*

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs.

*PFRS 1, First-time Adoption of PFRS - Borrowing Costs*

The Amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The application of this amended standard is not expected to have an impact on the Company's financial position or performance since it is not a first-time adopter of PFRS.

*PAS 1, Presentation of Financial Statements - Clarification of the requirements for comparative information*

The Amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The application of this amended standard not expected to have an impact on the Company's financial position or performance since comparative information disclosures in the Company's financial statements are already in accordance with PAS 1.

*PAS 16, Property, Plant and Equipment - Classification of servicing equipment*

The Amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The application of this amended standard is not expected to have an impact on the Company's financial position or performance since the Company does not have this type of equipment.

*PAS 32, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*

The Amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The application of this amended standard is not expected to have an impact on the Company's financial position or performance since the Company does not anticipate to undergo certain transactions involving distributions to equity holders.



*PAS 34, Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

The Amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The application of this amended standard is not expected to have an impact on the Company's financial position or performance since it is not required to issue interim financial reports nor any segment information.

*Effective January 1, 2014*

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

These Amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The application of this amended standard is expected to affect disclosures only and will have no impact on the Company's financial position or performance since the Company does not offset its financial instruments.

*Effective 2015*

*PFRS 9, Financial Instruments*

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

*Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The application of this interpretation is not expected



to have any impact on the Company's financial position or performance since the Company is not involved in construction of real estate.

#### Foreign Currency Translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income, the gain or loss is then recognized net of the exchange component in other comprehensive income.

#### Product Classification

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

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

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF or when the host insurance contract and/or investment contract with DPF itself is measured at FVPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated subsequently. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.





### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents (including those under “Assets held to cover unit-linked liabilities”) are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value and are free of any encumbrances.

### Insurance Receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss. Insurance receivables are derecognized following the derecognition criteria of financial assets.

### Financial Instruments

#### *Date of recognition*

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

#### *Initial recognition*

Financial instruments are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

#### *Determination of fair value*

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable current market prices exist, option pricing models, and other relevant valuation models. Any difference noted between the fair value and the transaction price is recognized in profit or loss, unless it qualifies for recognition as some type of asset or liability.



*Fair value hierarchy*

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

*'Day 1' profit or loss*

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

*Financial instruments at FVPL*

This category consists of financial assets or financial liabilities that are held-for-trading or designated by management as at FVPL on initial recognition.

Financial assets or financial liabilities are classified as held-for-trading if they are entered into for the purpose of short-term profit taking.

Financial assets or financial liabilities classified in this category are designated by management as at FVPL on initial recognition when any of 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 separately recorded.

The investments (debt and equity securities) of the unit-linked funds set up by the Company underlying the unit-linked insurance contracts (included under "Assets held to cover unit-linked liabilities") are designated as at FVPL since these are managed and their performance are evaluated on a fair value basis, in accordance with the investment strategy. Also, the Company designates the assets of the life insurance business that are managed under the Company's Risk Management Statement on a fair value basis, and are reported to the Board on this basis. These assets have been valued on a fair value basis with movements taken through the profit or loss.

Financial assets at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in profit or loss, included under the "Fair value gains or losses from financial assets at FVPL" account.



As of December 31, 2012 and 2011, the Company has no financial liabilities classified as FVPL.

*Derivative financial instruments*

Derivative financial instruments (including those under “Assets held to cover unit-linked liabilities”) are classified as held-for-trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Derivative financial instruments held-for-trading are initially recorded at fair value and are typically entered into with the intention to settle in the near future. Subsequent to initial recognition, these instruments are remeasured at fair value. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in profit or loss.

In 2009, the Company’s unit-linked funds entered into a derivative transaction pertaining to a foreign exchange forward contract and bond swap classified under financial assets at FVPL (see Note 11).

*Embedded derivatives*

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL. Bifurcated embedded derivatives are accounted for at FVPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows. The Company determines whether modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract, or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

*Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held-for-trading, nor designated as AFS or at FVPL. This accounting policy relates to the statement of financial position captions: (a) Insurance receivables, (b) Loans and receivables (including those under “Assets held to cover unit-linked liabilities”), and (c) Accrued income (including those under “Assets held to cover unit-linked liabilities”).

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



*AFS financial assets*

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

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss. Interest earned on holding AFS financial assets is reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in profit or loss when the right to receive payment has been established. Interests and dividends are recognized under "Investment income" account in profit or loss. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported in equity as "Revaluation reserve for AFS financial assets." The losses arising from impairment of such financial assets are recognized as "Provision for impairment losses" under the "Operating and administrative expenses" caption in profit or loss. When a security is disposed of, the cumulative gain or loss previously recognized as other comprehensive income is reported as "Gain or loss on sale of AFS financial assets" in profit or loss.

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

*Other financial liabilities*

Issued financial liabilities or their components, which are not designated as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no or insignificant insurance risk.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Interest expense are charged to profit or loss as incurred.

Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy relates to the statement of financial position captions: (a) Premium deposit fund, (b) Life insurance deposits, (c) Insurance payables, (d) Trade and other liabilities and (e) Dividends payable that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable). This accounting policy relates also to the payables included under the "Assets held to cover unit-linked liabilities" account.



### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it has a contractual obligation to:

- deliver cash or another financial asset to another entity, or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual agreement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instrument classified as equity are charged directly to liabilities and equity, net of any related income tax benefits.

### Offsetting

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

### Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

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

### *Loans and receivables*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no



realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

*AFS financial assets carried at fair value*

For equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of an investment below its cost or where other objective evidence of impairment exists. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Investment income" account in profit or loss. If, in a subsequent period, 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.

*AFS financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred 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 financial asset.



### Derecognition of Financial Assets and Liabilities

#### *Financial asset*

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

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

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

#### *Financial liability*

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

### Reinsurance

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged to profit or loss.

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

Premiums are presented on gross basis for ceded reinsurance.

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



Investment Properties

Property held for long-term rental yields or for capital appreciation, or for both, is classified as investment property. These properties are initially measured at cost, which includes transaction cost, but excludes day-to-day servicing cost. Subsequently, at each end of the reporting period, such properties are carried at cost less accumulated depreciation and impairment in value.

Depreciation of investment property is computed using the straight-line method over its useful life, regardless of utilization. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties. The estimated useful life of the investment properties is 20 years.

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

Investment property is 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 profit or loss in the year of derecognition.

Property and Equipment

Property and equipment, including owner occupied properties, are carried at cost less accumulated depreciation and amortization and accumulated impairment in value. Such cost includes initial transaction costs, but excludes day-to-day servicing cost. Replacement or major inspection cost is capitalized if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured.

Depreciation and amortization is 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. The estimated useful lives of the different categories of property and equipment follow:

|                          | Years |
|--------------------------|-------|
| Building                 | 20    |
| Leasehold improvements   | 5     |
| Transportation equipment | 5     |
| Computer equipment       | 3     |
| Furniture and equipment  | 3     |

The assets' residual values, useful lives and depreciation and amortization method are reviewed at each reporting date and adjusted if appropriate to ensure that the period, residual value and the method of depreciation and amortization are consistent with the expected pattern of consumption of future economic benefits embodied in the asset.





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 value of the asset) is included in profit or loss in the year the asset is derecognized. This is not applicable to items that still have useful lives but are currently classified as idle. Depreciation continues for those items until fully depreciated or disposed.

#### Intangible Assets

Intangible assets are carried at cost less accumulated amortization and impairment in value, if any. Intangible assets, consisting mainly of software (not an integral part of its related hardware), are capitalized at cost. These costs are amortized on a straight-line basis over their estimated useful lives ranging from 3 to 5 years. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

#### Impairment of Nonfinancial Assets

At each reporting date, the Company assesses whether there is any indication that nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed for the cash generating unit to which the asset 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 operations in the year in which it arises, unless the asset is carried at revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the 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 recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior periods. 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 in other comprehensive income. After such reversal, the depreciation and amortization expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.



## Insurance Contract Liabilities

### *Legal policy reserves*

Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by IC.

### *Insurance contracts with fixed and guaranteed terms*

The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

The Company has different assumptions for different products. However, liabilities for contractual benefits are computed to comply with statutory requirements, which require discount rates to be not more than 6% compound interest and mortality and morbidity rates to be in accordance with the standard table of mortality and morbidity. Reserves are computed per thousand of sum insured and depend on the issue age and policy duration. The net change in legal policy reserves during the year is taken to profit or loss.

### *Claims and benefits payable*

Claims and benefits payable consist of unpaid claims and benefits which are payable to policyholders.

### *Policyholders' Dividends*

DPF is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from participating business. These returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the contract. Dividends earned by the policyholders in prior policy years and left to accumulate and earn interest are presented under insurance contracts liabilities as Policyholders' Dividends. Reserves for discretionary benefits, such as dividends, are currently set at the minimum allowed by regulation, which is the earned portion of dividends for the next policy year. These are presented under Reserves for policyholders' dividends.

### *Liability adequacy test*

Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

## Unit-linked insurance contracts

The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payments to units of internal investment funds (unit-linked funds) set up by the Company with the consideration received from the policyholders. As allowed by PFRS 4, the Company chose not to unbundle the investment portion of its unit-linked products. Premiums received from the issuance of unit-linked insurance contracts are recognized as premiums revenue. Consideration received from the policyholders that are transferred to the unit-linked funds is recognized as "Subscriptions allocated to investment in unit-linked funds" in the statement of comprehensive income. These are separated to fund assets from which the Company withdraws administrative and cost of insurance charges in accordance with the policy provisions



of the unit-linked insurance contracts. After deduction of these charges together with applicable surrender fees, the remaining amounts in the fund assets are equal to the surrender value of the unit-linked policies, and are withdrawable anytime. The assets and liabilities of the unit-linked funds have been segregated and reflected in “Assets held to cover unit-linked liabilities” in the Company’s statement of financial position. Income or loss arising from the unit linked funds are classified under “Income on assets held to cover unit-linked liabilities” in the statement of comprehensive income. Withdrawals or surrenders of unit-linked funds are presented as “Decrease in unit-linked liabilities due to surrenders” in the statement of comprehensive income.

Investments under assets held to cover unit-linked liabilities are valued at market price. Changes in the assets held to cover unit-linked liabilities due to investment earnings or market value fluctuations result to the same corresponding change in the unit-linked liabilities. Such changes in fund value have no effect on the Company’s statement of comprehensive income. As of end of the reporting period, unit-linked liabilities are computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying funds.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net assets value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

#### Pension Benefit Obligation

Pension cost is actuarially determined using the projected unit credit method. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, recognized actuarial gains and losses, the effect of any past service cost and curtailment or settlement.

The net pension liability recognized by the Company in respect of its defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods. The present value of the defined benefit obligation, as computed by an independent actuary, is determined using a single weighted average discount rate that reflects the estimated timing and amount of benefit payments. Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against profit or loss when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost, if any, is recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service cost is amortized on a straight-line basis over the vesting period.

#### Equity

##### *Capital stock*

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.



*Deposits for future stock subscriptions*

Deposits for future stock subscriptions represents the additional capital invested by the stockholders that will be credited to capital stock upon approval by the SEC of the Company's application for increase in authorized capital stock.

*Contributed surplus*

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

*Contingency surplus*

Contingency surplus represents contributions of the stockholders to cover any unexpected deficiency in the Margin of Solvency (MOS) as required under the Insurance Code and can be withdrawn upon the approval of the IC.

*Retained earnings*

Retained Earnings represent accumulated net income of the Company less dividends declared.

*Treasury Stock*

Own equity instruments which are acquired (treasury stocks) are deducted from equity and accounted for at cost. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments. Voting rights related to treasury stocks are nullified for the Company and no dividends are allocated to them.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

*Premium income*

Gross recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. For single premium business, revenue is recognized on the date from which the policy becomes effective. For regular premium contracts, receivables are recorded at the date when payments are due.

*Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The 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, future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

For interest-bearing financial assets at FVPL, loans and receivables and cash and cash equivalents, interest income is recognized as it accrues.



*Dividend income*

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

*Rental income*

Rental income from investment properties is recognized on a straight-line basis over the lease term.

*Asset management fees*

Unit-linked funds are charged for fund management and administration. These fees are recognized as revenue in the period in which the related services are rendered.

*Other income*

Other income is recognized in the profit or loss as it accrues.

Benefits, Claims and Expenses Recognition

*Benefits and claims*

Benefits and claims consist of cost of all claims and benefits incurred during the period, which includes excess benefit claims for unit-linked contracts, as well as changes in the valuation of legal policy reserves and reserves for policyholders' dividends. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

*Interest expense*

Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized through profit or loss as it accrues and is calculated by using the effective interest rate method. Accrued interest is credited to the liability account every month.

*Commission expense*

Commission expense is recognized as incurred. Commissions are paid to agents and financial executives from selling individual and group policies. Rates applied on collected premiums vary depending on the type of product and payment terms of the contract. Referral fees are also paid in relation to the referrals made through the bancassurance business (see Note 24).

*Taxes, operating and administrative and other expenses*

Taxes, operating and administrative and other expenses are recognized in the statement of comprehensive income as incurred.

Leases

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

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



When 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.

*Company as a 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 an expense in profit or loss on a straight-line basis over the lease term. Minimum lease payments are recognized on a straight-line basis.

*Company as a lessor*

Leases where the lessor does 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 rental income.

Income Tax

Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income. Tax on these items is recognized in equity or other comprehensive income.

*Current tax*

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

*Deferred tax*

Deferred tax is provided, using the liability method, on all temporary differences, with certain exceptions, 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from excess MCIT and NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each 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 all or part of the deferred tax assets to be recovered.

Current tax and deferred tax relating to items recognized directly in other comprehensive income are likewise recognized in other comprehensive income.



Deferred tax assets and liabilities are measured at the tax rate that is expected to apply 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 of end of the reporting period. Movements in the deferred tax assets and liabilities arising from changes in the rates are charged or credited to profit or loss for the period.

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.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and when 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 discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

#### Contingencies

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

#### Events After the Reporting Date

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

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### **3. Significant Accounting Judgments, Estimates and Assumptions**

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

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

#### Judgments

##### *Product classification*

The Company has determined that the traditional insurance policies and the unit-linked insurance policies have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as 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.



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

*Operating leases - Company as a lessor*

The Company has entered into property leases on its investment property portfolio. The Company has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

*Operating leases - Company as a lessee*

The Company has entered into contracts of lease for the office spaces of its branches. The Company has determined that all significant risks and rewards of ownership on these properties are retained by the respective lessors.

Estimates

*Legal policy reserves*

In determining the legal policy reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Company is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Code. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. In accordance with the provisions of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

The carrying values of legal policy reserves, shown as part of insurance contract liabilities, amounted to ₱5,353,910,868 and ₱6,882,318,892 as of December 31, 2012 and 2011 respectively (see Note 12).

*Fair value of financial instruments*

Fair value determinations for financial instruments are based generally on listed or quoted market prices. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position or disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow method.

As of December 31, 2012 and 2011, the carrying value of the financial assets at FVPL amounted to ₱1,285,882,035 and ₱1,204,959,451, respectively (see Note 6). As of December 31, 2012 and 2011, the carrying value of AFS financial assets recognized at fair value amounted to ₱6,652,583,140 and ₱7,950,380,967, respectively (see Note 6).





*Impairment of loans and receivables*

The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recognized. 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 collectibility 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 Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

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

Insurance receivables amounted to ₱131,824,860 and ₱115,693,277 as of December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, the Company has not recognized any allowance for impairment losses on insurance receivables (see Note 5).

As of December 31, 2012 and 2011, loans and receivables, net of allowance for impairment losses, amounted to ₱536,394,865 and ₱698,517,414, respectively. The related allowance for impairment losses amounted to ₱3,864,365 as of December 31, 2012 and 2011, respectively (see Note 6).

*Impairment of AFS financial assets*

The Company treats 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 Company treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months for quoted equity investments. In addition, the Company evaluates 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 amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

As of December 31, 2012 and 2011, the carrying value of AFS equity investments amounted to ₱221,272,041 and ₱305,114,119, respectively (see Note 6).



*Estimated useful lives of property and equipment, investment properties and intangible assets*

The Company reviews annually the estimated useful lives of property and equipment, investment properties and intangible assets 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, investment properties and intangible assets would increase recorded depreciation and amortization expense and decrease the related asset accounts.

As of December 31, 2012, the carrying values of property and equipment, investment properties and intangible assets amounted to ₱202,845,877, ₱14,779,860 and ₱2,655,192, respectively. As of December 31, 2011, the carrying values of the property and equipment, investment properties and intangible assets amounted to ₱138,097,882, ₱15,634,485 and ₱12,867,808, respectively (see Notes 8, 9 and 10).

*Impairment of nonfinancial assets*

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit to which the asset belongs.

As of December 31, 2012, the carrying values of property and equipment, investment properties and intangible assets amounted to ₱202,845,877, ₱14,779,860 and ₱2,655,192, respectively. As of December 31, 2011, the carrying values of the property and equipment, investment properties and intangible assets amounted to ₱138,097,882, ₱15,634,485 and ₱12,867,808, respectively (see Notes 8, 9 and 10).

*Recognition of deferred tax assets*

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

As of December 31, 2012 and 2011, deferred tax assets amounted to ₱34,926,788 and nil, respectively (see Note 22).



*Pension and other employee benefits*

The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate, expected return on plan assets and salary increase rate. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using a single weighted average discount rate with terms consistent with the expected employee benefit payouts as of reporting dates. Refer to Note 21 for the details of assumptions used in the calculation. In accordance with PAS 19, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

As of December 31, 2012 and 2011, the Company has unrecognized net actuarial gains of ₱3,819,706 and ₱21,797,705, respectively (see Note 21). The carrying values of net pension liabilities as of December 31, 2012 and 2011 amounted to ₱3,527,934 and ₱1,224,234, respectively (see Note 21).

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

The accrued balance of other employee benefits included in accrued incentives and bonuses as of December 31, 2012 and 2011 amounted to ₱9,744,428 and ₱10,991,570, respectively.

*Contingencies*

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position.

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#### 4. Cash and Cash Equivalents

This account consists of:

|   | 2012                  | 2011           |
|---|-----------------------|----------------|
| Petty cash fund                                   | <b>₱255,802</b>       | ₱645,192       |
| Cash in commercial banks (Notes 23 and 24)        | <b>225,623,691</b>    | 16,467,658     |
| Short-term deposits in commercial banks (Note 24) | <b>1,839,641,641</b>  | 2,585,381,002  |
|   | <b>₱2,065,521,134</b> | ₱2,602,493,852 |

Cash in banks earns interest at the prevailing bank deposit rates that ranged from 0.25% to 2.75% in 2012 and 2011. Short-term deposits are made for varying periods not exceeding three months depending on the immediate cash requirements of the Company, and earned interest at the prevailing short-term deposit rates that ranged from 0.10% to 4.00% and 0.25% to 4.80% in 2012 and 2011, respectively.



## 5. Insurance Receivables

This account consists of:

|  | 2012                | 2011                |
|--|---------------------|---------------------|
| Premiums due and uncollected (Note 24) | ₱77,075,654         | ₱76,112,737         |
| Due from reinsurers                    | 54,749,206          | 39,580,540          |
|  | <b>₱131,824,860</b> | <b>₱115,693,277</b> |

Premiums due and uncollected pertain to premiums receivable from policyholders that are due within the grace period.

Due from reinsurers pertain to amounts recoverable from the reinsurers in respect of claims already incurred by the Company.

The following table shows aging information of insurance receivables:

### December 31, 2012

|                              | < 30 days          | 30 - 60 days       | 61 - 120 days      | 121 - 180 days    | > 180 days         | Total               |
|------------------------------|--------------------|--------------------|--------------------|-------------------|--------------------|---------------------|
| Premiums due and uncollected | ₱49,210,312        | ₱16,293,722        | ₱10,513,508        | ₱1,058,112        | ₱-                 | ₱77,075,654         |
| Due from reinsurers          | -                  | -                  | 886,987            | 3,036,710         | 50,825,509         | 54,749,206          |
|                              | <b>₱49,210,312</b> | <b>₱16,293,722</b> | <b>₱11,400,495</b> | <b>₱4,094,822</b> | <b>₱50,825,509</b> | <b>₱131,824,860</b> |

### December 31, 2011

|                              | < 30 days          | 30 - 60 days       | 61 - 120 days      | 121 - 180 days    | > 180 days         | Total               |
|------------------------------|--------------------|--------------------|--------------------|-------------------|--------------------|---------------------|
| Premiums due and uncollected | ₱46,160,808        | ₱17,677,801        | ₱10,988,122        | ₱1,286,006        | ₱-                 | ₱76,112,737         |
| Due from reinsurers          | 77,830             | -                  | -                  | -                 | 39,502,710         | 39,580,540          |
|                              | <b>₱46,238,638</b> | <b>₱17,677,801</b> | <b>₱10,988,122</b> | <b>₱1,286,006</b> | <b>₱39,502,710</b> | <b>₱115,693,277</b> |

## 6. Financial Assets

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

|                             | 2012                  | 2011                  |
|-----------------------------|-----------------------|-----------------------|
| Financial assets at FVPL    | ₱1,285,882,035        | ₱1,204,959,451        |
| AFS financial assets        | 6,652,583,140         | 7,950,380,967         |
| Loans and receivables - net | 536,394,865           | 698,517,414           |
|                             | <b>₱8,474,860,040</b> | <b>₱9,853,857,832</b> |

As of December 31, 2012 and 2011, the financial assets at FVPL are designated by management as at FVPL on initial recognition.



