

Charter Ping An Insurance Corporation

Financial Statements
December 31, 2012 and 2011

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Charter Ping An Insurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Charter Ping An 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 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 auditors' 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 auditors 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 Charter Ping An 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 28 and 29 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 Company's management. 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.


Dyle S. Garcia

Partner

CPA Certificate No. 0097907

SEC Accreditation No. 1285-A (Group A),

February 25, 2013, valid until February 24, 2016

Tax Identification No. 201-960-347

BIR Accreditation No. 08-001998-102-2013,

January 28, 2013, valid until January 27, 2016

PTR No. 3669686, January 2, 2013, Makati City

March 19, 2013



CHARTER PING AN INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Cash and Cash Equivalents (Notes 4, 23 and 25)	₱720,012,742	₱669,256,937
Short-term Investments	1,000,000	—
Insurance Receivables - net (Notes 5 and 25)	1,246,806,043	1,074,918,942
Financial Assets (Notes 6 and 25)		
Available-for-sale	1,125,390,293	819,394,876
Loans and receivables	40,460,771	41,014,924
Reinsurance Assets (Notes 7 and 24)	2,842,038,429	2,036,928,356
Deferred Acquisition Costs (Note 8)	194,024,650	160,776,202
Property and Equipment - net (Note 9)	154,070,181	149,676,072
Assets Held for Sale (Note 10)	9,560,000	—
Other Assets (Note 11)	9,558,961	8,257,075
	₱6,342,922,070	₱4,960,223,384
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 12 and 25)	₱4,251,985,685	₱3,203,314,986
Insurance payables (Notes 13 and 25)	270,924,998	288,465,652
Accounts payable and accrued expenses (Notes 14 and 25)	483,583,096	403,854,853
Income tax payable	51,419,786	35,338,381
Retirement benefit obligation (Note 21)	29,707,977	26,845,157
Deferred reinsurance commissions (Note 8)	31,706,376	24,972,778
Deferred tax liability (Note 22)	2,523,282	4,527,324
	5,121,851,200	3,987,319,131
Equity		
Capital stock (Note 15)	350,000,000	250,000,000
Additional paid-in capital	6,634,245	6,634,245
Revaluation reserve on:		
Available-for-sale financial assets (Note 6)	123,101,128	88,481,056
Property and equipment	85,770,929	85,770,929
Retained earnings	655,564,568	542,018,023
	1,221,070,870	972,904,253
	₱6,342,922,070	₱4,960,223,384

See accompanying Notes to Financial Statements.



CHARTER PING AN INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2012	2011
Gross earned premiums on insurance contracts (Notes 12 and 16)	₱2,339,446,299	₱2,096,668,118
Reinsurers' share of gross earned premiums on insurance contracts (Notes 12 and 16)	892,174,608	919,830,514
Net insurance earned premiums	1,447,271,691	1,176,837,604
Interest income (Note 17)	80,886,807	67,225,998
Commission income (Note 8)	67,321,226	54,389,509
Foreign exchange gain	752,873	1,157,142
Dividend income (Note 17)	2,576,046	823,220
Gain on sale of available-for-sale financial assets (Note 6)	4,909,276	2,195,510
Others (Note 17)	28,311,426	20,806,864
Other income	184,757,654	146,598,243
Total Income	1,632,029,345	1,323,435,847
Gross insurance contract benefits and claims paid	754,939,802	1,153,237,388
Reinsurers' share of gross insurance contract benefits and claims paid	(262,916,998)	(677,451,757)
Gross change in insurance contract liabilities	494,384,238	71,973,157
Reinsurers' share of gross change in insurance contract liabilities	(416,788,059)	(33,760,146)
Net insurance benefits and claims (Notes 12 and 18)	569,618,983	513,998,642
Operating expenses (Note 19)	370,262,449	293,476,313
Commission expense (Note 8)	402,782,594	329,498,002
Interest expense (Note 13)	907,190	1,384,336
Other expenses	773,952,233	624,358,651
Total Benefits, Claims and Other Expenses	1,343,571,216	1,138,357,293
Income before income tax	288,458,129	185,078,554
Current	80,443,227	59,642,594
Deferred	(5,531,643)	(24,860,050)
Income tax expense (Note 22)	74,911,584	34,782,544
NET INCOME	213,546,545	150,296,010
OTHER COMPREHENSIVE INCOME		
Changes on fair value of available-for-sale financial assets (Note 6)	34,620,072	19,027,277
TOTAL COMPREHENSIVE INCOME	₱248,166,617	₱169,323,287