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

*Financial assets at FVPL and AFS financial assets*

|   | Financial Assets at FVPL |                | AFS Financial Assets  |                |
|---|--------------------------|----------------|-----------------------|----------------|
|   | 2012                     | 2011           | 2012                  | 2011           |
| Government debt securities                |                          |                |                       |                |
| Local currency                            | <b>₱781,707,125</b>      | ₱780,208,833   | <b>₱6,431,311,099</b> | ₱6,501,419,470 |
| Foreign currency                          | –                        | –              | –                     | 912,737,591    |
| Listed equity securities                  | <b>461,164,320</b>       | 389,861,818    | <b>208,677,941</b>    | 295,710,019    |
| Golf club shares                          | –                        | –              | <b>12,594,100</b>     | 9,404,100      |
| Private debt securities                   |                          |                |                       |                |
| Local currency                            | –                        | –              | –                     | 49,276,050     |
| Foreign currency                          | –                        | –              | –                     | 181,833,737    |
| Investment in unit-linked funds (Note 11) | <b>43,010,590</b>        | 34,888,800     | –                     | –              |
|   | <b>₱1,285,882,035</b>    | ₱1,204,959,451 | <b>₱6,652,583,140</b> | ₱7,950,380,967 |

Investments in bonds and government securities bear interest ranging from 4.63% to 18.25% in 2012 and 2011.

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

|                              | Financial Assets<br>at FVPL | AFS<br>Financial Assets | Total                  |
|------------------------------|-----------------------------|-------------------------|------------------------|
| At January 1, 2011           | ₱2,792,463,518              | ₱7,139,585,725          | ₱9,932,049,243         |
| Additions                    | –                           | 3,292,411,079           | 3,292,411,079          |
| Disposals/maturities         | (1,655,354,622)             | (2,815,638,935)         | (4,470,993,557)        |
| Fair value gains (Note 17)   | 67,850,555                  | 529,085,450             | 596,936,005            |
| Amortization of premium      | –                           | (17,478,653)            | (17,478,653)           |
| Foreign exchange adjustments | –                           | (177,583,699)           | (177,583,699)          |
| At December 31, 2011         | <b>1,204,959,451</b>        | <b>7,950,380,967</b>    | <b>9,155,340,418</b>   |
| Additions                    | <b>232,203,014</b>          | <b>196,582,950</b>      | <b>428,785,964</b>     |
| Disposals/maturities         | <b>(260,373,067)</b>        | <b>(1,801,667,336)</b>  | <b>(2,062,040,403)</b> |
| Fair value gains (Note 17)   | <b>109,092,637</b>          | <b>329,852,763</b>      | <b>438,945,400</b>     |
| Amortization of premium      | –                           | <b>(22,566,204)</b>     | <b>(22,566,204)</b>    |
| At December 31, 2012         | <b>₱1,285,882,035</b>       | <b>₱6,652,583,140</b>   | <b>₱7,938,465,175</b>  |

As of December 31, 2012, government securities totaling ₱87,500,000 are deposited with the IC in accordance with the provisions of the Code as security for the benefit of policyholders and creditors of the Company.

*Loans and receivables*

|                                      | 2012                | 2011         |
|--------------------------------------|---------------------|--------------|
| Intercompany receivables (Note 24)   | <b>₱147,401,657</b> | ₱301,393,454 |
| Due from officers and employees      | <b>26,190,294</b>   | 22,029,331   |
| Due from agents                      | <b>11,484,963</b>   | 11,391,779   |
| Other receivables                    | <b>6,240,543</b>    | 4,583,680    |
|                                      | <b>191,317,457</b>  | 339,398,244  |
| Less allowance for impairment losses | <b>3,864,365</b>    | 3,864,365    |
|                                      | <b>187,453,092</b>  | 335,533,879  |
| Policy loans                         | <b>348,941,773</b>  | 362,983,535  |
|                                      | <b>₱536,394,865</b> | ₱698,517,414 |



Due from officers and employees include secured interest-bearing loans pertaining to car plan and salary loans, and other unsecured noninterest-bearing loans and advances granted to the Company's officers and employees. Interest rates on interest bearing loans range from 6% to 12% in 2012 and 2011.

Due from agents are non-interest bearing accounts which pertain to receivable owed by certain agents which are due within one year.

Other receivables are non-interest bearing accounts which pertain to receivables owed by employees other than those covered in due from officers and employees account, such as previously issued car loans, payroll adjustments and other loans, which are due within one year.

Policy loans pertain to loans granted to policyholders. The loan is granted with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on peso and dollar policy loans are pegged at 10% and 8%, respectively.

The reconciliation of the changes in the allowance for impairment losses on loans and receivables follows:

|                               | Due from<br>Officers and<br>Employees | Due from<br>Agents | Other<br>Receivables | Total             |
|-------------------------------|---------------------------------------|--------------------|----------------------|-------------------|
| At January 1, 2011            | ₱819,653                              | ₱1,606,155         | ₱2,190,162           | ₱4,615,970        |
| Write-off                     | –                                     | –                  | (751,605)            | (751,605)         |
| At December 31, 2011 and 2012 | <b>₱819,653</b>                       | <b>₱1,606,155</b>  | <b>₱1,438,557</b>    | <b>₱3,864,365</b> |

Loans and receivables amounting to ₱3,864,365 as of December 31, 2012 and 2011 are individually determined to be impaired.

## 7. Accrued Income

This account consists of:

|                                     | 2012                | 2011         |
|-------------------------------------|---------------------|--------------|
| Interest receivable on:             |                     |              |
| AFS financial assets                | <b>₱76,563,977</b>  | ₱126,802,565 |
| Financial assets at FVPL            | <b>16,557,260</b>   | 16,491,387   |
| Loans and receivables               | <b>15,278,488</b>   | 15,761,465   |
| Cash and cash equivalents (Note 24) | <b>2,949,874</b>    | 4,338,220    |
| Dividend receivable                 | <b>160,347</b>      | 900,518      |
|                                     | <b>₱111,509,946</b> | ₱164,294,155 |



## 8. Investment Properties

The rollforward analysis of this account follows:

|   | 2012               | 2011               |
|---|--------------------|--------------------|
| <b>Cost</b>                                 |                    |                    |
| At January 1                                | ₱25,874,237        | ₱40,653,097        |
| Transfer to property and equipment (Note 9) | –                  | (14,778,860)       |
| At December 31                              | <b>25,874,237</b>  | <b>25,874,237</b>  |
| <b>Accumulated Depreciation</b>             |                    |                    |
| At January 1                                | <b>10,239,752</b>  | 21,150,583         |
| Depreciation (Note 20)                      | <b>854,625</b>     | 943,692            |
| Transfer to property and equipment (Note 9) | –                  | (11,854,523)       |
| At December 31                              | <b>11,094,377</b>  | <b>10,239,752</b>  |
| <b>Net Book Value</b>                       | <b>₱14,779,860</b> | <b>₱15,634,485</b> |

Depreciation expense charged to operations amounted to ₱854,625 and ₱943,692 in 2012 and 2011, respectively.

Based on the appraisal conducted on December 3, 2012 and November 28, 2011, the investment properties have a total fair value of ₱31,737,000 and ₱23,443,500, respectively. The values were arrived at using the Sales Comparison Approach. This approach involves the analysis of rental and capital values of comparable properties in the vicinity. Adjustments are made to reflect the differences in use, location, tenure, size, amenities, efficiency, age and condition of the subject property. Upon confirmation with the Company's independent appraiser, management believes that there is no significant change in the fair value of the condominium units from the appraisal conducted on December 3, 2012 and November 28, 2011 compared to its value on December 31, 2012 and 2011, respectively.

Rental income on investment properties amounted to ₱919,254 and ₱1,008,241 in 2012 and 2011, respectively (see Notes 18 and 25). Direct operating expenses related to these investment properties in 2012 and 2011 amounted to ₱932,984 and ₱1,021,696, respectively.

Certain condominium units classified under investment properties with cost of ₱14,778,860 and accumulated depreciation of ₱11,854,523 were previously leased out. In 2011, these condominium units were used in operations and as such, were transferred to property and equipment.

## 9. Property and Equipment

The rollforward analysis of this account follows:

|  | Building     | Leasehold Improvements | Transportation Equipment | Computer Equipment | Furniture and Equipment (Note 25) | Total        |
|--|--------------|------------------------|--------------------------|--------------------|-----------------------------------|--------------|
| <b>Cost</b>                                  |              |                        |                          |                    |                                   |              |
| At January 1, 2011                           | ₱124,204,877 | ₱74,495,516            | ₱21,568,455              | ₱154,687,287       | ₱60,213,135                       | ₱435,169,270 |
| Additions                                    | –            | 21,044,934             | 538,773                  | 30,684,088         | 3,647,863                         | 55,915,658   |
| Disposals                                    | –            | –                      | (3,458,918)              | –                  | –                                 | (3,458,918)  |
| Transfer from investment properties (Note 8) | 14,778,860   | –                      | –                        | –                  | –                                 | 14,778,860   |

(Forward)



|  | <b>Building</b>     | <b>Leasehold Improvements</b> | <b>Transportation Equipment</b> | <b>Computer Equipment</b> | <b>Furniture and Equipment (Note 25)</b> | <b>Total</b>        |
|--|---------------------|-------------------------------|---------------------------------|---------------------------|--|---------------------|
| At December 31, 2011                             | <b>₱138,983,737</b> | <b>₱95,540,450</b>            | <b>₱18,648,310</b>              | <b>₱185,371,375</b>       | <b>₱63,860,998</b>                       | <b>₱502,404,870</b> |
| Additions  | –                   | 74,505,622                    | 3,466,548                       | 35,888,479                | 7,094,026                                | 120,954,675         |
| Disposals  | –                   | –                             | (7,085,697)                     | –                         | –  | (7,085,697)         |
| At December 31, 2012                             | <b>138,983,737</b>  | <b>170,046,072</b>            | <b>15,029,161</b>               | <b>221,259,854</b>        | <b>70,955,024</b>                        | <b>616,273,848</b>  |
| <b>Accumulated Depreciation and Amortization</b> |                     |                               |                                 |                           |  |                     |
| At January 1, 2011                               | 74,071,609          | 43,046,011                    | 14,320,862                      | 122,574,564               | 54,336,225                               | 308,349,271         |
| Depreciation and amortization (Note 20)          | 6,701,741           | 12,783,600                    | 3,012,230                       | 21,330,983                | 3,423,547                                | 47,252,101          |
| Disposals  | –                   | –                             | (3,148,907)                     | –                         | –  | (3,148,907)         |
| Transfer from investment properties (Note 8)     | 11,854,523          | –                             | –                               | –                         | –  | 11,854,523          |
| At December 31, 2011                             | <b>92,627,873</b>   | <b>55,829,611</b>             | <b>14,184,185</b>               | <b>143,905,547</b>        | <b>57,759,772</b>                        | <b>364,306,988</b>  |
| Depreciation and amortization (Note 20)          | <b>6,701,743</b>    | <b>16,942,052</b>             | <b>2,515,573</b>                | <b>25,703,203</b>         | <b>3,695,195</b>                         | <b>55,557,766</b>   |
| Disposals  | –                   | –                             | (6,436,783)                     | –                         | –  | (6,436,783)         |
| At December 31, 2012                             | <b>₱99,329,616</b>  | <b>₱72,771,663</b>            | <b>₱10,262,975</b>              | <b>₱169,608,750</b>       | <b>₱61,454,967</b>                       | <b>₱413,427,971</b> |
| <b>Net Book Value</b>                            |                     |                               |                                 |                           |  |                     |
| At December 31, 2012                             | <b>₱39,654,121</b>  | <b>₱97,274,409</b>            | <b>₱4,766,186</b>               | <b>₱51,651,104</b>        | <b>₱9,500,057</b>                        | <b>₱202,845,877</b> |
| At December 31, 2011                             | <b>₱46,355,864</b>  | <b>₱39,710,839</b>            | <b>₱4,464,125</b>               | <b>₱41,465,828</b>        | <b>₱6,101,226</b>                        | <b>₱138,097,882</b> |

Depreciation and amortization expense charged to operations amounted to ₱55,557,766 and ₱47,252,101 in 2012 and 2011, respectively. Cost of fully depreciated property and equipment still being used amounted to ₱139,217,379 and ₱165,452,460 as of December 31, 2012 and 2011, respectively.

## 10. Intangible Assets

The rollforward analysis of this account follows:

|                                 | <b>2012</b>        | <b>2011</b> |
|---------------------------------|--------------------|-------------|
| <b>Cost</b>                     |                    |             |
| At January 1                    | <b>₱86,968,848</b> | ₱77,229,682 |
| Additions                       | <b>360,000</b>     | 9,739,166   |
| Transfer to other assets        | <b>(9,739,167)</b> | –           |
| At December 31                  | <b>77,589,681</b>  | 86,968,848  |
| <b>Accumulated Amortization</b> |                    |             |
| At January 1                    | <b>74,101,040</b>  | 73,267,590  |
| Amortization (Note 20)          | <b>4,079,838</b>   | 833,450     |
| Transfer to other assets        | <b>(3,246,389)</b> | –           |
| At December 31                  | <b>74,934,489</b>  | 74,101,040  |
| <b>Net Book Value</b>           | <b>₱2,655,192</b>  | ₱12,867,808 |

Amortization expense charged to operations amounted to ₱4,079,838 and ₱833,450 in 2012 and 2011, respectively.

In 2012, cost and accumulated amortization amounting to ₱9,739,167 and ₱3,246,389, respectively, were transferred to prepaid expenses classified under other assets account.





## 11. Assets Held to Cover Unit-Linked Liabilities / Unit-Linked Liabilities

Assets held to cover unit-linked liabilities consists of:

|  | 2012                   | 2011            |
|--|------------------------|-----------------|
| Net asset values of the unit-linked funds (Note 24)                        | <b>₱33,564,074,210</b> | ₱25,973,599,601 |
| Subscriptions to be transferred to unit-linked funds                       | <b>237,256,507</b>     | 51,938,376      |
| Investment in unit-linked funds under<br>financial assets at FVPL (Note 6) | <b>(43,010,590)</b>    | (34,888,800)    |
|  | <b>₱33,758,320,127</b> | ₱25,990,649,177 |

The unit-linked funds' net assets consists of:

|   | 2012                   | 2011            |
|---|------------------------|-----------------|
| <b>Assets</b>   |                        |                 |
| Cash and cash equivalents:                                |                        |                 |
| Cash in bank  | <b>₱102,918,914</b>    | ₱19,668,293     |
| Short-term deposits                                       | <b>2,033,155,893</b>   | 1,523,752,375   |
| Financial assets at fair value through<br>profit or loss: |                        |                 |
| Government debt securities:                               |                        |                 |
| Local currency  | <b>12,063,112,632</b>  | 10,312,491,071  |
| Foreign currency  | <b>10,590,039,373</b>  | 9,769,759,498   |
| Listed equity securities                                  | <b>8,572,619,584</b>   | 4,185,788,873   |
| Derivative asset  | <b>44,604,461</b>      | 20,580,298      |
| Accrued income:   |                        |                 |
| Interest receivable                                       | <b>348,246,123</b>     | 323,463,720     |
| Dividends receivable                                      | <b>1,732,429</b>       | 4,212,545       |
| Accounts receivable                                       | <b>37,914,728</b>      | 51,331,954      |
|   | <b>33,794,344,137</b>  | 26,211,048,627  |
| <b>Liabilities</b>  |                        |                 |
| Accounts payable  | <b>110,327,458</b>     | 145,137,413     |
| Asset management fees payable (Note 24)                   | <b>79,551,015</b>      | 63,762,058      |
| Administration and custody fees payable                   | <b>22,879,060</b>      | 17,452,735      |
| Service fees payable (Note 24)                            | <b>17,512,394</b>      | 11,096,820      |
|   | <b>230,269,927</b>     | 237,449,026     |
|   | <b>₱33,564,074,210</b> | ₱25,973,599,601 |

### *Cash and cash equivalents*

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods not exceeding three months depending on the immediate cash requirements of the funds, and earn interest at the prevailing short-term deposit rates.

### *Financial assets at FVPL*

The unit-linked funds' financial assets at FVPL are designated by management as at FVPL on initial recognition. In 2012, government securities bear interest ranging from 5.00% to 9.13% and from 4.00% to 10.63% for peso bonds and dollar bonds, respectively. In 2011, government securities bear interest ranging from 5.38% to 12.38% and from 4.00% to 12.13% for peso bonds and dollar bonds, respectively.



*Derivative asset*

The Company, through AXA Philippine Armor Fund, entered into a derivative transaction with Metropolitan Bank and Trust Company (MBTC), an affiliate. The derivative asset pertains to a bond swap classified under financial assets at FVPL. The Company exchanged ₱223,572,719 to buy US dollars amounting to US\$4,650,982 at US\$1 to ₱48.07 spot rate. Under this agreement, the Company used the US dollars to purchase US\$4,130,000 par value Republic of the Philippines (ROP) bonds maturing on January 14, 2014. At each coupon date, the Company uses the coupon payment to buy additional ROP bond. At maturity date, the aggregate face value of the ROP bonds plus the last coupon payment, both in US dollars, will be exchanged for Philippine peso using the pre-agreed forward rate of ₱51.62. The market value of the bonds and the unrealized gain on the currency forward derivative asset amounted to ₱75,019,088 and ₱44,604,461 as of December 31, 2012 and ₱136,219,219 and ₱20,580,298 as of December 31, 2011. The notional amount as of December 31, 2012 and 2011 amounted to US\$1,704,000 and US\$3,208,634, respectively.

*Accrued income*

Interest receivable pertains to interest accrued on short-term deposits and government debt securities. Dividends receivable pertain to dividends accrued on listed equity securities.

*Accounts receivable*

Accounts receivable pertain to amounts due from brokers which represent receivables for securities sold that have been contracted for but not yet settled as of the end of the reporting period. It also includes subscriptions from unitholders.

*Accounts payable*

Accounts payable pertain to amounts due to brokers which represent payables for securities purchased that have been contracted for but not yet settled as of the end of the reporting period. It also includes redemptions payable to unitholders.

*Asset management fees payable and service fees payable*

Unit-linked funds were established through a Service Level Agreement between the unit-linked funds and MBTC. Under the Service Level Agreement (SLA), MBTC shall manage the unit-linked funds faithfully in accordance with the terms and conditions of the SLA. The Company is entitled to an asset management fee equivalent to 1.30% to 2.10% per annum based on the net asset value of the unit-linked funds. As compensation for services rendered, MBTC shall be entitled to a service fee equivalent to 0.10% to 0.30% per annum based on the net asset value of the unit-linked funds.

*Administration and custody fees payable*

The unit-linked funds and Citibank entered into a fund administration services agreement wherein Citibank shall perform administrative functions, which include, among others, the preparation and maintenance of books of accounts, computation of net asset value, and payment of expenses incurred by the unit-linked funds. As compensation for services rendered, Citibank shall be entitled to an administration and custody fee equivalent to 0.10% per annum based on the net asset value of the unit-linked funds.



The net asset values of the various unit-linked funds follow:

|   | 2012                   | 2011                   |
|---|------------------------|------------------------|
| AXA Philippine Premium Bond Fund            | <b>₱9,241,378,080</b>  | ₱8,129,289,330         |
| AXA Philippine Wealth Balanced Fund         | <b>8,323,622,763</b>   | 5,811,460,517          |
| AXA Philippine Wealth Equity Fund           | <b>3,800,555,836</b>   | 1,567,727,567          |
| AXA Philippine 3Gxceed \$B19                | <b>1,729,138,983</b>   | 1,912,837,814          |
| AXA Philippine Wealth Bond Fund             | <b>1,657,522,775</b>   | 1,626,672,819          |
| AXA Philippine 3Gxceed B16 Series 2         | <b>1,628,082,078</b>   | 1,762,704,452          |
| AXA Philippine 3Gxceed B16                  | <b>968,399,437</b>     | 1,135,704,716          |
| AXA Philippine 3Gxceed B17                  | <b>941,660,700</b>     | 987,381,247            |
| AXA Philippine 3Gxceed B17 Series 2         | <b>696,088,954</b>     | 731,086,365            |
| AXA Philippine 3Gxceed B19                  | <b>660,578,242</b>     | 307,798,439            |
| AXA Philippine Opportunity Fund             | <b>637,933,510</b>     | 487,904,698            |
| AXA Philippine Locked and Loaded            | <b>507,631,394</b>     | 611,012,205            |
| AXA Philippine 3Gxceed B18 Series 2         | <b>471,468,898</b>     | -                      |
| AXA Philippine 3Gxceed B20                  | <b>432,389,140</b>     | 140,012,454            |
| AXA Philippine Global Advantage Fund        | <b>373,906,587</b>     | -                      |
| AXA Philippine 3Gxceed \$B20                | <b>342,367,998</b>     | -                      |
| AXA Philippine Chinese Tycoon Fund          | <b>336,767,566</b>     | 37,190,226             |
| AXA Philippine Capital Investment Fund      | <b>309,307,571</b>     | 366,333,212            |
| AXA Philippine 3Gxceed B18                  | <b>159,392,826</b>     | 118,380,384            |
| AXA Philippine Armor Fund                   | <b>110,478,081</b>     | 151,182,289            |
| AXA Philippine 3Gxceed \$B21                | <b>100,498,853</b>     | -                      |
| AXA Philippine Spanish American Legacy Fund | <b>58,237,503</b>      | 29,500,842             |
| AXA Philippine 3Gxceed B21                  | <b>56,072,405</b>      | -                      |
| AXA Philippine Peso Liquidity Fund          | <b>20,594,030</b>      | 59,420,025             |
|   | <b>₱33,564,074,210</b> | <b>₱25,973,599,601</b> |

The movements in unit-linked liabilities during the year follow (in thousands):

|   | 2012               | 2011        |
|---|--------------------|-------------|
| At January 1                            | <b>₱25,990,649</b> | ₱22,879,842 |
| Tabular net premiums or considerations  | <b>9,338,190</b>   | 7,423,210   |
| Tabular interest                        | <b>4,057,439</b>   | 1,186,758   |
|   | <b>39,386,278</b>  | 31,489,810  |
| Reserves released by death              | <b>(26,574)</b>    | (30,972)    |
| Reserves released by other terminations | <b>(4,931,506)</b> | (5,482,079) |
|   | <b>(4,958,080)</b> | (5,513,051) |
| Foreign exchange adjustments            | <b>(669,878)</b>   | 13,890      |
| At December 31                          | <b>₱33,758,320</b> | ₱25,990,649 |



## 12. Insurance Contract Liabilities

This account consists of:

|                                       | 2012                  | 2011           |
|---------------------------------------|-----------------------|----------------|
| Legal policy reserves                 | <b>₱5,353,910,868</b> | ₱6,882,318,892 |
| Claims and benefits payable (Note 24) | <b>657,810,615</b>    | 415,474,106    |
| Policyholders' dividends              | <b>130,921,529</b>    | 259,278,219    |
| Reserve for policyholders' dividends  | <b>16,342,177</b>     | 11,549,642     |
|                                       | <b>₱6,158,985,189</b> | ₱7,568,620,859 |

Insurance contract liabilities may be analyzed as follows (in thousands):

### December 31, 2012

|   | Insurance<br>Contract<br>Liabilities | Reinsurers'<br>Share of<br>Liabilities | Net               |
|---|--------------------------------------|--|-------------------|
| Aggregate reserves for ordinary life policies       | <b>₱5,215,692</b>                    | <b>₱3,923</b>                          | <b>₱5,211,769</b> |
| Aggregate reserves for group life policies          | <b>96,975</b>                        | <b>6,945</b>                           | <b>90,030</b>     |
| Cost of insurance related reserves                  | <b>51,605</b>                        | <b>695</b>                             | <b>50,910</b>     |
| Aggregate reserves for accident and health policies | <b>1,201</b>                         | -                                      | <b>1,201</b>      |
| Policy and contract claims                          | <b>657,811</b>                       | -                                      | <b>657,811</b>    |
| Policyholders' dividends                            | <b>130,922</b>                       | -                                      | <b>130,922</b>    |
| Reserve for policyholders' dividends                | <b>16,342</b>                        | -                                      | <b>16,342</b>     |
|   | <b>₱6,170,548</b>                    | <b>₱11,563</b>                         | <b>₱6,158,985</b> |

### December 31, 2011

|   | Insurance<br>Contract<br>Liabilities | Reinsurers'<br>Share of<br>Liabilities | Net               |
|---|--------------------------------------|--|-------------------|
| Aggregate reserves for ordinary life policies       | <b>₱6,787,239</b>                    | <b>₱2,670</b>                          | <b>₱6,784,569</b> |
| Aggregate reserves for group life policies          | <b>67,812</b>                        | <b>5,779</b>                           | <b>62,033</b>     |
| Cost of insurance related reserves                  | <b>35,072</b>                        | <b>2</b>                               | <b>35,070</b>     |
| Aggregate reserves for accident and health policies | <b>647</b>                           | -                                      | <b>647</b>        |
| Policy and contract claims                          | <b>415,474</b>                       | -                                      | <b>415,474</b>    |
| Policyholders' dividends                            | <b>259,278</b>                       | -                                      | <b>259,278</b>    |
| Reserve for policyholders' dividends                | <b>11,550</b>                        | -                                      | <b>11,550</b>     |
|   | <b>₱7,577,072</b>                    | <b>₱8,451</b>                          | <b>₱7,568,621</b> |

Legal policy reserves may be analyzed as follows:

|  | 2012                  | 2011           |
|--|-----------------------|----------------|
| <b>Gross</b>                                   |                       |                |
| With fixed and guaranteed terms:               |                       |                |
| Partially fixed and guaranteed - participating | <b>₱4,742,636,544</b> | ₱5,886,327,220 |
| Fixed and guaranteed - nonparticipating        | <b>571,232,727</b>    | 969,370,833    |
| Cost of insurance                              | <b>51,605,256</b>     | 35,072,281     |
|  | <b>5,365,474,527</b>  | 6,890,770,334  |

(Forward)



|  | 2012                  | 2011           |
|--|-----------------------|----------------|
| <b>Recoverable from reinsurers</b>             |                       |                |
| With fixed and guaranteed terms:               |                       |                |
| Partially fixed and guaranteed -participating  | <b>₱826,767</b>       | ₱2,233,313     |
| Fixed and guaranteed - nonparticipating        | <b>10,041,505</b>     | 6,215,982      |
| Cost of insurance                              | <b>695,387</b>        | 2,147          |
|  | <b>11,563,659</b>     | 8,451,442      |
| <b>Net</b>                                     |                       |                |
| With fixed and guaranteed terms:               |                       |                |
| Partially fixed and guaranteed - participating | <b>4,741,809,777</b>  | 5,884,093,907  |
| Fixed and guaranteed - nonparticipating        | <b>561,191,222</b>    | 963,154,852    |
| Cost of insurance                              | <b>50,909,869</b>     | 35,070,133     |
|  | <b>₱5,353,910,868</b> | ₱6,882,318,892 |

The movements in legal policy reserves during the year follow (in thousands):

|  | 2012                                 |  |                    | 2011                                 |  |             |
|--|--------------------------------------|--|--------------------|--------------------------------------|--|-------------|
|  | Insurance<br>Contract<br>Liabilities | Reinsurers'<br>Share of<br>Liabilities | Net                | Insurance<br>Contract<br>Liabilities | Reinsurers'<br>Share of<br>Liabilities | Net         |
| At January 1                               | <b>₱6,890,771</b>                    | <b>₱8,452</b>                          | <b>₱6,882,319</b>  | ₱7,388,991                           | ₱4,546                                 | ₱7,384,445  |
| Tabular net premiums or<br>considerations  | <b>1,422,828</b>                     | -                                      | <b>1,422,828</b>   | 1,227,083                            | -                                      | 1,227,083   |
| Tabular interest                           | <b>378,796</b>                       | -                                      | <b>378,796</b>     | 431,733                              | -                                      | 431,733     |
| Other increase                             | <b>12,353</b>                        | <b>3,112</b>                           | <b>9,241</b>       | 12,277                               | 3,906                                  | 8,371       |
|  | <b>8,704,748</b>                     | <b>11,564</b>                          | <b>8,693,184</b>   | 9,060,084                            | 8,452                                  | 9,051,632   |
| Tabular cost                               | <b>(857,930)</b>                     | -                                      | <b>(857,930)</b>   | (682,959)                            | -                                      | (682,959)   |
| Reserves released by death                 | <b>(8,085)</b>                       | -                                      | <b>(8,085)</b>     | (11,025)                             | -                                      | (11,025)    |
| Reserves released by other<br>terminations | <b>(2,412,269)</b>                   | -                                      | <b>(2,412,269)</b> | (1,463,719)                          | -                                      | (1,463,719) |
|  | <b>(3,278,284)</b>                   | -                                      | <b>(3,278,284)</b> | (2,157,703)                          | -                                      | (2,157,703) |
| Foreign exchange adjustments               | <b>(60,989)</b>                      | -                                      | <b>(60,989)</b>    | (11,610)                             | -                                      | (11,610)    |
| At December 31                             | <b>₱5,365,475</b>                    | <b>₱11,564</b>                         | <b>₱5,353,911</b>  | ₱6,890,771                           | ₱8,452                                 | ₱6,882,319  |

The movements during the year in claims and benefits payable follow:

|                                   | 2012                   | 2011            |
|-----------------------------------|------------------------|-----------------|
| At January 1                      | <b>₱415,474,106</b>    | ₱386,322,619    |
| Arising during the year (Note 18) | <b>2,738,905,142</b>   | 1,763,459,854   |
| Paid during the year              | <b>(2,496,568,633)</b> | (1,734,308,367) |
| At December 31                    | <b>₱657,810,615</b>    | ₱415,474,106    |

The movements during the year in policyholders' dividends follow:

|                         | 2012                 | 2011         |
|-------------------------|----------------------|--------------|
| At January 1            | <b>₱259,278,219</b>  | ₱251,868,381 |
| Arising during the year | <b>40,172,847</b>    | 82,660,914   |
| Paid during the year    | <b>(168,529,537)</b> | (75,251,076) |
| At December 31          | <b>₱130,921,529</b>  | ₱259,278,219 |



The movements during the year in reserves for policyholders' dividends follow:

|                         | 2012        | 2011        |
|-------------------------|-------------|-------------|
| At January 1            | ₱11,549,642 | ₱19,731,056 |
| Arising during the year | 4,792,535   | (8,181,414) |
| At December 31          | 16,342,177  | ₱11,549,642 |

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### 13. Insurance Contract Liabilities - Terms and Assumptions

#### *Terms*

Life insurance contracts offered by the Company mainly include: (a) traditional whole life participating policies (with and without anticipated endowments) and a wide range of nonparticipating riders (i.e., accidental death and dismemberment, term, critical illness, hospital income, term life, etc.); (b) unit-linked products, both regular premium and single premium with nonparticipating riders; (c) various nonparticipating products; and (d) a participating US\$ single-premium product. In addition, the Company offers group yearly renewable term, credit life and personal accident insurance.

#### Life Insurance Contract Liabilities

For life insurance contracts with fixed and guaranteed terms (including partially fixed and guaranteed terms), the Company determines assumptions in relation to future deaths and investment returns at inception of the contracts. These assumptions are used for calculating the liabilities during the life of the contract. These assumptions, which may be changed during the life of the contract, are in compliance with statutory requirements.

#### *Key assumptions*

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions are based on past experience, current internal data and conditions, and external market indices and benchmarks, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate at inception of the contract and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are subject to the provisions of the Code and guidelines set by the IC.

For insurance contracts, the Company determines the assumptions in relation to future deaths, illness or injury and investment returns at inception of the contract. Subsequently, new estimates are developed at each reporting date and liabilities are tested to determine whether such liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered ("unlocked") to reflect the latest current estimates. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.



The key assumptions to which the estimation and adequacy testing of liabilities are particularly sensitive follows:

- **Mortality and morbidity rates**  
Assumptions are based on standard industry and national mortality and morbidity tables, according to the type of contract written and which may be adjusted where appropriate to reflect contract type. For life insurance policies, increased mortality and morbidity rates would lead to a larger number of claims and claims occurring sooner than anticipated, increased the expenditure, and reduced profits for the shareholders.
- **Discount rates**  
Life insurance liabilities are determined as the sum of the discounted value of the expected benefits, less the discounted value of the expected future theoretical premiums that would be required to meet these future cash outflows. The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rates used for estimating liabilities are capped at 6% by the Code. An increase in investment return would lead to an increase in profits for the shareholders. A decrease in the discount rate will increase the value of the liability.

As required by the Code, lapse, surrender and expense assumptions are not factored in the computation of the insurance contract liabilities.

The assumptions that have the greatest effect on the statements of financial position and statements of comprehensive income of the Company in 2012 and 2011 are listed below:

| <b>Portfolio assumptions<br/>by product impacting net liabilities</b> | <b>Mortality and<br/>morbidity rates</b> | <b>Discount rates</b> |
|---|--|-----------------------|
| Whole life / Endowment  | 90% 1980 CSO                             | 6%                    |
|   | 1958 CSO                                 | 6%                    |
|   | 1980 CSO                                 | 6%                    |
| Term insurance  | 1958 CSO                                 | 6%                    |

*Sensitivities*

The analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant, on liabilities, profit before tax and 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.

**December 31, 2012**

|                     | <b>Change in<br/>assumptions</b> | <b>Increase/(decrease)<br/>in liabilities</b> | <b>Increase/(decrease)<br/>in profit before tax</b> | <b>Increase/(decrease)<br/>in equity</b> |
|---------------------|----------------------------------|---|---|--|
| Mortality/morbidity | + 10%                            | ₱20,809,698                                   | (₱20,809,698)                                       | (₱20,809,698)                            |
|                     | - 10%                            | (23,035,033)                                  | 23,035,033  | 23,035,033                               |
| Discount rate       | -1%                              | 610,746,650                                   | (610,746,650)                                       | (610,746,650)                            |



December 31, 2011

|                     | Change in assumptions | Increase/(decrease) in liabilities | Increase/(decrease) in profit before tax | Increase/(decrease) in equity |
|---------------------|-----------------------|------------------------------------|--|-------------------------------|
| Mortality/morbidity | + 10%                 | ₱32,192,118                        | (₱32,192,118)                            | (₱32,192,118)                 |
|                     | - 10%                 | (25,015,322)                       | 25,015,322                               | 25,015,322                    |
| Discount rate       | -1%                   | 558,001,224                        | (558,001,224)                            | (558,001,224)                 |

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

#### Reinsurance - Assumptions and Methods

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under the “Insurance receivables” account in the statement of financial position. Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

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#### 14. Insurance Payables

The rollforward analysis of this account follows:

|                                   | 2012                | 2011         |
|-----------------------------------|---------------------|--------------|
| At January 1                      | <b>₱85,169,118</b>  | ₱64,164,266  |
| Arising during the year (Note 18) | <b>32,483,966</b>   | 31,274,005   |
| Paid during the year              | <b>(60,549,042)</b> | (10,269,153) |
| At December 31                    | <b>₱57,104,042</b>  | ₱85,169,118  |

Insurance payables pertain to premiums due to reinsurers which are non-interest bearing.

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#### 15. Trade and Other Liabilities

This account consists of:

|  | 2012                | 2011         |
|--|---------------------|--------------|
| Accounts payable (Note 24)             | <b>₱278,188,990</b> | ₱347,387,985 |
| Accrued incentives and bonuses         | <b>114,717,086</b>  | 67,438,800   |
| Commissions payable (Note 24)          | <b>104,407,190</b>  | 92,234,417   |
| Accrued shared service costs (Note 24) | <b>84,106,232</b>   | 79,837,331   |
| Taxes payable                          | <b>38,103,452</b>   | 62,848,957   |
| Telemarketing expenses                 | <b>27,868,935</b>   | 40,890,279   |
| Lease liability (Note 25)              | <b>161,696</b>      | 1,086,164    |
| Others                                 | <b>12,739,771</b>   | 13,916,791   |
|  | <b>₱660,293,352</b> | ₱705,640,724 |





Accounts payable pertain to subscriptions to be transferred to unit-linked funds. It also includes amounts due to brokers which represent payables for securities purchased that have been contracted for but not yet settled as of the end of the reporting period. These are non-interest bearing and are payable on demand.

Accrued incentives and bonuses pertain to incentive plans based on business performance, accrual of unused leaves, mid-year and 13th month pay, medical reimbursements and provident plan contribution. These are non interest bearing and payable within approved terms.

Commissions payable pertain to sales force commissions which are non interest-bearing and payable every month.

Accrued shared service costs pertain to regional charges for IT services, consultancy and support services. These are charged based on actual costs incurred. These are non interest-bearing and are payable on demand.

Taxes payable include taxes withheld from staffs and agents, fringe benefits taxes, stamp duties and premium taxes.

Telemarketing expenses pertain to direct marketing costs of telemarketers. These expenses include telephone costs, computer costs and collection fees paid to Metrobank Card Corporation, the contractor of the telemarketers. These are non-interest bearing and are payable on demand.

Other liabilities pertain to accrued professional fees, accrued advertising expenses and other miscellaneous payables. These are non-interest bearing and are payable on demand.

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## 16. Equity

### *Capital stock - net*

This account consists of common stock net of treasury shares as follows:

|  | 2012                | 2011         |
|--|---------------------|--------------|
| Authorized - 10,000,000 shares, ₱100 par value                 |                     |              |
| Issued - 6,593,953 shares in 2012 and 3,500,240 shares in 2011 | <b>₱659,395,300</b> | ₱350,024,000 |
| Treasury stock - 207 shares in 2012 and 2011                   | <b>(163,378)</b>    | (163,378)    |
|  | <b>₱659,231,922</b> | ₱349,860,622 |

The movements of the Company's common shares follow:

|                    | 2012             | 2011      |
|--------------------|------------------|-----------|
| At January 1       | <b>3,500,240</b> | 3,500,240 |
| Issuance of shares | <b>3,093,713</b> | -         |
| At December 31     | <b>6,593,953</b> | 3,500,240 |



*Deposits for future stock subscription and Contingency surplus*

To comply with the capitalization requirement, on September 2, 2011, the IC granted the Company's request for the conversion of its contingency surplus into paid-up capital. On September 28, 2011, the Company received cash contribution from four stockholders amounting to ₱5,081,400 as stock subscriptions for 50,814 shares. On October 7, 2011, FMIC, through a deed of assignment, assigned a portion of its contingency surplus to GT Capital amounting ₱77,794,000 for conversion to paid-up capital. On the same date, FMIC and GT Capital entered into a deed of assignment to assign FMIC and GT Capital's rights and interests in the contingency surplus to the Company for conversion to paid-up capital amounting to ₱87,278,800, divided into 872,788 shares and ₱77,794,000, divided into 777,940 shares, respectively. On October 17, 2011, AXA S.A., through a deed of assignment, assigned its rights and interest in the contingency surplus amounting to ₱139,217,100, divided into 1,392,171 shares to the Company for conversion to paid-up capital. In 2011, the BOD approved the increase in authorized capital stock from ₱600,000,000, divided into 6,000,000 shares to ₱1,000,000,000, divided into 10,000,000 shares with same par value. As of December 31, 2011, the application for increase in authorized capital stock of the Company is still in process with Securities and Exchange Commission. As such, the ₱5,081,400 cash contribution and ₱304,289,900 contingency surplus for conversion into paid-up capital has not yet been issued as capital stock and has been included in "Deposit for future stock subscriptions" account as of December 31, 2011. On March 15, 2012, the SEC approved the Company's application for increase in authorized capital stock. As such, the ₱309,371,300 previously included in "Deposit for future stock subscriptions" account has been issued as capital stock.

*Retained earnings*

On October 24, 2012, the BOD approved the declaration of cash dividends amounting to ₱795 million or ₱120.57 per share payable to all stockholders of record as of the same date. The cash dividends were paid on December 13, 2012.

On December 14, 2011, the BOD approved the declaration of cash dividends amounting to ₱621 million or ₱177.50 per share payable to all stockholders of record as of the same date. The cash dividends were paid on March 26, 2012.

On April 28, 2011, the BOD approved the declaration of cash dividends amounting to ₱501 million or ₱143.13 per share payable to all stockholders of record as of the same date. The cash dividends were paid on June 6, 2011.

As of December 31, 2012 and 2011, the balance of retained earnings includes the remaining balance of the deemed cost adjustment amounting to ₱7,781,920 and ₱9,192,033, respectively, related to investment properties and certain property and equipment which arose when the Company transitioned to PFRS in 2005. This amount has yet to be absorbed through additional depreciation in profit and loss.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the common shares held in treasury.



*Treasury stock*

The movements in the Company's treasury stock follow:

|                | Shares |      | Cost     |          |
|----------------|--------|------|----------|----------|
|                | 2012   | 2011 | 2012     | 2011     |
| At January 1   | 207    | 20   | ₱163,378 | ₱2,000   |
| Acquisitions   | –      | 187  | –        | 161,378  |
| At December 31 | 207    | 207  | ₱163,378 | ₱163,378 |

**17. Revaluation Reserves for Available-for-sale Financial Assets**

The rollforward analysis of this account follows:

|                               | 2012           | 2011           |
|-------------------------------|----------------|----------------|
| At January 1                  | ₱1,090,012,481 | ₱838,588,059   |
| Fair value gains (Note 6)     | 329,852,763    | 529,085,450    |
| Transferred to profit or loss | (157,650,638)  | (277,661,028)  |
| At December 31                | ₱1,262,214,606 | ₱1,090,012,481 |

The revaluation reserve for AFS financial assets records the difference between the amortized cost and fair value of debt instruments and acquisition cost and fair value of equity investments classified as AFS financial assets.

**18. Revenue and Benefits and Claims**

The net insurance premium revenue consists of:

|  | 2012            | 2011           |
|--|-----------------|----------------|
| <b>Premium revenue arising from contracts issued</b>                     |                 |                |
| Unit-linked insurance contracts  | ₱10,288,684,358 | ₱8,131,784,020 |
| Life insurance contracts (Note 24)                                       | 2,023,350,985   | 1,874,838,894  |
|  | 12,312,035,343  | 10,006,622,914 |
| <b>Premium revenue ceded to reinsurers on contracts issued (Note 14)</b> |                 |                |
| Unit-linked insurance contracts  | 16,758,180      | 6,342,017      |
| Life insurance contracts   | 15,725,786      | 24,931,988     |
|  | 32,483,966      | 31,274,005     |
|  | ₱12,279,551,377 | ₱9,975,348,909 |



The investment income consists of:

|                                     | 2012                | 2011         |
|-------------------------------------|---------------------|--------------|
| Interest on:                        |                     |              |
| AFS financial assets                | ₱443,237,150        | ₱617,454,657 |
| Financial assets at FVPL            | 80,139,972          | 37,892,733   |
| Cash and cash equivalents (Note 24) | 61,960,801          | 53,835,357   |
| Loans and receivables               | 38,556,261          | 36,148,270   |
|                                     | <b>623,894,184</b>  | 745,331,017  |
| Dividend income                     | 20,146,375          | 26,375,608   |
| Rental income (Notes 8 and 24)      | 919,254             | 1,008,241    |
|                                     | <b>₱644,959,813</b> | ₱772,714,866 |

Net claims and benefits incurred during the year consist of (see Note 12):

|   | 2012                  | 2011           |
|---|-----------------------|----------------|
| Maturities  | ₱2,199,510,356        | ₱1,214,559,222 |
| Death and hospitalization benefits (Note 24)      | 270,427,106           | 276,259,801    |
| Surrenders  | 253,728,753           | 263,961,561    |
| Gross experience refunds                          | 30,407,594            | 9,668,343      |
| Policyholders' dividends and interest             | 40,172,847            | 82,660,914     |
|   | <b>2,794,246,656</b>  | 1,847,109,841  |
| Reinsurers' share on claims and benefits incurred | (15,168,667)          | (989,073)      |
|   | <b>₱2,779,077,989</b> | ₱1,846,120,768 |

#### 19. Income on assets held to cover unit-linked liabilities

This account consists of:

|  | 2012                  | 2011           |
|--|-----------------------|----------------|
| <b>Income</b>                                  |                       |                |
| Fair value gains on financial assets at FVPL   | ₱2,677,224,382        | ₱493,737,786   |
| Interest on:                                   |                       |                |
| Financial assets at FVPL                       | 1,291,394,041         | 1,187,208,810  |
| Cash and cash equivalents                      | 47,890,606            | 30,490,781     |
| Dividend income                                | 137,672,407           | 115,943,242    |
| Foreign exchange gain                          | 3,499,411             | -              |
|  | <b>4,157,680,847</b>  | 1,827,380,619  |
| <b>Expense</b>                                 |                       |                |
| Asset management and service fees (Note 11)    | 575,801,024           | 465,234,369    |
| Fund administration and custody fees (Note 11) | 29,980,033            | 23,587,933     |
| Foreign exchange loss                          | -                     | 640,456        |
| Other expenses                                 | 6,234,140             | 6,513,449      |
|  | <b>612,015,197</b>    | 495,976,207    |
| Income before final tax                        | 3,545,665,650         | 1,331,404,412  |
| Final tax                                      | 149,982,885           | 130,288,688    |
|  | <b>₱3,395,682,765</b> | ₱1,201,115,724 |



## 20. Operating and Administrative Expenses

This account consists of:

|   | 2012                  | 2011           |
|---|-----------------------|----------------|
| Salaries, allowances and benefits (Note 21)       | <b>₱738,202,157</b>   | ₱602,045,153   |
| Advertising and promotions                        | <b>128,517,539</b>    | 123,660,903    |
| Project development costs                         | <b>126,307,649</b>    | 122,211,304    |
| Collection fees                                   | <b>113,138,330</b>    | 105,070,056    |
| Training and convention                           | <b>94,231,252</b>     | 56,260,737     |
| Rent (Notes 24 and 25)                            | <b>74,238,175</b>     | 65,874,476     |
| Shared service costs (Note 24)                    | <b>71,583,034</b>     | 58,557,048     |
| Depreciation and amortization (Notes 8, 9 and 10) | <b>60,492,229</b>     | 49,029,243     |
| Communication, light and water                    | <b>53,996,832</b>     | 51,129,707     |
| Transportation and travel                         | <b>46,962,195</b>     | 41,484,639     |
| Taxes, licenses and fees                          | <b>17,051,559</b>     | 12,563,564     |
| Supplies  | <b>14,181,888</b>     | 21,377,386     |
| Management and directors' fees (Note 24)          | <b>12,590,094</b>     | 15,604,835     |
| Courier costs                                     | <b>10,465,679</b>     | 11,645,212     |
| Repairs and maintenance                           | <b>4,832,930</b>      | 7,510,038      |
| Miscellaneous                                     | <b>17,974,120</b>     | 21,287,992     |
|   | <b>₱1,584,765,662</b> | ₱1,365,312,293 |

Project development costs pertain to charges for information technology services and other expenditures.

Collection fees pertain to accrual of services in relation to premium collections of salary deduction policies and group policies. Fees are applied to collected premiums at various rates.

Shared service costs pertain to allocated regional charges for consultancy and support services based on the service level agreement.

## 21. Employee Benefits

The Company has a noncontributory defined benefit pension plan, covering substantially all of its employees, which requires contributions to be made by the Company to an administered fund. The Company's retirement fund is administered by Metropolitan Bank and Trust Company (MBTC) as trustee (see Note 24).

The following tables summarize the components of the net benefit expense recognized in profit or loss and amounts recognized in the statements of financial position for the plan:

The amounts recognized in profit or loss follow:

|   | 2012               | 2011         |
|---|--------------------|--------------|
| Current service cost                      | <b>₱7,654,400</b>  | ₱5,061,700   |
| Interest cost on benefit obligation       | <b>2,787,515</b>   | 2,541,198    |
| Expected return on plan assets            | <b>(3,690,815)</b> | (3,770,183)  |
| Past service cost                         | <b>828,500</b>     | 828,500      |
| Actuarial gain recognized during the year | <b>(5,275,900)</b> | (13,394,600) |
| Net benefit expense (income)              | <b>₱2,303,700</b>  | (₱8,733,385) |



The amounts recognized in the statements of financial position follow:

|                                     | 2012                | 2011         |
|-------------------------------------|---------------------|--------------|
| Present value of benefit obligation | <b>₱73,834,900</b>  | ₱49,068,000  |
| Fair value of plan assets           | <b>(65,012,572)</b> | (59,698,870) |
| Net pension asset                   | <b>8,822,328</b>    | (10,630,870) |
| Unrecognized past service cost      | <b>(9,114,100)</b>  | (9,942,600)  |
| Unrecognized net actuarial gains    | <b>3,819,706</b>    | 21,797,704   |
| Net pension liability               | <b>₱3,527,934</b>   | ₱1,224,234   |

Changes in the net pension liability follow:

|                              | 2012              | 2011        |
|------------------------------|-------------------|-------------|
| At January 1                 | <b>₱1,224,234</b> | ₱9,957,619  |
| Net benefit expense (income) | <b>2,303,700</b>  | (8,733,385) |
| At December 31               | <b>₱3,527,934</b> | ₱1,224,234  |

Past service cost pertains to the improvements on retirement benefits in relation to the increase on maximum benefits.

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

|                                     | 2012               | 2011        |
|-------------------------------------|--------------------|-------------|
| At January 1                        | <b>₱49,068,000</b> | ₱32,747,400 |
| Current service cost                | <b>7,654,400</b>   | 5,061,700   |
| Interest cost on benefit obligation | <b>2,787,515</b>   | 2,541,198   |
| Benefits paid                       | <b>(5,766,664)</b> | (1,844,894) |
| Actuarial loss                      | <b>20,091,649</b>  | 10,562,596  |
| At December 31                      | <b>₱73,834,900</b> | ₱49,068,000 |

Changes in the fair value of the plan assets follow:

|                                | 2012               | 2011        |
|--------------------------------|--------------------|-------------|
| At January 1                   | <b>₱59,698,870</b> | ₱58,002,823 |
| Expected return on plan assets | <b>3,690,815</b>   | 3,770,183   |
| Benefits paid                  | <b>(5,766,664)</b> | (1,844,894) |
| Actuarial gain (loss)          | <b>7,389,551</b>   | (229,242)   |
| At December 31                 | <b>₱65,012,572</b> | ₱59,698,870 |
| Actual return on plan assets   | <b>₱11,080,366</b> | ₱3,540,941  |



Changes in unrecognized net actuarial gains follow:

|                                 | 2012                | 2011         |
|---------------------------------|---------------------|--------------|
| At January 1                    | <b>₱21,797,704</b>  | ₱45,984,143  |
| From plan assets                | <b>7,389,551</b>    | (229,242)    |
| From defined benefit obligation | <b>(20,091,649)</b> | (10,562,596) |
| Amortization of actuarial gains | <b>(5,275,900)</b>  | (13,394,600) |
| At December 31                  | <b>₱3,819,706</b>   | ₱21,797,704  |

Changes in unrecognized past service cost follow:

|                                    | 2012              | 2011        |
|------------------------------------|-------------------|-------------|
| At January 1                       | <b>₱9,942,600</b> | ₱10,771,100 |
| Amortization for past service cost | <b>(828,500)</b>  | (828,500)   |
| At December 31                     | <b>₱9,114,100</b> | ₱9,942,600  |

The distribution of the plan assets follows:

|                           | 2012               | 2011        |
|---------------------------|--------------------|-------------|
| Cash and cash equivalents | <b>₱2,957,839</b>  | ₱1,139,543  |
| Debt securities           | <b>53,502,250</b>  | 52,122,483  |
| Equity securities         | <b>7,726,242</b>   | 5,283,890   |
| Receivables               | <b>874,548</b>     | 1,198,487   |
|                           | <b>65,060,879</b>  | 59,744,403  |
| Accounts payable          | <b>48,307</b>      | 45,533      |
|                           | <b>₱65,012,572</b> | ₱59,698,870 |

The Company plans to contribute to the retirement fund in 2013 amounting to ₱12,191,228.

The principal assumptions used in determining pension liability for the Company's plan follow:

|  | 2012              | 2011       |
|--|-------------------|------------|
| Discount rate                          | <b>5.58%</b>      | 6.04%      |
| Expected rate of return on plan assets | <b>6.50</b>       | 6.50       |
| Rate of salary increase                | <b>7.00</b>       | 7.00       |
| Average years of service               | <b>4.25 years</b> | 3.28 years |

Expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy.

The gains (losses) on experience adjustments on plan assets and plan liabilities follow:

|                  | 2012              | 2011        | 2010       | 2009       | 2008         |
|------------------|-------------------|-------------|------------|------------|--------------|
| Plan assets      | <b>₱7,389,551</b> | (₱229,242)  | ₱4,030,930 | ₱3,459,018 | (₱7,416,818) |
| Plan liabilities | <b>5,584,249</b>  | (3,577,096) | 12,754,564 | 4,560,680  | (1,022,451)  |

Amounts of the current and previous periods follow:

|                            | 2012                | 2011         | 2010         | 2009         | 2008         |
|----------------------------|---------------------|--------------|--------------|--------------|--------------|
| Plan assets                | <b>65,012,572</b>   | ₱59,698,870  | ₱58,002,823  | ₱46,930,622  | ₱42,820,046  |
| Defined benefit obligation | <b>(73,834,900)</b> | (49,068,000) | (32,747,400) | (36,057,200) | (14,552,500) |
| Surplus (deficit)          | <b>(₱8,822,328)</b> | ₱10,630,870  | ₱25,255,423  | ₱10,873,422  | ₱28,267,546  |



Staff costs and other employee related costs consist of (see Note 20):

|  | 2012                | 2011         |
|--|---------------------|--------------|
| Salaries and wages                               | <b>₱683,102,691</b> | ₱564,393,073 |
| Short-term employee benefits                     | <b>32,565,194</b>   | 22,851,104   |
| Social security costs and Pag-ibig contributions | <b>25,494,273</b>   | 22,250,990   |
| Net benefit expense (income)                     | <b>2,303,700</b>    | (8,733,385)  |
| Others   | <b>7,053,468</b>    | 1,283,371    |
|  | <b>₱750,519,326</b> | ₱602,045,153 |

## 22. Income Taxes

Provision for income tax consists of:

|          | 2012                | 2011         |
|----------|---------------------|--------------|
| Current: |                     |              |
| Final    | <b>₱111,836,811</b> | ₱119,120,659 |
| RCIT     | <b>68,214,762</b>   | -            |
| MCIT     | -                   | 21,487,336   |
| Deferred | <b>(47,480,609)</b> | -            |
|          | <b>₱132,570,964</b> | ₱140,607,995 |

Deferred tax assets are recognized only to the extent that realization of the related tax benefit is probable. Components of recognized deferred tax assets and liabilities follow:

|                                     | 2012               | 2011       |
|-------------------------------------|--------------------|------------|
| Deferred tax assets on:             |                    |            |
| Accrual of nondeductible expenses   | <b>₱26,839,096</b> | ₱8,446,219 |
| Tax overpayment                     | <b>13,939,494</b>  | -          |
| Net pension liability               | <b>3,792,610</b>   | 3,350,050  |
| Unrealized foreign exchange loss    | <b>3,930,357</b>   | -          |
| Allowance for impairment losses     | <b>1,159,309</b>   | 1,159,309  |
|                                     | <b>49,660,866</b>  | 12,955,578 |
| Deferred tax liabilities on:        |                    |            |
| Unrealized gain on derivative asset | <b>13,381,338</b>  | 6,174,089  |
| Adjustments on finance lease        | <b>1,352,740</b>   | 1,059,481  |
| Unrealized foreign exchange gains   | -                  | 5,722,008  |
|                                     | <b>14,734,078</b>  | 12,955,578 |
| Net deferred tax assets             | <b>₱34,926,788</b> | ₱-         |

The deferred tax assets of the following future deductible temporary differences have not been recognized:

|                                   | 2012               | 2011        |
|-----------------------------------|--------------------|-------------|
| MCIT                              | <b>₱21,487,336</b> | ₱47,980,651 |
| NOLCO                             | -                  | 29,220,219  |
| Accrual of nondeductible expenses | -                  | 26,773,813  |
|                                   | <b>₱21,487,336</b> | ₱74,974,683 |





The deferred tax assets above have not been recognized since there is insufficient certainty as to the availability of future taxable income.

Details of the MCIT and NOLCO, which are available for offset against future income tax due and taxable income, respectively, follow:

MCIT

| Year Incurred | Amount      | Expired | Applied     | Balance     | Expiry Date |
|---------------|-------------|---------|-------------|-------------|-------------|
| 2011          | ₱21,487,336 | ₱-      | ₱-          | ₱21,487,336 | 2014        |
| 2010          | 13,998,871  | -       | 13,998,871  | -           | 2013        |
| 2009          | 12,494,444  | -       | 12,494,444  | -           | 2012        |
|               | ₱47,980,651 | ₱-      | ₱26,493,315 | ₱21,487,336 |             |

NOLCO

| Year Incurred | Amount      | Expired | Applied     | Balance | Expiry Date |
|---------------|-------------|---------|-------------|---------|-------------|
| 2010          | ₱29,220,219 | ₱-      | ₱29,220,219 | ₱-      | 2013        |

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

|  | 2012   | 2011    |
|--|--------|---------|
| Statutory income tax rate                  | 30.00% | 30.00%  |
| Add (deduct) tax effects of:               |        |         |
| Interest income subjected to final tax     | (6.08) | (8.52)  |
| Income exempt from tax                     | (8.21) | (10.07) |
| Nondeductible expenses                     | 0.39   | 0.33    |
| Change in unrecognized deferred tax assets | (3.45) | 0.95    |
| Effective income tax rate                  | 12.65% | 12.69%  |

## 23. Management of Insurance and Financial Risks

### Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall company and individual business unit levels.

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

### Regulatory Framework

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



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

#### Capital Management

The Company manages its capital through its compliance with the statutory requirements on MOS, minimum paid-up capital and minimum net worth. The Company is also complying with the statutory regulations on RBC to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

A substantial portion of the Company's long term insurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed keeping in view their investment objectives and constraints.

The Company's policy to address the situations where the capital level maintained is lower than required is to oblige the shareholders to add more capital. The Company currently holds surplus capital as a buffer for possible deviation in future profitability.

To ensure compliance with these externally imposed capital requirements, it is the Company's policy to monitor the MOS, paid-up capital, net worth and RBC requirements on a quarterly basis as part of the Company's internal financial reporting process.

Based on its calculations, the Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous year.

#### *MOS*

Under the Code, a life insurance company doing business in the Philippines shall maintain at all times a MOS equal to ₱500,000 or ₱2 per thousand of the total amount of its insurance in force for traditional policies and ₱2 per thousand of net amount at risk for unit-linked products as of the preceding calendar year on all policies, except term insurance, whichever is higher.

The MOS shall be the excess of the value of its admitted assets (as defined under the same Code), exclusive of paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2012 and 2011, the Company's MOS based on its calculations amounted to ₱1,482,848,612 and ₱1,616,045,984, respectively. The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.



The estimated amounts of non-admitted assets as defined under the Code, and are still subject to examination by the IC, which are included in the accompanying statements of financial position, follow:

|                              | <b>2012</b>         | 2011         |
|------------------------------|---------------------|--------------|
| Loans and receivables        | <b>₱169,160,050</b> | ₱114,830,009 |
| Property and equipment - net | <b>111,540,651</b>  | 50,276,191   |
| Other assets                 | <b>46,995,822</b>   | 63,335,694   |
|                              | <b>₱327,696,523</b> | ₱228,441,894 |

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

*Fixed capitalization requirements*

Department of Finance (DOF) Order 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies. Under this order, the minimum statutory net worth and minimum paid-up capital requirements vary depending on the level of the foreign ownership in the insurance company. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

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

In compliance with IMC 10-2006, the required minimum statutory net worth and minimum paid-up capital for the Company, as mandated by DOF Order 27-06, being a 45% foreign owned insurance company is ₱700 million and ₱350 million as of December 31, 2011.

On June 1, 2012, the DOF issued DOF Order 15-2012 which imposes a higher minimum paid-up capital to further supplement DOF Order 27-06. An existing or licensed life insurance company must have a minimum paid-up capital of ₱250 million as of December 31, 2012.

As of December 31, 2012 and 2011, the Company has complied with the minimum paid-up capital requirements.

*RBC requirements*

IMC No. 6-2006 provides for the RBC framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not to fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.



The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC.

The following table shows how the RBC ratio was determined by the Company based on its calculations:

|                 | 2012                  | 2011           |
|-----------------|-----------------------|----------------|
| Net worth       | <b>₱2,285,078,529</b> | ₱2,125,081,036 |
| RBC requirement | <b>659,568,515</b>    | 654,447,103    |
| RBC Ratio       | <b>346%</b>           | 325%           |

The final RBC ratio can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the Code.

*Consolidated compliance framework*

IMC 10-2006 integrated the compliance standards for the fixed capitalization and RBC framework. The fixed capitalization requirement for a given period may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2011, which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%.

On June 1, 2012, the DOF issued DOF Order 15-2012 which provides that after 2012, compliance with prescribed minimum paid-up capital requirement may be deferred for existing insurers that meet the RBC hurdle rate of 150%.

Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the period under review.

*Unimpaired capital requirement*

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

Insurance Risk

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



### *Terms and conditions*

The Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for a pre-determined amount. Life insurance contracts offered by the Company mainly include whole life, term insurance, endowments and unit-linked products. Whole life and term insurance are conventional products where lump sum benefits are payable on death. Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the period is completed. Unit-linked products differ from conventional policies in that a guaranteed percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.

The risks associated with the life and accident and health products are underwriting risk and investment risk.

### *Underwriting risk*

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising from the policyholder's death experience being different than expected.
- Morbidity risk - risk of loss arising from the policyholder's health experience being different than expected.
- Expense risk - risk of loss arising from expense experience being different than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Company consists of underwriting life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. These risks currently do not vary significantly in relation to the location of the risk insured by the Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company has an objective to control and minimize insurance risk to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

- The use and maintenance of sophisticated management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time.
- The use of actuarial models based on past experience and statistical techniques to aid in pricing decisions and monitoring claims pattern.
- Issuance of guidelines for concluding insurance contracts and assuming insurance risks.
- Pro-active compliance of claims handling procedures to investigate and adjust claims, thereby preventing settlement of dubious or fraudulent claims.
- The use of reinsurance to limit the Company's exposure to large claims by placing risk with re-insurers providing high security.



- Diversification to achieve sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The mix of insurance assets is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, refusal to pay premiums or to avail of the guaranteed annuity option. Thus, the insurance risk is subject to the policyholders' behavior and decisions.

Using the amounts in the legal policy reserves (see Note 12), the Company's concentration of insurance risk before and after reinsurance in relation to the type of insurance contract follows:

|                          | 2012                  | 2011           |
|--------------------------|-----------------------|----------------|
| <b>Whole Life</b>        |                       |                |
| Gross                    | <b>₱2,822,959,855</b> | ₱2,851,574,518 |
| Net                      | <b>2,822,139,994</b>  | 2,849,660,144  |
| <b>Endowment</b>         |                       |                |
| Gross                    | <b>881,530,126</b>    | 1,834,519,769  |
| Net                      | <b>881,523,461</b>    | 1,834,022,212  |
| <b>Cost of insurance</b> |                       |                |
| Gross                    | <b>51,605,256</b>     | 35,072,281     |
| Net                      | <b>50,909,869</b>     | 35,070,133     |
| <b>Term insurance</b>    |                       |                |
| Gross                    | <b>122,856,894</b>    | 94,747,267     |
| Net                      | <b>122,644,901</b>    | 94,747,267     |
| <b>Group insurance</b>   |                       |                |
| Gross                    | <b>98,177,363</b>     | 68,458,786     |
| Net                      | <b>91,232,105</b>     | 62,679,798     |
| <b>Rider</b>             |                       |                |
| Gross                    | <b>1,388,345,033</b>  | 2,006,397,713  |
| Net                      | <b>1,385,460,537</b>  | 2,006,139,338  |
| <b>Total</b>             |                       |                |
| Gross                    | <b>5,365,474,527</b>  | 6,890,770,334  |
| Net                      | <b>5,353,910,868</b>  | 6,882,318,892  |

#### Investment Risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of those future premium receipts may be at a yield below than that required to meet future policy liabilities.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.



The Company utilizes dynamic asset allocation strategies consistent with its risk appetite framework to manage investment risk and to ensure sustainable investment returns. As a management tool, the Company uses asset-liability matching to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Company may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.

Financial Instruments

The following table sets forth the carrying values and estimated fair values of non-linked financial instruments recognized:

**December 31, 2012**

|  | Carrying Value         | Fair Value             |
|--|------------------------|------------------------|
| <b>Financial assets:</b>               |                        |                        |
| Loans and receivables                  |                        |                        |
| Cash and cash equivalents              | ₱2,065,521,134         | ₱2,065,521,134         |
| Insurance receivables - net            |                        |                        |
| Due from reinsurers                    | 54,749,206             | 54,749,206             |
| Premiums due and uncollected           | 77,075,654             | 77,075,654             |
| Accrued income                         | 111,509,946            | 111,509,946            |
| Loans and receivables - net            |                        |                        |
| Due from agents                        | 9,878,808              | 9,878,808              |
| Intercompany receivables               | 147,401,657            | 147,401,657            |
| Due from officers and employees        | 25,370,641             | 23,809,321             |
| Policy loans                           | 348,941,773            | 348,941,773            |
| Other receivables                      | 4,801,986              | 4,801,986              |
| Financial assets designated as at FVPL |                        |                        |
| Government debt securities             |                        |                        |
| Local currency                         | 781,707,125            | 781,707,125            |
| Listed equity securities               | 461,164,320            | 461,164,320            |
| Investment in unit-linked funds        | 43,010,590             | 43,010,590             |
| AFS financial assets                   |                        |                        |
| Government debt securities             |                        |                        |
| Local currency                         | 6,431,311,099          | 6,431,311,099          |
| Listed equity securities               | 208,677,941            | 208,677,941            |
| Golf club shares                       | 12,594,100             | 12,594,100             |
| <b>Total financial assets</b>          | <b>₱10,783,715,980</b> | <b>₱10,782,154,660</b> |
| <b>Financial liabilities:</b>          |                        |                        |
| Other financial liabilities            |                        |                        |
| Premium deposit fund                   | ₱140,831,311           | ₱140,831,311           |
| Insurance payables                     | 57,104,042             | 57,104,042             |
| Life insurance deposits                | 111,508,076            | 111,508,076            |
| Trade and other liabilities            | 660,293,352            | 660,293,352            |
| <b>Total financial liabilities</b>     | <b>₱969,736,781</b>    | <b>₱969,736,781</b>    |



December 31, 2011

|  | Carrying Value         | Fair Value             |
|--|------------------------|------------------------|
| <b>Financial assets:</b>               |                        |                        |
| Loans and receivables                  |                        |                        |
| Cash and cash equivalents              | ₱2,602,493,852         | ₱2,602,493,852         |
| Insurance receivables - net            |                        |                        |
| Due from reinsurers                    | 39,580,540             | 39,580,540             |
| Premiums due and uncollected           | 76,112,737             | 76,112,737             |
| Accrued income                         | 164,294,155            | 164,294,155            |
| Loans and receivables - net            |                        |                        |
| Due from agents                        | 9,785,624              | 9,785,624              |
| Intercompany receivables               | 301,393,454            | 301,393,454            |
| Due from officers and employees        | 21,209,678             | 19,618,004             |
| Policy loans                           | 362,983,535            | 362,983,535            |
| Other receivables                      | 3,145,123              | 3,145,123              |
| Financial assets designated as at FVPL |                        |                        |
| Government debt securities             |                        |                        |
| Local currency                         | 780,208,833            | 780,208,833            |
| Listed equity securities               | 389,861,818            | 389,861,818            |
| Investment in unit-linked funds        | 34,888,800             | 34,888,800             |
| AFS financial assets                   |                        |                        |
| Government debt securities             |                        |                        |
| Local currency                         | 6,501,419,470          | 6,501,419,470          |
| Foreign currency                       | 912,737,591            | 912,737,591            |
| Private debt securities                | 231,109,787            | 231,109,787            |
| Listed equity securities               | 295,710,019            | 295,710,019            |
| Golf club shares                       | 9,404,100              | 9,404,100              |
| <b>Total financial assets</b>          | <b>₱12,736,339,116</b> | <b>₱12,734,747,442</b> |
| <b>Financial liabilities:</b>          |                        |                        |
| Other financial liabilities            |                        |                        |
| Premium deposit fund                   | ₱188,886,299           | ₱188,886,299           |
| Insurance payables                     | 85,169,118             | 85,169,118             |
| Life insurance deposits                | 110,232,516            | 110,232,516            |
| Trade and other liabilities            | 705,640,724            | 705,640,724            |
| <b>Total financial liabilities</b>     | <b>₱1,089,868,281</b>  | <b>₱1,089,868,281</b>  |

Due to the short-term nature of cash and cash equivalents, insurance receivables, accrued income, short-term loans and receivables, premium deposit fund, insurance payables, life insurance deposits and trade and other liabilities, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

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





The fair values of long-term loans and receivables are based on the discounted value of future cash flows using applicable rates for similar types of instruments ranging from 0.93% to 3.88% and 1.68% to 4.62% in 2012 and 2011, respectively.

The following table sets forth the carrying values and estimated fair values of unit-linked financial instruments recognized:

**December 31, 2012**

|   | Carrying Value         | Fair Value             |
|---|------------------------|------------------------|
| <b>Financial assets:</b>                |                        |                        |
| Loans and receivables                   |                        |                        |
| Cash and cash equivalents               | ₱2,136,074,807         | ₱2,136,074,807         |
| Interest receivable                     | 348,246,123            | 348,246,123            |
| Dividend receivable                     | 1,732,429              | 1,732,429              |
| Accounts receivable                     | 37,914,728             | 37,914,728             |
| Financial assets designated at FVPL     |                        |                        |
| Government debt securities              |                        |                        |
| Local currency                          | 12,063,112,632         | 12,063,112,632         |
| Foreign currency                        | 10,590,039,373         | 10,590,039,373         |
| Listed equity securities                | 8,572,619,584          | 8,572,619,584          |
| Derivative asset                        | 44,604,461             | 44,604,461             |
| <b>Total financial assets</b>           | <b>₱33,794,344,137</b> | <b>₱33,794,344,137</b> |
| <b>Financial liabilities:</b>           |                        |                        |
| Other financial liabilities             |                        |                        |
| Accounts payable                        | ₱110,327,458           | ₱110,327,458           |
| Asset management fees payable           | 79,551,015             | 79,551,015             |
| Administration and custody fees payable | 22,879,060             | 22,879,060             |
| Service fees payable                    | 17,512,394             | 17,512,394             |
| <b>Total financial liabilities</b>      | <b>₱230,269,927</b>    | <b>₱230,269,927</b>    |

December 31, 2011

|                                     | Carrying Value         | Fair Value             |
|-------------------------------------|------------------------|------------------------|
| <b>Financial assets:</b>            |                        |                        |
| Loans and receivables               |                        |                        |
| Cash and cash equivalents           | ₱1,543,420,668         | ₱1,543,420,668         |
| Interest receivable                 | 323,463,720            | 323,463,720            |
| Dividend receivable                 | 4,212,545              | 4,212,545              |
| Accounts receivable                 | 51,331,954             | 51,331,954             |
| Financial assets designated at FVPL |                        |                        |
| Government debt securities          |                        |                        |
| Local currency                      | 10,312,491,071         | 10,312,491,071         |
| Foreign currency                    | 9,769,759,498          | 9,769,759,498          |
| Listed equity securities            | 4,185,788,873          | 4,185,788,873          |
| Derivative asset                    | 20,580,298             | 20,580,298             |
| <b>Total financial assets</b>       | <b>₱26,211,048,627</b> | <b>₱26,211,048,627</b> |



|   | Carrying Value      | Fair Value          |
|---|---------------------|---------------------|
| <b>Financial liabilities:</b>           |                     |                     |
| Other financial liabilities             |                     |                     |
| Accounts payable                        | ₱145,137,413        | ₱145,137,413        |
| Asset management fees payable           | 63,762,058          | 63,762,058          |
| Administration and custody fees payable | 17,452,735          | 17,452,735          |
| Service fees payable                    | 11,096,820          | 11,096,820          |
| <b>Total financial liabilities</b>      | <b>₱237,449,026</b> | <b>₱237,449,026</b> |

Due to the short-term nature of cash and cash equivalents, interest receivable, dividend receivable, accounts receivable and other financial liabilities, their carrying values reasonably approximate their fair values at year end.

The fair value of financial assets designated as at FVPL that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

The currency forward derivative asset is valued using net present value method using forward curves to estimate the future cash flows from the floating leg of the forward and converted to a single currency using the current foreign exchange spot rate.

*Fair value hierarchy*

The Company classifies its non-linked financial assets at fair value as follows:

**December 31, 2012**

|                                 | Level 1               | Level 2   | Level 3   | Total                 |
|---------------------------------|-----------------------|-----------|-----------|-----------------------|
| Financial assets at FVPL        |                       |           |           |                       |
| Government debt securities      |                       |           |           |                       |
| Local currency                  | ₱781,707,125          | ₱-        | ₱-        | ₱781,707,125          |
| Listed equity securities        | 461,164,320           | -         | -         | 461,164,320           |
| Investment in unit-linked funds | 43,010,590            | -         | -         | 43,010,590            |
| AFS financial assets            |                       |           |           |                       |
| Government debt securities      |                       |           |           |                       |
| Local currency                  | 6,431,311,099         | -         | -         | 6,431,311,099         |
| Listed equity securities        | 208,677,941           | -         | -         | 208,677,941           |
| Golf club shares                | 12,594,100            | -         | -         | 12,594,100            |
|                                 | <b>₱7,938,465,175</b> | <b>₱-</b> | <b>₱-</b> | <b>₱7,938,465,175</b> |

December 31, 2011

|                                 | Level 1       | Level 2 | Level 3 | Total         |
|---------------------------------|---------------|---------|---------|---------------|
| Financial assets at FVPL        |               |         |         |               |
| Government debt securities      |               |         |         |               |
| Local currency                  | ₱780,208,833  | ₱-      | ₱-      | ₱780,208,833  |
| Listed equity securities        | 389,861,818   | -       | -       | 389,861,818   |
| Investment in unit-linked funds | 34,888,800    | -       | -       | 34,888,800    |
| AFS financial assets            |               |         |         |               |
| Government debt securities      |               |         |         |               |
| Local currency                  | 6,501,419,470 | -       | -       | 6,501,419,470 |
| Foreign currency                | 912,737,591   | -       | -       | 912,737,591   |

(Forward)



|                          | Level 1               | Level 2   | Level 3   | Total                 |
|--------------------------|-----------------------|-----------|-----------|-----------------------|
| Private debt securities  |                       |           |           |                       |
| Local currency           | ₱49,276,050           | ₱-        | ₱-        | ₱49,276,050           |
| Foreign currency         | 181,833,737           | -         | -         | 181,833,737           |
| Listed equity securities | 295,710,019           | -         | -         | 295,710,019           |
| Golf club shares         | 9,404,100             | -         | -         | 9,404,100             |
|                          | <b>₱9,155,340,418</b> | <b>₱-</b> | <b>₱-</b> | <b>₱9,155,340,418</b> |

The Company classifies its unit-linked financial assets at fair value as follows:

### December 31, 2012

|                            | Level 1                | Level 2            | Level 3   | Total                  |
|----------------------------|------------------------|--------------------|-----------|------------------------|
| Financial assets at FVPL   |                        |                    |           |                        |
| Government debt securities |                        |                    |           |                        |
| Local currency             | ₱12,063,112,632        | ₱-                 | ₱-        | ₱12,063,112,632        |
| Foreign currency           | 10,590,039,373         | -                  | -         | 10,590,039,373         |
| Listed equity securities   | 8,572,619,584          | -                  | -         | 8,572,619,584          |
| Derivative asset           | -                      | 44,604,461         | -         | 44,604,461             |
|                            | <b>₱31,225,771,589</b> | <b>₱44,604,461</b> | <b>₱-</b> | <b>₱31,270,376,050</b> |

### December 31, 2011

|                            | Level 1                | Level 2            | Level 3   | Total                  |
|----------------------------|------------------------|--------------------|-----------|------------------------|
| Financial assets at FVPL   |                        |                    |           |                        |
| Government debt securities |                        |                    |           |                        |
| Local currency             | ₱10,312,491,071        | ₱-                 | ₱-        | ₱10,312,491,071        |
| Foreign currency           | 9,769,759,498          | -                  | -         | 9,769,759,498          |
| Listed equity securities   | 4,185,788,873          | -                  | -         | 4,185,788,873          |
| Derivative asset           | -                      | 20,580,298         | -         | 20,580,298             |
|                            | <b>₱24,268,039,442</b> | <b>₱20,580,298</b> | <b>₱-</b> | <b>₱24,288,619,740</b> |

There were no changes in the valuation technique used by the Company.

In 2012 and 2011, there have been no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

### Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, insurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy which focuses on minimizing credit risk exposures. The credit risk policies are set as follows:

- Concentration limit- The Company sets maximum exposure to an individual issuer and to a particular sector.
- Counterparty ratings - The Company reviews and recommends financial institutions that will complement over-all investment objectives and service requirements.



Reporting of credit risk exposures, monitoring compliance with credit risk policy and review of credit risk policy is done on a regular basis.

Loans to policyholders granted against the surrender value of policies carry substantially no credit risk. A credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs. In respect of investment securities, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer or group of issuers. The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position:

Non-linked

|                                 | 2012                   | 2011            |
|---------------------------------|------------------------|-----------------|
| Cash and cash equivalents*      | <b>₱2,065,265,332</b>  | ₱2,601,848,660  |
| Insurance receivables - net     |                        |                 |
| Due from reinsurers             | <b>54,749,206</b>      | 39,580,540      |
| Premiums due and uncollected    | <b>77,075,654</b>      | 76,112,737      |
| Financial assets at FVPL        |                        |                 |
| Government debt securities      |                        |                 |
| Local currency                  | <b>781,707,125</b>     | 780,208,833     |
| Listed equity securities        | <b>461,164,320</b>     | 389,861,818     |
| Investment in unit-linked funds | <b>43,010,590</b>      | 34,888,800      |
| AFS financial assets            |                        |                 |
| Government debt securities      |                        |                 |
| Local currency                  | <b>6,431,311,099</b>   | 6,501,419,470   |
| Foreign currency                | -                      | 912,737,591     |
| Private debt securities         |                        |                 |
| Local currency                  | -                      | 49,276,050      |
| Foreign currency                | -                      | 181,833,737     |
| Listed equity securities        | <b>208,677,941</b>     | 295,710,019     |
| Golf club shares                | <b>12,594,100</b>      | 9,404,100       |
| Loans and receivables - net     |                        |                 |
| Intercompany receivables        | <b>147,401,657</b>     | 301,393,454     |
| Due from officers and employees | <b>26,190,294</b>      | 22,029,331      |
| Due from agents                 | <b>11,484,963</b>      | 11,391,779      |
| Other receivables               | <b>6,240,543</b>       | 4,583,480       |
| Accrued income                  | <b>111,509,946</b>     | 164,294,155     |
|                                 | <b>₱10,438,382,770</b> | ₱12,376,574,554 |

\* Excluding petty cash fund



Unit-linked

|                            | 2012                   | 2011                   |
|----------------------------|------------------------|------------------------|
| Cash and cash equivalents  | ₱2,136,074,807         | ₱1,543,420,668         |
| Financial assets at FVPL   |                        |                        |
| Government debt securities |                        |                        |
| Local currency             | 12,063,112,632         | 10,312,491,071         |
| Foreign currency           | 10,590,039,373         | 9,769,759,498          |
| Listed equity securities   | 8,572,619,584          | 4,185,788,873          |
| Derivative asset           | 44,604,461             | 20,580,298             |
| Interest receivable        | 348,246,123            | 323,463,720            |
| Dividend receivable        | 1,732,429              | 4,212,545              |
| Accounts receivable        | 37,914,728             | 51,331,954             |
|                            | <b>₱33,794,344,137</b> | <b>₱26,211,048,627</b> |

The Company's investment policy mandates it to invest only in investment grade bonds. The peso funds are invested in cash and money market instruments, fixed income investments (fixed rate bond issuances of the Philippine government with a minimum credit rating of AA), corporate bonds and equities of Philippine corporations included in the Philippine Stock Exchange (PSE) Index.

The dollar funds are invested in dollar-denominated cash and money market instruments, fixed income investments, particular issuances of the Philippine government with a minimum credit rating of AAA, and corporate bonds.

The table below provides information regarding the credit risk exposure of the Company by classifying non-linked assets according to the Company's credit ratings of counterparties:

**December 31, 2012**

|                                 | <u>Neither Past-Due nor Impaired</u> |  |                         | Total                  |
|---------------------------------|--------------------------------------|--|-------------------------|------------------------|
|                                 | Investment<br>Grade                  | Non-investment<br>Grade:<br>Satisfactory | Past Due or<br>Impaired |                        |
| Cash and cash equivalents*      | ₱2,065,265,332                       | ₱-                                       | ₱-                      | ₱2,065,265,332         |
| Insurance receivables           |                                      |  |                         |                        |
| Due from reinsurers             | -                                    | 3,923,697                                | 50,825,509              | 54,749,206             |
| Premiums due and uncollected    | -                                    | 77,075,654                               | -                       | 77,075,654             |
| Financial assets at FVPL        |                                      |  |                         |                        |
| Government debt securities      |                                      |  |                         |                        |
| Local currency                  | 781,707,125                          | -  | -                       | 781,707,125            |
| Listed equity securities        | 461,164,320                          | -  | -                       | 461,164,320            |
| Investment in unit-linked funds | 43,010,590                           | -  | -                       | 43,010,590             |
| AFS financial assets            |                                      |  |                         |                        |
| Government debt securities      |                                      |  |                         |                        |
| Local currency                  | 6,431,311,099                        | -  | -                       | 6,431,311,099          |
| Listed equity securities        | 208,677,941                          | -  | -                       | 208,677,941            |
| Golf club shares                | 12,594,100                           | -  | -                       | 12,594,100             |
| Loans and receivables           |                                      |  |                         |                        |
| Intercompany receivables        | -                                    | 147,401,657                              | -                       | 147,401,657            |
| Due from officers and employees | -                                    | 25,370,641                               | 819,653                 | 26,190,294             |
| Due from agents                 | -                                    | 9,878,808                                | 1,606,155               | 11,484,963             |
| Policy loans                    | -                                    | 348,941,773                              | -                       | 348,941,773            |
| Other receivables               | -                                    | 4,801,986                                | 1,438,557               | 6,240,543              |
| Accrued income                  | 111,509,946                          | -  | -                       | 111,509,946            |
|                                 | <b>₱10,115,240,453</b>               | <b>₱617,394,216</b>                      | <b>₱54,689,874</b>      | <b>₱10,787,324,543</b> |

\* Excluding petty cash fund



December 31, 2011

|                                 | Neither Past-Due nor Impaired |                                    | Past Due or Impaired | Total                  |
|---------------------------------|-------------------------------|------------------------------------|----------------------|------------------------|
|                                 | Investment Grade              | Non-investment Grade: Satisfactory |                      |                        |
| Cash and cash equivalents*      | ₱2,601,848,660                | ₱-                                 | ₱-                   | ₱2,601,848,660         |
| Insurance receivables           |                               |                                    |                      |                        |
| Due from reinsurers             | -                             | 77,830                             | 39,502,710           | 39,580,540             |
| Premiums due and uncollected    | -                             | 76,112,737                         | -                    | 76,112,737             |
| Financial assets at FVPL        |                               |                                    |                      |                        |
| Government debt securities      |                               |                                    |                      |                        |
| Local currency                  | 780,208,833                   | -                                  | -                    | 780,208,833            |
| Listed equity securities        | 389,861,818                   | -                                  | -                    | 389,861,818            |
| Investment in unit-linked funds | 34,888,800                    | -                                  | -                    | 34,888,800             |
| AFS financial assets            |                               |                                    |                      |                        |
| Government debt securities      |                               |                                    |                      |                        |
| Local currency                  | 6,501,419,470                 | -                                  | -                    | 6,501,419,470          |
| Foreign currency                | 912,737,591                   | -                                  | -                    | 912,737,591            |
| Listed equity securities        | 295,710,019                   | -                                  | -                    | 295,710,019            |
| Golf club shares                | 9,404,100                     | -                                  | -                    | 9,404,100              |
| Private debt securities         |                               |                                    |                      |                        |
| Local currency                  | 49,276,050                    | -                                  | -                    | 49,276,050             |
| Foreign currency                | 181,833,737                   | -                                  | -                    | 181,833,737            |
| Loans and receivables           |                               |                                    |                      |                        |
| Intercompany receivables        | -                             | 301,393,454                        | -                    | 301,393,454            |
| Due from officers and employees | -                             | 21,209,678                         | 819,653              | 22,029,331             |
| Due from agents                 | -                             | 9,785,624                          | 1,606,155            | 11,391,779             |
| Policy loans                    | -                             | 362,983,535                        | -                    | 362,983,535            |
| Other receivables               | -                             | 3,145,123                          | 1,438,557            | 4,583,680              |
| Accrued income                  | 164,294,155                   | -                                  | -                    | 164,294,155            |
|                                 | <b>₱11,921,483,233</b>        | <b>₱774,707,981</b>                | <b>₱43,367,075</b>   | <b>₱12,739,558,289</b> |

\* Excluding petty cash fund

The table below provides information regarding the credit risk exposure of the Company by classifying unit-linked assets according to the Company's credit ratings of counterparties:

December 31, 2012

|                            | Neither Past Due nor Impaired |                                    | Past Due or Impaired | Total                  |
|----------------------------|-------------------------------|------------------------------------|----------------------|------------------------|
|                            | Investment Grade              | Non-investment Grade: Satisfactory |                      |                        |
| Cash and cash equivalents  | ₱2,136,074,807                | ₱-                                 | ₱-                   | ₱2,136,074,807         |
| Financial assets at FVPL   |                               |                                    |                      |                        |
| Government debt securities |                               |                                    |                      |                        |
| Local currency             | 12,063,112,632                | -                                  | -                    | 12,063,112,632         |
| Foreign currency           | 10,590,039,373                | -                                  | -                    | 10,590,039,373         |
| Listed equity securities   | 8,572,619,584                 | -                                  | -                    | 8,572,619,584          |
| Derivative asset           | 44,604,461                    | -                                  | -                    | 44,604,461             |
| Interest receivable        | 348,246,123                   | -                                  | -                    | 348,246,123            |
| Dividend receivable        | 1,732,429                     | -                                  | -                    | 1,732,429              |
| Accounts receivable        | 37,914,728                    | -                                  | -                    | 37,914,728             |
|                            | <b>₱33,794,344,137</b>        | <b>₱-</b>                          | <b>₱-</b>            | <b>₱33,794,344,137</b> |



December 31, 2011

|                            | Neither Past Due nor Impaired |                                    |                      | Total           |
|----------------------------|-------------------------------|------------------------------------|----------------------|-----------------|
|                            | Investment Grade              | Non-investment Grade: Satisfactory | Past Due or Impaired |                 |
| Cash and cash equivalents  | ₱1,543,420,668                | ₱-                                 | ₱-                   | ₱1,543,420,668  |
| Financial assets at FVPL   |                               |                                    |                      |                 |
| Government debt securities |                               |                                    |                      |                 |
| Local currency             | 10,312,491,071                | -                                  | -                    | 10,312,491,071  |
| Foreign currency           | 9,769,759,498                 | -                                  | -                    | 9,769,759,498   |
| Listed equity securities   | 4,185,788,783                 | -                                  | -                    | 4,185,788,783   |
| Derivative asset           | 20,580,298                    | -                                  | -                    | 20,580,298      |
| Interest receivable        | 323,463,720                   | -                                  | -                    | 323,463,720     |
| Dividend receivable        | 4,212,545                     | -                                  | -                    | 4,212,545       |
| Accounts receivable        | 51,331,954                    | -                                  | -                    | 51,331,954      |
|                            | ₱26,211,048,537               | ₱-                                 | ₱-                   | ₱26,211,048,537 |

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

- Investment grade - Rating given to counterparties who possess strong to very strong capacity to meet their obligations
- Non-investment grade - Rating given to counterparties who possess above average capacity to meet their obligations.

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

**December 31, 2012**

|                                 | Age Analysis of Financial Assets Past-Due but not Impaired |               |                   |                           |                       | Total       |
|---------------------------------|--|---------------|-------------------|---------------------------|-----------------------|-------------|
|                                 | < 30 days  | 31 to 90 days | More than 90 days | Past-Due but not Impaired | Past-Due and Impaired |             |
| Insurance receivables           |  |               |                   |                           |                       |             |
| Due from reinsurers             | ₱-   | ₱-            | ₱50,825,509       | ₱50,825,509               | ₱-                    | ₱50,825,509 |
| Loans and receivables           |  |               |                   |                           |                       |             |
| Due from officers and employees | -  | -             | -                 | -                         | 819,653               | 819,653     |
| Due from agents                 | -  | -             | -                 | -                         | 1,606,155             | 1,606,155   |
| Other receivables               | -  | -             | -                 | -                         | 1,438,557             | 1,438,557   |
|                                 | ₱-   | ₱-            | ₱50,825,509       | ₱50,825,509               | ₱3,864,365            | ₱54,689,874 |

December 31, 2011

|                                 | Age Analysis of Financial Assets Past-Due but not Impaired |               |                   |                           |                       | Total       |
|---------------------------------|--|---------------|-------------------|---------------------------|-----------------------|-------------|
|                                 | < 30 days  | 31 to 90 days | More than 90 days | Past-Due but not Impaired | Past-Due and Impaired |             |
| Insurance receivables           |  |               |                   |                           |                       |             |
| Due from reinsurers             | ₱-   | ₱-            | ₱39,502,710       | ₱39,502,710               | ₱-                    | ₱39,502,710 |
| Loans and receivables           |  |               |                   |                           |                       |             |
| Due from officers and employees | -  | -             | -                 | -                         | 819,653               | 819,653     |
| Due from agents                 | -  | -             | -                 | -                         | 1,606,155             | 1,606,155   |
| Other receivables               | -  | -             | -                 | -                         | 1,438,557             | 1,438,557   |
|                                 | ₱-   | ₱-            | ₱39,502,710       | ₱39,502,710               | ₱3,864,365            | ₱43,367,075 |



The Company conducts a periodic review of allowance for impairment losses based on the corresponding age of past due accounts, payment behavior, credit capacity and length of relationship with the counterparty.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2012 and 2011.

*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 a counterparty failing on repayment of a contractual obligation; or the insurance liabilities falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and operating expenses. The Company manages liquidity by forecasting cash flow requirements. Investments are made in assets with maturities or interest payments which are matched against expected payouts of claims benefits (i.e., amount and duration of assets are matched against amount and duration of liabilities). In addition, significant outflows due to operating expenses (e.g., salaries, bonuses, IT expenditures, etc.) are scheduled based on an agreed budget timeline.

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments except for the legal policy reserves of the life insurance contracts (included in the insurance contract liabilities account) which shows the maturity analysis based on the estimated timing of the net cash outflows using the recognized insurance liability amounts. The table also analyses the maturity profile of the Company's financial assets in order to provide a complete view of the Company's contractual commitments. For the unit-linked contracts, the Company is ready to dispose its investments in securities to meet surrenders of unit-linked liabilities.





Non-linked

**December 31, 2012**

|                                    | On demand           | Up to a year          | 1-3 years             | 3-5 years           | Over 5 years          | No term             | Total                  |
|------------------------------------|---------------------|-----------------------|-----------------------|---------------------|-----------------------|---------------------|------------------------|
| <b>Financial assets:</b>           |                     |                       |                       |                     |                       |                     |                        |
| Loans and receivables              |                     |                       |                       |                     |                       |                     |                        |
| Cash and cash equivalents          | ₱225,879,493        | ₱1,839,641,641        | ₱-                    | ₱-                  | ₱-                    | ₱-                  | ₱2,065,521,134         |
| Insurance receivables              |                     |                       |                       |                     |                       |                     |                        |
| Due from reinsurers                | -                   | 54,749,206            | -                     | -                   | -                     | -                   | 54,749,206             |
| Premiums due and uncollected       | -                   | 77,075,654            | -                     | -                   | -                     | -                   | 77,075,654             |
| Loans and receivables              |                     |                       |                       |                     |                       |                     |                        |
| Due from officers and employees    | -                   | 18,806,678            | 7,078,283             | 305,333             | -                     | -                   | 26,190,294             |
| Due from agents                    | -                   | 11,484,963            | -                     | -                   | -                     | -                   | 11,484,963             |
| Policy loans                       | -                   | -                     | -                     | -                   | -                     | 348,941,773         | 348,941,773            |
| Intercompany receivables           | -                   | 147,401,657           | -                     | -                   | -                     | -                   | 147,401,657            |
| Other receivables                  | -                   | 6,240,543             | -                     | -                   | -                     | -                   | 6,240,543              |
| Accrued income                     | -                   | 111,509,946           | -                     | -                   | -                     | -                   | 111,509,946            |
| Financial assets at FVPL           |                     |                       |                       |                     |                       |                     |                        |
| Government debt securities         |                     |                       |                       |                     |                       |                     |                        |
| Local currency                     | -                   | 170,914,154           | 253,022,066           | 57,009,500          | 300,761,405           | -                   | 781,707,125            |
| Listed equity securities           | -                   | -                     | -                     | -                   | -                     | 461,164,320         | 461,164,320            |
| Investment in unit-linked fund     | -                   | -                     | -                     | -                   | -                     | 43,010,590          | 43,010,590             |
| AFS financial assets               |                     |                       |                       |                     |                       |                     |                        |
| Government debt securities         |                     |                       |                       |                     |                       |                     |                        |
| Local currency                     | -                   | 243,861,849           | 394,716,787           | 924,130,686         | 4,868,601,777         | -                   | 6,431,311,099          |
| Listed equity securities           | -                   | -                     | -                     | -                   | -                     | 208,677,941         | 208,677,941            |
| Golf club shares                   | -                   | -                     | -                     | -                   | -                     | 12,594,100          | 12,594,100             |
| <b>Total financial assets</b>      | <b>₱225,879,493</b> | <b>₱3,030,628,064</b> | <b>₱654,817,136</b>   | <b>₱981,445,519</b> | <b>₱5,169,363,182</b> | <b>₱725,446,951</b> | <b>₱10,787,580,345</b> |
| <b>Financial liabilities:</b>      |                     |                       |                       |                     |                       |                     |                        |
| Other financial liabilities        |                     |                       |                       |                     |                       |                     |                        |
| Insurance contract liabilities     | ₱147,263,706        | ₱1,884,012,146        | ₱1,046,709,177        | ₱940,870,643        | ₱2,140,129,517        | ₱-                  | ₱6,158,985,189         |
| Premium deposit fund               | 140,831,311         | -                     | -                     | -                   | -                     | -                   | 140,831,311            |
| Insurance payables                 | -                   | 57,104,042            | -                     | -                   | -                     | -                   | 57,104,042             |
| Life insurance deposits            | -                   | 111,508,076           | -                     | -                   | -                     | -                   | 111,508,076            |
| Trade and other liabilities        | -                   | 660,293,352           | -                     | -                   | -                     | -                   | 660,293,352            |
| <b>Total financial liabilities</b> | <b>₱288,095,017</b> | <b>₱2,759,606,464</b> | <b>₱1,046,709,177</b> | <b>₱940,870,643</b> | <b>₱2,093,440,669</b> | <b>₱-</b>           | <b>₱7,128,721,970</b>  |
| <b>Liquidity gap</b>               |                     |                       |                       |                     |                       |                     | <b>₱3,658,858,375</b>  |

**December 31, 2011**

|                                 | On demand   | Up to a year   | 1-3 years   | 3-5 years   | Over 5 years  | No term     | Total          |
|---------------------------------|-------------|----------------|-------------|-------------|---------------|-------------|----------------|
| <b>Financial assets:</b>        |             |                |             |             |               |             |                |
| Loans and receivables           |             |                |             |             |               |             |                |
| Cash and cash equivalents       | ₱17,112,850 | ₱2,585,381,002 | ₱-          | ₱-          | ₱-            | ₱-          | ₱2,602,493,852 |
| Insurance receivables           |             |                |             |             |               |             |                |
| Due from reinsurers             | -           | 39,580,540     | -           | -           | -             | -           | 39,580,540     |
| Premiums due and uncollected    | -           | 76,112,737     | -           | -           | -             | -           | 76,112,737     |
| Loans and receivables           |             |                |             |             |               |             |                |
| Due from officers and employees | -           | 6,523,985      | 13,319,211  | 2,186,135   | -             | -           | 22,029,331     |
| Due from agents                 | -           | 11,391,779     | -           | -           | -             | -           | 11,391,779     |
| Policy loans                    | -           | -              | -           | -           | -             | 362,983,535 | 362,983,535    |
| Intercompany receivables        | -           | 301,393,454    | -           | -           | -             | -           | 301,393,454    |
| Other receivables               | -           | 4,583,680      | -           | -           | -             | -           | 4,583,680      |
| Accrued income                  | -           | 164,294,155    | -           | -           | -             | -           | 164,294,155    |
| Financial assets at FVPL        |             |                |             |             |               |             |                |
| Government debt securities      |             |                |             |             |               |             |                |
| Local currency                  | -           | -              | 179,916,518 | 255,928,151 | 344,364,164   | -           | 780,208,833    |
| Listed equity securities        | -           | -              | -           | -           | -             | 389,861,818 | 389,861,818    |
| Investment in unit-linked fund  | -           | -              | -           | -           | -             | 34,888,800  | 34,888,800     |
| AFS financial assets            |             |                |             |             |               |             |                |
| Government debt securities      |             |                |             |             |               |             |                |
| Local currency                  | -           | 67,679,902     | 367,980,320 | 297,218,434 | 5,768,540,814 | -           | 6,501,419,470  |
| Foreign currency                | -           | -              | 912,737,591 | -           | -             | -           | 912,737,591    |

(Forward)



|                                    | On demand           | Up to a year          | 1-3 years             | 3-5 years           | Over 5 years          | No term             | Total                  |
|------------------------------------|---------------------|-----------------------|-----------------------|---------------------|-----------------------|---------------------|------------------------|
| Private debt securities            |                     |                       |                       |                     |                       |                     |                        |
| Local currency                     | P-                  | ₱49,276,050           | P-                    | P-                  | P-                    | P-                  | ₱49,276,050            |
| Foreign currency                   | -                   | 181,833,737           | -                     | -                   | -                     | -                   | 181,833,737            |
| Listed equity securities           | -                   | -                     | -                     | -                   | -                     | 295,710,019         | 295,710,019            |
| Golf club shares                   | -                   | -                     | -                     | -                   | -                     | 9,404,100           | 9,404,100              |
| <b>Total financial assets</b>      | <b>₱17,112,850</b>  | <b>₱3,851,034,556</b> | <b>₱1,473,953,640</b> | <b>₱555,332,720</b> | <b>₱6,112,904,978</b> | <b>₱729,864,737</b> | <b>₱12,740,203,481</b> |
| <b>Financial liabilities:</b>      |                     |                       |                       |                     |                       |                     |                        |
| Other financial liabilities        |                     |                       |                       |                     |                       |                     |                        |
| Insurance contract liabilities     | ₱270,827,861        | ₱2,948,374,956        | ₱1,424,322,315        | ₱815,351,078        | ₱2,109,744,649        | P-                  | ₱7,568,620,859         |
| Premium deposit fund               | 188,886,299         | -                     | -                     | -                   | -                     | -                   | 188,886,299            |
| Insurance payables                 | -                   | 85,169,118            | -                     | -                   | -                     | -                   | 85,169,118             |
| Life insurance deposits            | -                   | 110,232,516           | -                     | -                   | -                     | -                   | 110,232,516            |
| Trade and other liabilities        | -                   | 705,580,348           | -                     | -                   | -                     | -                   | 705,580,348            |
| Dividends payable                  | -                   | 621,000,000           | -                     | -                   | -                     | -                   | 621,000,000            |
| <b>Total financial liabilities</b> | <b>₱459,714,160</b> | <b>₱4,470,356,938</b> | <b>₱1,424,322,315</b> | <b>₱815,351,078</b> | <b>₱2,109,744,649</b> | <b>P-</b>           | <b>₱9,279,489,140</b>  |
| <b>Liquidity gap</b>               |                     |                       |                       |                     |                       |                     | <b>₱3,460,714,341</b>  |

### Unit-linked

#### December 31, 2012

|   | On demand           | Up to a year          | 1-3 years             | 3-5 years             | Over 5 years           | No term               | Total                  |
|---|---------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|------------------------|
| <b>Financial assets:</b>                |                     |                       |                       |                       |                        |                       |                        |
| Loans and receivables                   |                     |                       |                       |                       |                        |                       |                        |
| Cash and cash equivalents               | ₱102,918,914        | ₱2,033,155,893        | P-                    | P-                    | P-                     | P-                    | ₱2,136,074,807         |
| Accrued income                          |                     |                       |                       |                       |                        |                       |                        |
| Interest receivable                     | -                   | 348,246,123           | -                     | -                     | -                      | -                     | 348,246,123            |
| Dividend receivable                     | -                   | 1,732,429             | -                     | -                     | -                      | -                     | 1,732,429              |
| Accounts receivable                     | -                   | 37,914,728            | -                     | -                     | -                      | -                     | 37,914,728             |
| Financial assets at FVPL                |                     |                       |                       |                       |                        |                       |                        |
| Government debt securities              |                     |                       |                       |                       |                        |                       |                        |
| Local currency                          | -                   | 664,018,600           | 1,074,437,807         | 5,699,436,478         | 4,625,219,747          | -                     | 12,063,112,632         |
| Foreign currency                        | -                   | 24,938,625            | 144,703,199           | 209,449,504           | 10,210,948,045         | -                     | 10,590,039,373         |
| Listed equity securities                | -                   | -                     | -                     | -                     | -                      | 8,572,619,584         | 8,572,619,584          |
| Derivative asset                        | -                   | -                     | 44,604,461            | -                     | -                      | -                     | 44,604,461             |
| <b>Total financial assets</b>           | <b>₱102,918,914</b> | <b>₱3,110,006,398</b> | <b>₱1,263,745,467</b> | <b>₱5,908,885,982</b> | <b>₱14,836,167,792</b> | <b>₱8,572,619,584</b> | <b>₱33,794,344,137</b> |
| <b>Financial liabilities:</b>           |                     |                       |                       |                       |                        |                       |                        |
| Other financial liabilities             |                     |                       |                       |                       |                        |                       |                        |
| Accounts payable                        | P-                  | ₱110,327,458          | P-                    | P-                    | P-                     | P-                    | ₱110,327,458           |
| Asset management fees payable           | -                   | 79,551,015            | -                     | -                     | -                      | -                     | 79,551,015             |
| Administration and custody fees payable | -                   | 22,879,060            | -                     | -                     | -                      | -                     | 22,879,060             |
| Service fees payable                    | -                   | 17,512,394            | -                     | -                     | -                      | -                     | 17,512,394             |
| Unit-linked liabilities                 | -                   | 4,887,769,052         | 7,719,129,081         | 6,367,673,910         | 14,783,748,084         | -                     | 33,758,320,127         |
| <b>Total financial liabilities</b>      | <b>P-</b>           | <b>₱5,118,038,979</b> | <b>₱7,719,129,081</b> | <b>₱6,367,673,910</b> | <b>₱14,783,748,084</b> | <b>P-</b>             | <b>₱33,988,590,054</b> |
| <b>Liquidity gap</b>                    |                     |                       |                       |                       |                        |                       | <b>(₱194,245,917)</b>  |

#### December 31, 2011

|                               | On demand          | Up to a year          | 1-3 years             | 3-5 years             | Over 5 years           | No term               | Total                  |
|-------------------------------|--------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|------------------------|
| <b>Financial assets:</b>      |                    |                       |                       |                       |                        |                       |                        |
| Loans and receivables         |                    |                       |                       |                       |                        |                       |                        |
| Cash and cash equivalents     | ₱19,668,293        | ₱1,523,752,375        | P-                    | P-                    | P-                     | P-                    | ₱1,543,420,668         |
| Accrued income                |                    |                       |                       |                       |                        |                       |                        |
| Interest receivable           | -                  | 323,463,720           | -                     | -                     | -                      | -                     | 323,463,720            |
| Dividend receivable           | -                  | 4,212,545             | -                     | -                     | -                      | -                     | 4,212,545              |
| Accounts receivable           | -                  | 51,331,954            | -                     | -                     | -                      | -                     | 51,331,954             |
| Financial assets at FVPL      |                    |                       |                       |                       |                        |                       |                        |
| Government debt securities    |                    |                       |                       |                       |                        |                       |                        |
| Local currency                | -                  | 12,267,009            | 1,263,453,614         | 4,349,635,417         | 4,687,135,031          | -                     | 10,312,491,071         |
| Foreign currency              | -                  | -                     | 227,158,675           | 88,939,344            | 9,453,661,479          | -                     | 9,769,759,498          |
| Listed equity securities      | -                  | -                     | -                     | -                     | -                      | 4,185,788,873         | 4,185,788,873          |
| Derivative asset              | -                  | -                     | 20,580,298            | -                     | -                      | -                     | 20,580,298             |
| <b>Total financial assets</b> | <b>₱19,668,293</b> | <b>₱1,915,027,603</b> | <b>₱1,511,192,587</b> | <b>₱4,438,574,761</b> | <b>₱14,140,796,510</b> | <b>₱4,185,788,873</b> | <b>₱26,211,048,627</b> |



|   | On demand | Up to a year          | 1-3 years             | 3-5 years             | Over 5 years           | No term   | Total                  |
|---|-----------|-----------------------|-----------------------|-----------------------|------------------------|-----------|------------------------|
| <b>Financial liabilities:</b>           |           |                       |                       |                       |                        |           |                        |
| <b>Other financial liabilities</b>      |           |                       |                       |                       |                        |           |                        |
| Accounts payable                        | ₱-        | ₱145,137,413          | ₱-                    | ₱-                    | ₱-                     | ₱-        | ₱145,137,413           |
| Asset management fees payable           | -         | 63,762,058            | -                     | -                     | -                      | -         | 63,762,058             |
| Administration and custody fees payable | -         | 17,452,735            | -                     | -                     | -                      | -         | 17,452,735             |
| Service fees payable                    | -         | 11,096,820            | -                     | -                     | -                      | -         | 11,096,820             |
| Unit-linked liabilities                 | -         | 4,110,987,183         | 6,121,160,596         | 5,655,232,978         | 10,103,268,420         | -         | 25,990,649,177         |
| <b>Total financial liabilities</b>      | <b>₱-</b> | <b>₱4,348,436,209</b> | <b>₱6,121,160,596</b> | <b>₱5,655,232,978</b> | <b>₱10,103,268,420</b> | <b>₱-</b> | <b>₱26,228,098,203</b> |
| <b>Liquidity gap</b>                    |           |                       |                       |                       |                        |           | <b>(₱17,049,576)</b>   |

The Company's investment policy is long term in nature. It is subject to annual review for update on asset-liability management, alignment with the Company's latest business plan and other developments during the year. The investment policy is reviewed, approved and endorsed by the Local Management Investment Committee (LMIC), Regional Investment Asset Liability Committee (RIALC), AXA S.A. Board Investment Committee and Philippine AXA Life Board Investment Committee (BIC).

#### *Market risk*

Market risk is the risk that the 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: foreign exchange rate (currency risk), market interest rate (fair value interest rate risk) and market price (equity price risk).

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

- Set out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Establish asset allocation and portfolio limit structure to ensure that assets back specific policyholders liabilities and those assets are held to deliver income and gains for policyholders in line with expectations of the policyholders.
- Stipulate diversification benchmarks by type of instrument, as the Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.

The Company uses derivative financial instruments, particularly bond swaps relating to AXA Philippine Armor Fund. This is entered into for the period beginning July 2009 until January 2014. The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

- *Currency risk*

The Company's principal transactions are carried out in Philippine Peso and its foreign exchange risk arises primarily with respect to United States (US) Dollars (US\$), where some of its products are denominated. The Company's financial assets are primarily denominated in the same currencies as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than in which the insurance contracts are expected to be settled.



The following table shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents.

**December 31, 2012**

|  | US\$                 | PHP                   |
|--|----------------------|-----------------------|
| <b>Assets</b>                                |                      |                       |
| Cash and cash equivalents                    | US\$6,416,355        | ₱264,302,494          |
| Assets held to cover unit-linked liabilities | 294,631,007          | 12,136,440,440        |
|  | <b>301,047,362</b>   | <b>12,400,742,934</b> |
| <b>Liabilities</b>                           |                      |                       |
| Unit-linked liabilities                      | 294,631,007          | 12,136,440,440        |
| Legal policy reserves                        | 1,074,240            | 44,250,094            |
|  | <b>295,705,247</b>   | <b>12,180,690,534</b> |
|  | <b>US\$5,342,115</b> | <b>₱220,052,400</b>   |

December 31, 2011

|  | US\$                 | PHP                   |
|--|----------------------|-----------------------|
| <b>Assets</b>                                |                      |                       |
| Cash and cash equivalents                    | US\$16,717,251       | ₱734,355,402          |
| AFS financial assets                         | 24,917,395           | 1,094,571,328         |
| Assets held to cover unit-linked liabilities | 237,692,748          | 10,441,367,049        |
|  | <b>279,327,394</b>   | <b>12,270,293,779</b> |
| <b>Liabilities</b>                           |                      |                       |
| Unit-linked liabilities                      | 237,692,748          | 10,441,367,049        |
| Legal policy reserves                        | 36,579,385           | 1,606,859,203         |
|  | <b>274,272,133</b>   | <b>12,048,226,252</b> |
|  | <b>US\$5,055,261</b> | <b>₱222,067,527</b>   |

The analysis below is performed for reasonably possible movements in US\$ with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities). The exchange rate used to present the US Dollar denominated assets and liabilities to Peso denominations are the 2012 and 2011 closing rates. There is no impact on the Company's equity other than those already affecting the profit.

**December 31, 2012**

|      | Change in<br>variable | Impact on profit<br>before tax |
|------|-----------------------|--------------------------------|
| US\$ | +2.95%                | ₱6,487,108                     |
| US\$ | -2.95%                | (6,487,108)                    |

December 31, 2011

|      | Change in<br>variable | Impact on profit<br>before tax |
|------|-----------------------|--------------------------------|
| US\$ | +2.45%                | ₱6,662,026                     |
| US\$ | -2.45%                | (6,662,026)                    |



In 2012 and 2011, the Company used the average of changes in year-end closing rate for the past three years in determining the reasonably possible change in foreign exchange rates.

*Fair value interest rate risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate investments classified as AFS financial assets and financial assets at FVPL in particular are exposed to such risk.

The Company's investment policy manages interest rate risk by matching the maturities of interest-bearing financial assets and interest-bearing financial liabilities. The amount, duration and yield to maturity of assets are matched against the amount and duration of the liabilities.

The following table shows the information relating to the Company's non-linked fixed interest-bearing financial instruments presented by maturity profile.

**December 31, 2012**

|                                    | Range of interest rate | On demand           | Up to a year          | 1-3 years           | 3-5 years           | Over 5 years          |
|------------------------------------|------------------------|---------------------|-----------------------|---------------------|---------------------|-----------------------|
| <b>Financial assets:</b>           |                        |                     |                       |                     |                     |                       |
| Loans and receivables              |                        |                     |                       |                     |                     |                       |
| Cash and cash equivalents          | 0.10% - 4.00%          | ₱225,879,493        | ₱1,839,641,641        | ₱-                  | ₱-                  | ₱-                    |
| Insurance receivables              |                        |                     |                       |                     |                     |                       |
| Loans and receivables              |                        |                     |                       |                     |                     |                       |
| Due from officers and employees    | 6.00% - 12.00%         | -                   | 18,806,678            | 7,078,283           | 305,333             | -                     |
| Due from agents                    | 6.00% - 12.00%         | -                   | 11,484,963            | -                   | -                   | -                     |
| Policy loans                       | 8.00% - 10.00%         | -                   | 348,941,773           | -                   | -                   | -                     |
| Financial assets at FVPL           |                        |                     |                       |                     |                     |                       |
| Government debt securities         |                        |                     |                       |                     |                     |                       |
| Local currency                     | 7.75% - 11.25%         | -                   | 170,914,154           | 253,022,066         | 57,009,500          | 300,761,405           |
| AFS financial assets               |                        |                     |                       |                     |                     |                       |
| Government debt securities         |                        |                     |                       |                     |                     |                       |
| Local currency                     | 4.63% - 18.25%         | -                   | 243,861,849           | 394,716,787         | 924,130,686         | 4,868,601,777         |
| <b>Total financial assets</b>      |                        | <b>₱225,879,493</b> | <b>₱2,633,651,058</b> | <b>₱654,817,136</b> | <b>₱981,445,519</b> | <b>₱5,169,363,182</b> |
| <b>Financial liabilities:</b>      |                        |                     |                       |                     |                     |                       |
| Other financial liabilities        |                        |                     |                       |                     |                     |                       |
| Premium deposit fund               | 5.00%                  | ₱140,831,311        | ₱-                    | ₱-                  | ₱-                  | ₱-                    |
| Trade and other liabilities        | 4.56% - 15.00%         | -                   | 161,696               | -                   | -                   | -                     |
| <b>Total financial liabilities</b> |                        | <b>₱140,831,311</b> | <b>₱161,696</b>       | <b>₱-</b>           | <b>₱-</b>           | <b>₱-</b>             |

**December 31, 2011**

|                                 | Range of interest rate | On demand          | Up to a year          | 1-3 years             | 3-5 years           | Over 5 years          |
|---------------------------------|------------------------|--------------------|-----------------------|-----------------------|---------------------|-----------------------|
| <b>Financial assets:</b>        |                        |                    |                       |                       |                     |                       |
| Loans and receivables           |                        |                    |                       |                       |                     |                       |
| Cash and cash equivalents       | 0.25% - 4.80%          | ₱17,112,850        | ₱2,585,381,002        | ₱-                    | ₱-                  | ₱-                    |
| Insurance receivables           |                        |                    |                       |                       |                     |                       |
| Loans and receivables           |                        |                    |                       |                       |                     |                       |
| Due from officers and employees | 6.00% - 12.00%         | -                  | 6,523,985             | 13,319,211            | 2,186,135           | -                     |
| Due from agents                 | 6.00% - 12.00%         | -                  | 11,391,779            | -                     | -                   | -                     |
| Policy loans                    | 8.00% - 10.00%         | -                  | 362,983,535           | -                     | -                   | -                     |
| Financial assets at FVPL        |                        |                    |                       |                       |                     |                       |
| Government debt securities      |                        |                    |                       |                       |                     |                       |
| Local currency                  | 8.50% - 11.25%         | -                  | -                     | 179,916,518           | 255,928,151         | 344,364,164           |
| AFS financial assets            |                        |                    |                       |                       |                     |                       |
| Government debt securities      |                        |                    |                       |                       |                     |                       |
| Local currency                  | 4.63% - 18.25%         | -                  | 67,679,902            | 367,980,320           | 297,218,434         | 5,768,540,814         |
| Foreign currency                | 8.25% - 9.00%          | -                  | -                     | 912,737,591           | -                   | -                     |
| Private debt securities         |                        |                    |                       |                       |                     |                       |
| Local currency                  | 0%                     | -                  | 49,276,050            | -                     | -                   | -                     |
| Foreign currency                | 11.38%                 | -                  | 181,833,737           | -                     | -                   | -                     |
| <b>Total financial assets</b>   |                        | <b>₱17,112,850</b> | <b>₱3,265,069,990</b> | <b>₱1,473,953,640</b> | <b>₱555,332,720</b> | <b>₱6,112,904,978</b> |



|                                    | Range of interest rate | On demand           | Up to a year      | 1-3 years | 3-5 years | Over 5 years |
|------------------------------------|------------------------|---------------------|-------------------|-----------|-----------|--------------|
| <b>Financial liabilities:</b>      |                        |                     |                   |           |           |              |
| Other financial liabilities        |                        |                     |                   |           |           |              |
| Premium deposit fund               | 5.00%                  | ₱188,886,299        | ₱-                | ₱-        | ₱-        | ₱-           |
| Trade and other liabilities        | 4.56% - 15.00%         | -                   | 1,086,164         | -         | -         | -            |
| <b>Total financial liabilities</b> |                        | <b>₱188,886,299</b> | <b>₱1,086,164</b> | <b>₱-</b> | <b>₱-</b> | <b>₱-</b>    |

The following table shows the information relating to the Company's unit-linked fixed interest-bearing financial instruments presented by maturity profile.

**December 31, 2012**

|                               | Range of interest rate | On demand           | Up to a year          | 1-3 years             | 3-5 years             | Over 5 years           |
|-------------------------------|------------------------|---------------------|-----------------------|-----------------------|-----------------------|------------------------|
| <b>Financial assets:</b>      |                        |                     |                       |                       |                       |                        |
| Loans and receivables         |                        |                     |                       |                       |                       |                        |
| Cash and cash equivalents     | 0.25% - 2.00%          | ₱102,918,914        | ₱2,033,155,893        | ₱-                    | ₱-                    | ₱-                     |
| Financial assets at FVPL      |                        |                     |                       |                       |                       |                        |
| Government debt securities    |                        |                     |                       |                       |                       |                        |
| Local currency                | 5.00% - 9.13%          | -                   | 664,018,600           | 1,074,437,807         | 5,699,436,478         | 4,625,219,747          |
| Foreign currency              | 4.00% - 10.63%         | -                   | 24,938,625            | 144,703,199           | 209,449,504           | 10,210,948,045         |
| <b>Total financial assets</b> |                        | <b>₱102,918,914</b> | <b>₱2,722,113,118</b> | <b>₱1,219,141,006</b> | <b>₱5,908,885,982</b> | <b>₱14,836,167,792</b> |

**December 31, 2011**

|                               | Range of interest rate | On demand          | Up to a year          | 1-3 years             | 3-5 years             | Over 5 years           |
|-------------------------------|------------------------|--------------------|-----------------------|-----------------------|-----------------------|------------------------|
| <b>Financial assets:</b>      |                        |                    |                       |                       |                       |                        |
| Loans and receivables         |                        |                    |                       |                       |                       |                        |
| Cash and cash equivalents     | 1.00% - 4.88%          | ₱19,668,293        | ₱1,523,752,375        | ₱-                    | ₱-                    | ₱-                     |
| Financial assets at FVPL      |                        |                    |                       |                       |                       |                        |
| Government debt securities    |                        |                    |                       |                       |                       |                        |
| Local currency                | 5.38% - 12.38%         | -                  | 12,267,009            | 1,263,453,614         | 4,349,635,417         | 4,687,135,031          |
| Foreign currency              | 4.00% - 12.13%         | -                  | -                     | 227,158,675           | 88,939,344            | 9,453,661,479          |
| <b>Total financial assets</b> |                        | <b>₱19,668,293</b> | <b>₱1,536,019,384</b> | <b>₱1,490,612,289</b> | <b>₱4,438,574,761</b> | <b>₱14,140,796,510</b> |

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of fixed rate financial assets at FVPL) and equity (due to changes in fair value of fixed rate AFS financial assets). The impact on the Company's equity already excludes the impact on transactions affecting the profit or loss in the statement of comprehensive income.

**December 31, 2012**

|      | Change in variable | Impact on Profit before tax | Impact on equity |
|------|--------------------|-----------------------------|------------------|
| Peso | +0.75%             | (₱24,373,358)               | (₱375,093,415)   |
| Peso | -0.75%             | 26,031,685                  | 406,847,308      |



December 31, 2011

| Currency | Change in variable | Impact on Profit before tax | Impact on equity |
|----------|--------------------|-----------------------------|------------------|
| Peso     | +0.78%             | (₱27,264,308)               | (₱356,321,896)   |
| US\$     | +1.11%             | –                           | (12,540,603)     |
| Peso     | -0.78%             | 29,270,655                  | 389,912,024      |
| US\$     | -1.11%             | –                           | 12,777,446       |

In 2012 and 2011, the Company determined the reasonably possible change in interest rates using the percentage changes in weighted average yield rates of outstanding securities for the past three years.

*Equity price risk*

The Company's equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities classified as financial assets at FVPL and AFS financial assets.

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

The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each sector and market. Investments in derivatives are also subject to such requirements.

The Company has certain direct strategic minority investments in publicly traded companies. These investments are classified as AFS financial assets. The Company also invests in equity shares through its unit-linked funds. Investments held by these unit-linked funds were designated as financial assets at FVPL.

As of December 31, 2012 and December 31, 2011, the fair values of equity investments classified as financial assets at FVPL amounted to ₱461,164,320 and ₱389,861,818, respectively (see Note 6). As of December 31, 2012 and December 31, 2011, the fair values of equity investments classified as AFS financial assets amounted to ₱221,272,041 and ₱305,114,119, respectively (see Note 6).

The analysis below is performed for reasonably possible movements in the PSE index with all other variables held constant. The impact on profit before tax (due to changes in fair value of equity securities classified as financial assets at FVPL) and equity (due to changes in fair value of equity securities classified as AFS financial assets) is arrived at using the change in variable and the specific adjusted beta of each share of stock the Company holds at the reporting date. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole. The impact on the Company's equity already excludes the impact on transactions affecting profit or loss.



**December 31, 2012**

| Market Index | Change in variable | Impact on profit before tax | Impact on equity |
|--------------|--------------------|-----------------------------|------------------|
| PSE index    | +18%               | ₱83,313,586                 | ₱39,671,329      |
| PSE index    | -18%               | (83,313,586)                | (39,671,329)     |

December 31, 2011

| Market Index | Change in variable | Impact on profit before tax | Impact on equity |
|--------------|--------------------|-----------------------------|------------------|
| PSE index    | +11%               | ₱38,771,372                 | ₱49,913,979      |
| PSE index    | -11%               | (38,771,372)                | (49,913,979)     |

In 2012 and 2011, the change in variable was derived from the percentage changes of the composite PSE index for the past three years.

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**24. Related Party Transactions**

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Related party transactions consist mainly of the following:

- a. The Company maintains savings and current accounts and short-term deposits with Metropolitan Bank and Trust Company (MBTC), the parent of FMIC, details of which follow:

|                              | 2012                | 2011                |
|------------------------------|---------------------|---------------------|
| Savings and current accounts | ₱65,691,279         | ₱14,912,101         |
| Short-term deposits          | 445,692,420         | 362,325,811         |
|                              | <b>₱511,383,699</b> | <b>₱377,237,912</b> |

Short-term deposits are to mature within 90 days. Interest rates on savings accounts and short-term deposits range from 0.10% to 2.75% and 0.25% to 2.75% in 2012 and 2011, respectively.

Interest income from these savings accounts and short-term deposits included in "Investment income" amounted to ₱5,138,273 and ₱14,954,201 in 2012 and 2011, respectively.

- b. The Company maintains savings account and short-term deposits with Philippine Savings Bank, a subsidiary of MBTC, details of which are as follow:

|                              | 2012                | 2011                  |
|------------------------------|---------------------|-----------------------|
| Savings and current accounts | ₱15,533,396         | ₱3,345,388            |
| Short-term deposits          | 825,905,808         | 1,194,762,058         |
|                              | <b>₱841,439,204</b> | <b>₱1,198,107,446</b> |





Short-term deposits are to mature within 90 days. Interest rates on savings account and short-term deposits range from 0.50% to 4.00% and 0.50% to 4.80% in 2012 and 2011, respectively.

Interest income from these savings account and short-term deposits included in "Investment income" amounted to ₱39,516,243 and ₱24,019,984 in 2012 and 2011, respectively.

- c. The Company is entitled to an asset management fee equivalent to 1.30% to 2.10% per annum based on the net asset value of the unit-linked funds.

The Company's "Asset management fees" from unit-linked funds amounted to ₱464,542,945 and ₱369,764,447 in 2012 and 2011, respectively (see Notes 18 and 19). Asset management fees receivable included in "Intercompany receivables" under "Loans and receivables" amounted to ₱79,551,015 and ₱63,762,058 as of December 31, 2012 and 2011, respectively (see Notes 6 and 11).

- d. The Company maintains a SLA with MBTC - Trust Banking Group for the management of the Company's separate variable funds for its variable life insurance contracts. Under the SLA, MBTC shall manage the unit-linked funds faithfully in accordance with the terms and conditions of the SLA. As compensation for services rendered, MBTC shall be entitled to a service fee ranging from 0.10% to 0.30% per annum based on the net asset value of the unit-linked funds.

Service fees charged against the funds and included under "Income on assets held to cover unit-linked liabilities" amounted to ₱111,258,079 and ₱95,469,922 in 2012 and 2011, respectively (see Note 19). Service fees payable included under "Assets held to cover unit-linked liabilities" amounted to ₱17,512,394 and ₱11,096,820 as of December 31, 2012 and 2011, respectively (see Note 11).

- e. The Company through AXA Philippine Armor Fund, entered into a derivative transaction with MBTC. The derivative asset pertains to bond swap classified under financial assets at FVPL. The Company exchanged ₱223,572,719 to buy US\$4,650,982 at US\$1 to ₱48.07 spot rate. Under this agreement, the Company used the US dollars to purchase US\$4,130,000 par value ROP bonds maturing on January 14, 2014. At each coupon date, the Company uses the coupon payment to buy additional ROP bond. At maturity date, the aggregate face value of the ROP bonds plus the last coupon payment, both in US dollars, will be exchanged for Philippine peso using the pre-agreed forward rate of ₱51.62. The market value of the bonds and the unrealized gain on the currency forward derivative asset amounted to ₱75,019,088 and ₱44,604,461 as of December 31, 2012 and ₱136,219,219 and ₱20,580,298 as of December 31, 2011. The notional amount as of December 31, 2012 and 2011 amounted to US\$1,704,000 and US\$3,208,634, respectively.
- f. The Company entered into a bancassurance agreement with MBTC in relation to the sale of policy insurance contracts to the clients of MBTC through the Company's financial executives. The Company pays referral fees recognized as "Commission expense" in the profit or loss. Referral fees for bank and bank staff referrals are determined at various rates based on the collected premiums.

Referral fees recognized as "Commission expense" amounted to ₱159,390,099 and ₱128,297,390 in 2012 and 2011, respectively. The outstanding balance included in "Commissions payable" under "Accrued expenses" amounted to ₱21,080,020 and ₱19,452,582 as of December 31, 2012 and 2011, respectively (see Note 15).



- g. MBTC is the trustee bank of the Company's retirement plan. The Company's plan assets amounted to ₱65,012,572 and ₱59,698,870 as of December 31, 2012 and 2011, respectively (see Note 21). Trustee fees charged by MBTC amounted to ₱191,200 and ₱147,070 in 2012 and 2011, respectively.

The distribution of the plan assets follows:

|                           | 2012               | 2011        |
|---------------------------|--------------------|-------------|
| Cash and cash equivalents | <b>₱2,957,839</b>  | ₱1,139,543  |
| Debt securities           | <b>53,502,250</b>  | 52,122,483  |
| Equity securities         | <b>7,726,242</b>   | 5,283,890   |
| Receivables               | <b>874,548</b>     | 1,198,487   |
|                           | <b>65,060,879</b>  | 59,744,403  |
| Less liability            | <b>48,307</b>      | 45,533      |
|                           | <b>₱65,012,572</b> | ₱59,698,870 |

All equity and debt securities held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market. Receivables consist of interest and dividend receivables.

Liability pertains to trust fee payables.

The plan assets have diverse investments and do not have any concentration risk.

As of December 31, 2012 and 2011, the plan assets of the retirement plan do not have any debt or equity securities of a related party.

- h. The Company has entered into several lease agreements with its related parties for the use of office spaces. The Company leases commercial office spaces in the Philippine AXA Life Centre from Philippine Savings Bank for the use of Company's head office. In 2012 and 2011, rent expense included in "Operating and Administrative Expenses" pertaining to this lease amounted to ₱22,462,044 and ₱20,452,937, respectively. There is no rent payable as of December 31, 2012 and 2011.

The Company also leases commercial offices spaces with MBTC for its Cebu and Davao offices. In 2012 and 2011, rent expense included in "Operating and Administrative Expenses" pertaining to this lease amounted to ₱3,494,458 and ₱4,425,618, respectively. There is no rent payable as of December 31, 2012 and 2011.

In 2012 and 2011, "Rental income" from MBTC Skyland included in "Investment income" amounted to ₱919,254 and ₱1,008,241, respectively. There is no rent receivable as of December 31, 2012 and 2011.



- i. Other transactions with related parties pertain to reimbursement of expenses. The Company's outstanding receivables on account of these transactions, included in "Intercompany receivables" under "Loans and receivables" follow:

|                                   | 2012              | 2011       |
|-----------------------------------|-------------------|------------|
| Federal Land                      | <b>₱6,167,815</b> | ₱7,227,236 |
| AXA Asia Pacific Holdings Limited | <b>1,019,299</b>  | -          |
| AXA S.A.                          | <b>1,117,795</b>  | 1,019,299  |
| AXA Malaysia                      | <b>84,701</b>     | -          |
| AXA Hongkong                      | <b>118,291</b>    | -          |
|                                   | <b>₱8,507,901</b> | ₱8,246,535 |

These receivables are non-interest bearing and due within one year.

As of December 31, 2012 and 2011 receivables from unit-linked funds included under "Intercompany receivables" amounted to ₱59,876,741 and ₱26,686,245, respectively. These receivables pertain to redemptions from unit-linked funds payable to policyholders.

- j. The Company has transactions with affiliates (companies belonging to Metrobank Group) in relation to group policies which are based on terms similar to those offered to nonrelated parties. These pertain to credit life and yearly renewable term policies. Details of the balances with affiliates are as follows:

*Premiums earned*

|  | 2012                | 2011         |
|--|---------------------|--------------|
| Philippine Savings Bank                    | <b>₱136,398,374</b> | ₱82,467,311  |
| MBTC                                       | <b>121,304,952</b>  | 103,715,725  |
| Toyota Motor Philippines Corporation       | <b>708,595</b>      | 7,903,511    |
| FMIC                                       | <b>587,669</b>      | 228,700      |
| Orix Metro Leasing and Finance Corporation | <b>501,291</b>      | 457,734      |
| Charter Ping An Insurance Corporation      | <b>344,832</b>      | 310,122      |
| Federal Land                               | <b>158,484</b>      | 171,755      |
|  | <b>₱260,004,197</b> | ₱195,254,858 |

*Premiums due and uncollected*

|                                      | 2012               | 2011        |
|--------------------------------------|--------------------|-------------|
| Philippine Savings Bank              | <b>₱17,765,022</b> | ₱6,673,916  |
| MBTC                                 | <b>12,813,345</b>  | 9,066,649   |
| Toyota Motor Philippines Corporation | <b>17,325</b>      | 37,275      |
|                                      | <b>₱30,595,692</b> | ₱15,777,840 |

*Claims incurred*

|                                      | 2012               | 2011        |
|--------------------------------------|--------------------|-------------|
| Philippine Savings Bank              | <b>₱59,635,871</b> | ₱40,633,250 |
| MBTC                                 | <b>25,996,557</b>  | 32,912,108  |
| Toyota Motor Philippines Corporation | <b>1,200,000</b>   | 2,200,000   |
|                                      | <b>₱86,832,428</b> | ₱75,745,358 |



*Claims payable*

|                         | 2012              | 2011     |
|-------------------------|-------------------|----------|
| Philippine Savings Bank | <b>₱1,200,000</b> | ₱300,000 |
| MBTC                    | <b>333,333</b>    | 500,000  |
|                         | <b>₱1,533,333</b> | ₱800,000 |

*Outstanding gross experience refunds*

|                                       | 2012               | 2011        |
|---------------------------------------|--------------------|-------------|
| MBTC                                  | <b>₱34,247,977</b> | ₱18,710,732 |
| Philippine Savings Bank               | <b>19,930,227</b>  | 22,783,817  |
| Toyota Motor Philippines Corporation  | <b>5,326,329</b>   | 3,190,228   |
| Charter Ping An Insurance Corporation | <b>561,604</b>     | 421,616     |
|                                       | <b>₱60,066,137</b> | ₱45,106,393 |

In 2012 and 2011, the related experience refunds charged to statement of comprehensive income amounted to ₱27,277,126 and ₱7,115,819, respectively.

- k. AXA S.A. allocated certain expenses to the Company that pertain to shared service costs as a result of providing services on management planning, support and maintenance services, procurement regional projects and information technology service delivery charges. Shared service costs included in “Operating and administrative expenses” amounted to ₱71,583,034 and ₱58,557,048 in 2012 and 2011, respectively (see Note 20). The outstanding balance included in “Accrued expenses” under “Trade and other liabilities” amounted to ₱84,106,232 and ₱79,837,331 as of December 31, 2012 and 2011, respectively (see Note 15).
- l. On December 29, 2011, the Company entered into a sale agreement of its FVPL bonds to FMIC amounting to ₱202,698,616. As of December 31, 2011, the amount is included in “Intercompany receivables” under “Loans and receivables” and settled on January 3, 2012. The resulting gain on the sale of FVPL bonds amounted to ₱26,486,712.
- m. On December 29, 2011, the Company entered into a purchase agreement of AFS Bonds from FMIC amounting to ₱129,402,270. As of December 31, 2011 the amount is included in “Accounts Payable” under “Trade and Other Liabilities” and paid on January 3, 2012.
- n. The Company entered into a Deposit Collection Agreement with MBTC for bill payments from the Company’s clients who are depositors of MBTC through delivery channels, online bills payments and auto-debit arrangements. MBTC shall debit the Company’s client accounts for the total amount of fees due at the end of every reference months, enable customers to perform online banking transactions and accept bill payments through extensive banking system and the use of various delivery channels such as over-the-counter payments, Metrobank ET, Metrophone, Mobile and Metrobankdirect banking facilities.
- o. The Company entered into a memorandum of agreement with Metrobank Card Corporation to issue corporate guaranteed credit cards to certain authorized employees. The Company shall bear complete liability for all the obligations, liabilities and charges incurred by the authorized employees arising from the use of credit cards.



p. Compensation of key management personnel

Key management personnel of the Company include all management committee officers.

The summary of compensation of key management personnel follows:

|   | 2012               | 2011        |
|---|--------------------|-------------|
| Salaries and other short-term employee benefits | <b>₱72,333,056</b> | ₱58,503,727 |
| Termination benefits                            | <b>2,365,147</b>   | 343,879     |
| Retirement benefits                             | –                  | 2,242,368   |
|   | <b>₱74,698,203</b> | ₱61,089,974 |

In 2012 and 2011, director fees paid to the Company's BOD included in "Management and directors' fees" amounted to ₱4,610,000 and ₱3,750,000, respectively.

q. Due from officers and employees

Amounts due from officers and employees include secured interest-bearing loans pertaining to car plan and salary loans, and other unsecured noninterest-bearing loans and advances granted to the Company's officers and employees. Interest rates on interest bearing loans range from 6% to 12% in 2012 and 2011.



The summary of balances arising from related party transactions for the relevant financial year follows:

|   | 2012          |                     | 2011          |                     | Terms                             | Conditions               |
|---|---------------|---------------------|---------------|---------------------|-----------------------------------|--------------------------|
|   | Amount/volume | Outstanding Balance | Amount/volume | Outstanding Balance |                                   |                          |
| <b>Entities with joint control over the Company</b> |               |                     |               |                     |                                   |                          |
| MBTC  |               |                     |               |                     |                                   |                          |
| Savings, current and time deposits accounts         | ₱-            | ₱511,383,699        | ₱-            | ₱377,237,912        | 90 days, 0.10 % to 2.75%          | Unsecured, no impairment |
| Interest income                                     | 5,138,273     | -                   | 14,954,201    | -                   | 90 days, 0.10 % to 2.75%          | Unsecured, no impairment |
| Service fees  | 111,258,079   | 17,512,394          | 95,469,922    | 11,096,820          | 0.10% to 0.30% of NAV             | Unsecured, no impairment |
| Commission expense                                  | 159,390,099   | 21,080,020          | 128,297,390   | 19,452,582          | Interest-free, settlement in cash | Unsecured, no impairment |
| Pension liability                                   | -             | 65,012,572          | -             | 59,698,870          | Interest-free, settlement in cash | Unsecured, no impairment |
| Trust fees  | 191,200       | -                   | 147,070       | -                   | Interest-free, settlement in cash | Unsecured, no impairment |
| Rent expense  | 3,494,458     | -                   | 4,425,618     | -                   | Interest-free, settlement in cash | Unsecured, no impairment |
| Rent income   | 919,254       | -                   | 1,008,241     | -                   | Interest-free, settlement in cash | Unsecured, no impairment |
| Premium income                                      | 121,304,952   | 12,813,345          | 103,715,725   | 9,066,649           | Interest-free, settlement in cash | Unsecured, no impairment |
| Claims  | 25,996,557    | 333,333             | 32,912,108    | 500,000             | Interest-free, settlement in cash | Unsecured, no impairment |
| Gross experience refund                             | 34,247,977    | -                   | 18,710,732    | -                   | Interest-free, settlement in cash | Unsecured, no impairment |
| FMIC  |               |                     |               |                     |                                   |                          |
| Premium income                                      | 587,669       | -                   | 228,700       | -                   | Interest-free, settlement in cash | Unsecured, no impairment |
| Sale of debt securities                             | -             | -                   | 26,486,712    | 202,698,616         | Interest-free, settlement in cash | Unsecured, no impairment |
| Purchase of debt securities                         | -             | -                   | -             | 129,402,270         | Interest-free, settlement in cash | Unsecured, no impairment |
| AXA S.A.  |               |                     |               |                     |                                   |                          |
| Shared service costs                                | 71,583,034    | 84,106,232          | 58,557,048    | 79,837,331          | Interest-free, settlement in cash | Unsecured, no impairment |
| Various expenses                                    | 1,117,795     | 1,117,795           | 1,019,299     | 1,019,299           | Interest-free, settlement in cash | Unsecured, no impairment |
| <b>Unit-linked funds</b>                            |               |                     |               |                     |                                   |                          |
| Asset management fees                               | 464,542,945   | 79,551,015          | 369,764,447   | 63,762,058          | 1.30% to 2.10% of NAV             | Unsecured, no impairment |
| Derivative asset                                    | 44,604,461    | 75,019,088          | 20,580,298    | 136,219,219         | ₱51.62 pre-agreed forward rate    | Unsecured, no impairment |
| Redemptions   | -             | 59,876,741          | -             | 26,686,245          | Interest-free, settlement in cash | Unsecured, no impairment |

(Forward)



|   | 2012          |                     | 2011          |                     | Terms  | Conditions               |
|---|---------------|---------------------|---------------|---------------------|--|--------------------------|
|   | Amount/volume | Outstanding Balance | Amount/volume | Outstanding Balance |  |                          |
| <b>Other related parties</b>                |               |                     |               |                     |  |                          |
| Philippine Savings Bank                     |               |                     |               |                     |  |                          |
| Savings, current and time deposits accounts |               |                     |               |                     |  |                          |
|   | ₱-            | ₱841,439,204        | ₱-            | ₱1,198,107,446      | 90 days, 0.50 % to 4.00%   | Unsecured, no impairment |
| Interest income                             | 39,516,243    | -                   | 24,019,984    | -                   | 90 days, 0.50 % to 4.00%   | Unsecured, no impairment |
| Rent expense                                | 22,462,044    | -                   | 20,452,937    | -                   | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| Premium income                              | 136,398,374   | 17,765,022          | 82,467,311    | 6,673,916           | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| Claims                                      | 59,635,871    | 1,200,000           | 40,633,250    | 300,000             | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| Gross experience refund                     | -             | 19,930,227          | -             | 22,783,817          | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| Federal Land                                |               |                     |               |                     |  |                          |
| Settlement of receivable                    | 1,276,354     | 6,167,815           | 1,059,421     | 7,227,236           | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| Premium income                              | 158,484       | -                   | 171,755       | -                   | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| Charter Ping An Insurance Corporation       |               |                     |               |                     |  |                          |
| Premium income                              | 344,832       | -                   | 310,122       | -                   | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| Gross experience refund                     | -             | 561,604             | -             | 421,616             |  |                          |
| Orix Metro Leasing and Finance Corporation  |               |                     |               |                     |  |                          |
| Premium income                              | 501,291       | -                   | 457,734       | -                   | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| Toyota Motor Philippines Corporation        |               |                     |               |                     |  |                          |
| Premium income                              | 708,595       | 17,325              | 7,903,511     | 37,275              | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| Claims                                      | 1,200,000     | -                   | 2,200,000     | -                   | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| Gross experience refund                     | -             | 5,326,329           | -             | 3,190,228           | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| AXAAPHL                                     |               |                     |               |                     |  |                          |
| Various expenses                            | 1,019,299     | 1,019,299           | -             | -                   | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| AXA Malaysia                                |               |                     |               |                     |  |                          |
| Various expenses                            | 84,701        | 84,701              | -             | -                   | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| AXA HK                                      |               |                     |               |                     |  |                          |
| Various expenses                            | 118,291       | 118,291             | -             | -                   | Interest-free, settlement in cash                                  | Unsecured, no impairment |
| <b>Key management personnel</b>             |               |                     |               |                     |  |                          |
| Compensation and benefits                   | 74,698,203    | -                   | 61,089,974    | -                   | -  | -                        |
| Directors' fees                             | 4,610,000     | -                   | 3,750,000     | -                   | -  | -                        |
|   |               |                     |               |                     | 6% to 12% interest bearing, settlement in cash or salary deduction |                          |
| Due from officers and employees             | -             | 26,190,294          | -             | 22,029,331          |  | Secured, with impairment |



Except for the car loans of the officers and employees, receivable from/payable to related parties are not secured. No guarantees were given by the Company nor received. Allowance for impairment losses on due from officers and employees amounted to ₱819,653 as of December 31, 2012 and 2011. No expense was recognized in 2012 and 2011 in respect of bad or doubtful debts due from related parties.

## 25. Commitments

### Operating Lease Commitments

#### *Company as lessee*

The Company entered into commercial leases on certain offices for its branches. These leases have an average life of between 1 to 5 years with renewal terms included in the contracts. Certain lease contracts also include escalation clauses. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rental payments under noncancellable operating leases follow:

|   | 2012               | 2011               |
|---|--------------------|--------------------|
| Within one year                             | ₱22,873,642        | ₱35,934,125        |
| After one year but not more than five years | 22,847,012         | 7,163,093          |
|   | <b>₱45,720,654</b> | <b>₱43,097,218</b> |

#### *Company as lessor*

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

Future minimum rentals receivable under noncancellable operating leases follow:

|   | 2012              | 2011              |
|---|-------------------|-------------------|
| Within one year                             | ₱867,599          | ₱788,726          |
| After one year but not more than five years | 954,351           | 1,821,958         |
|   | <b>₱1,821,950</b> | <b>₱2,610,684</b> |

### Finance Lease Commitments

The Company has finance leases for various items of property and equipment. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments included in the "Accrued expenses" under the "Trade and other liabilities" account follow:

|   | 2012             |                           | 2011             |                           |
|---|------------------|---------------------------|------------------|---------------------------|
|   | Minimum payments | Present value of payments | Minimum payments | Present value of payments |
| Within one year minimum lease payments    | ₱-               | ₱-                        | ₱1,045,935       | ₱983,583                  |
| Less amounts representing finance charges | -                | -                         | (62,352)         | -                         |
| Present value of minimum lease payments   | <b>₱-</b>        | <b>₱-</b>                 | <b>₱983,583</b>  | <b>₱983,583</b>           |





As of December 31, 2012 and 2011, the carrying amount of property and equipment under finance lease amounted to ₱382,043 and ₱1,694,851, respectively.

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## 26. Contingencies

The Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position.

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## 27. Notes to Cash Flow Statements

In 2012, the Company's non cash financing activity pertains to the transfer of the deposit for future stock subscription to capital stock amounting to ₱309,371,300 (see Note 16) and transfer of intangible assets to other assets with net book value of ₱6,492,778 (see Note 10).

In 2011, the Company's non cash financing activities pertain to the transfer of the contingency surplus to deposit for future stock subscription amounting to ₱304,289,900 (see Note 16) and transfer of investment properties to property and equipment with net book value amounting to ₱2,924,337 (see Notes 8 and 9).

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## 28. Events After the Reporting Date

On January 14, 2013, the Company moved from Philippine AXA Life Centre, Sen. Gil Puyat Avenue corner Tindalo Street, Makati City to its new principal place of business at GT Tower International, 6813 Ayala Avenue, corner H.V. Dela Costa Street, Makati City as approved by the BOD on October 24, 2012. The Company occupies 33rd, 34th and 35th floors of GT Tower International.

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## 29. Supplementary Information Required Under Revenue Regulation (RR) 19-2011

In compliance with the requirements set forth by RR19-2011, the following schedule presents the Company's itemized deductions and resulting net taxable income for 2012.

|                                   |                |                 |
|-----------------------------------|----------------|-----------------|
| Revenue                           |                |                 |
| Net premiums                      |                | ₱12,279,551,377 |
| Total revenue                     |                | 12,279,551,377  |
| Less: Direct charges              |                |                 |
| Increase in legal policy reserves | ₱3,574,447,352 |                 |
| Maturities and surrenders         | 6,580,111,670  |                 |
| Claims-net of recoveries          | 255,258,439    |                 |
| Salaries, wages and benefits      | 266,790,165    |                 |
| Depreciation                      | 56,796,595     |                 |
| Rent                              | 30,411,038     |                 |
| Others                            | 585,271,913    |                 |
| Total cost of services            |                | 11,349,087,172  |

(Forward)



|   |              |               |
|---|--------------|---------------|
| Gross income from operations                        |              | ₱930,464,205  |
| Add: Other taxable income not subject to final tax  |              |               |
| Asset management charges                            | ₱464,542,945 |               |
| Realized foreign exchange gains                     | 19,073,359   |               |
| Interest income                                     | 38,556,261   |               |
| Gain on sale of property and equipment              | 4,391,606    |               |
| Rent income   | 919,254      |               |
| Others  | 89,137,093   |               |
| Total other taxable income not subject to final tax |              | 616,620,518   |
| Gross income  |              | 1,547,084,723 |
| Less:   |              |               |
| Salaries, allowances and benefits                   | 471,183,938  |               |
| Advertising and promotions                          | 128,517,539  |               |
| Project development costs                           | 126,307,649  |               |
| Collection fees                                     | 113,138,330  |               |
| Training and convention                             | 94,231,252   |               |
| Shared service costs                                | 71,583,034   |               |
| Premium and documentary stamp taxes                 | 48,548,882   |               |
| Transportation and travel                           | 46,962,195   |               |
| Rent  | 45,877,378   |               |
| Communication, light and water                      | 38,301,111   |               |
| Agency development expenses                         | 27,978,086   |               |
| Taxes, licenses and fees                            | 17,051,559   |               |
| Supplies  | 13,109,177   |               |
| Management and director's fees                      | 12,590,094   |               |
| Courier costs                                       | 10,465,679   |               |
| Repairs and maintenance                             | 4,832,930    |               |
| Depreciation and amortization                       | 3,695,634    |               |
| Miscellaneous                                       | 16,107,496   |               |
| Total itemized deductions                           |              | 1,290,481,963 |
| Taxable income before NOLCO                         |              | 256,602,760   |
| Less: NOLCO   |              | 29,220,219    |
| Taxable income                                      |              | ₱227,382,541  |
| Regular corporate income tax (RCIT) at 30%          |              | ₱68,214,762   |
| Minimum corporate income tax (MCIT) at 2%           |              | ₱30,941,694   |

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### 30. Supplementary Tax Information under Revenue Regulations No. 15 - 2010

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

#### Value Added Tax (VAT)

The Company is exempt from VAT being engaged in the business of life insurance under Section 4.109-1 (B)(e)(6) of Revenue Regulation No. 16-05 or otherwise known as the Consolidated VAT Regulations of 2005. However, it is subject to percentage tax under Section 123 of the Tax Code, as amended. Hence, it paid the amount of ₱44,058,803 in 2012 as percentage tax based on the amount reflected in the premiums on insurance contracts of ₱2,202,940,129.



Revenue Memorandum Circular (RMC) No. 30-08, as amended by RMC 59-08, provides that management fees, rental income, or income earned by the life insurance company from services which can be pursued independently of the insurance business activity are not subject to 5% (now 2%) premium tax but the same are treated as income for services that are subject to the imposition of VAT pursuant to Section 108 of the Tax Code, as amended.

In compliance with the said RMC, the Company paid VAT amounting to ₱55,210,839. Details are as follows:

|                                   | Tax base            | VAT                |
|-----------------------------------|---------------------|--------------------|
| Asset management charge           | ₱454,256,456        | ₱54,510,775        |
| Disposal of motor vehicle         | 5,109,945           | 613,193            |
| Rental income                     | 723,925             | 86,871             |
| <b>Balance at end of the year</b> | <b>₱460,090,326</b> | <b>₱55,210,839</b> |

Documentary Stamp Tax (DST)

The DST paid/accrued on the following transactions are:

| Transaction                       | Tax base               | DST               |
|-----------------------------------|------------------------|-------------------|
| Life insurance policies           |                        |                   |
| Sum insured                       | ₱62,700,750,329        | ₱2,775,075        |
| Premium collection                | 42,447,808             | 213,161           |
| Shares of stock                   | 309,371,600            | 1,546,858         |
| Contract of lease                 | 12,411,768             | 12,419            |
| <b>Balance at end of the year</b> | <b>₱63,064,981,505</b> | <b>₱4,547,513</b> |

Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Operating and administrative expenses' sections in the Company's 2012 Statement of Comprehensive Income. Details consist of the following:

***Local***

|                   |                   |
|-------------------|-------------------|
| Mayor's permit    | ₱10,486,824       |
| Real estate taxes | 483,200           |
| Community tax     | 20,500            |
| PTR               | 900               |
|                   | <b>10,991,424</b> |

***National***

|                         |                    |
|-------------------------|--------------------|
| Fringe benefit tax      | 2,249,846          |
| Regulatory body fees    | 2,259,975          |
| BIR annual registration | 11,000             |
|                         | <b>4,520,821</b>   |
|                         | <b>₱15,512,245</b> |

Withholding Taxes

The amount of withholding taxes paid and accrued for the year 2012 amounted to:

|                                  |                     |
|----------------------------------|---------------------|
| Tax on compensation and benefits | ₱138,400,682        |
| Creditable withholding taxes     | 84,111,660          |
| Final withholding taxes          | 66,100,628          |
|                                  | <b>₱288,612,970</b> |