See accompanying Notes to Financial Statements.



CHARTER PING AN INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Capital Stock (Note 15)	Additional Paid-in Capital	Revaluation Reserve on Available- for-Sale Financial Assets (Note 6)	Revaluation Reserve on Property and Equipment	Retained Earnings	Total
As of January 1, 2012	₱250,000,000	₱6,634,245	₱88,481,056	₱85,770,929	₱542,018,023	₱972,904,253
Stock dividends issued and declared (Note 15)	100,000,000	--	--	--	(100,000,000)	--
Net income for the year	--	--	--	--	213,546,545	213,546,545
Other comprehensive income	--	--	34,620,072	--	--	34,620,072
Total recognized income for the year	--	--	34,620,072	--	213,546,545	248,166,617
As of December 31, 2012	₱350,000,000	₱6,634,245	₱123,101,128	₱85,770,929	₱655,564,568	₱1,221,070,870
As of January 1, 2011	₱150,000,000	₱6,634,245	₱69,453,779	₱85,770,929	₱491,722,013	₱803,580,966
Stock dividends issued and declared (Note 15)	100,000,000	--	--	--	(100,000,000)	--
Net income for the year	--	--	--	--	150,296,010	150,296,010
Other comprehensive income	--	--	19,027,277	--	--	19,027,277
Total recognized income for the year	--	--	19,027,277	--	150,296,010	169,323,287
As of December 31, 2011	₱250,000,000	₱6,634,245	₱88,481,056	₱85,770,929	₱542,018,023	₱972,904,253

See accompanying Notes to Financial Statements.



CHARTER PING AN INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	¥288,458,129	¥185,078,554
Adjustments for:		
Interest income	(80,886,807)	(67,225,998)
Dividend income	(2,576,046)	(823,220)
Gain on sale of AFS financial assets (Note 6)	(4,909,276)	(2,195,510)
Gain on sale of property and equipment (Notes 9 and 17)	(179,505)	(151,366)
Impairment loss on AFS financial assets (Notes 6 and 19)	284,327	697,772
Interest expense	907,190	1,384,336
Depreciation and amortization (Note 19)	19,661,629	16,320,708
Operating income before working capital changes	220,759,641	133,085,276
Decrease (increase) in:		
Short-term investments	(1,000,000)	—
Insurance receivables	(171,887,101)	(81,074,907)
Loans and receivables	(9,540,847)	(9,980,577)
Reinsurance assets	(805,110,073)	(104,263,573)
Deferred acquisition costs	(33,248,448)	(23,155,280)
Assets held for sale	(9,560,000)	—
Other assets	8,793,114	(2,910,064)
Increase (decrease) in:		
Insurance contract liabilities	1,048,670,699	232,743,128
Insurance balances payable	(17,540,654)	(10,887,097)
Deferred reinsurance commission	6,733,598	4,548,141
Accounts payable and accrued expenses	79,728,243	(16,347,673)
Retirement benefit obligation	2,862,820	(3,308,394)
Net cash provided by operations	319,660,992	118,448,980
Interest paid	(907,190)	(1,384,336)
Income tax paid	(64,361,822)	(26,647,469)
Net cash provided by operating activities	254,391,980	90,417,175
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	63,038,164	61,207,369
Dividends received	2,576,046	823,220
Proceeds from sale of:		
Available-for-sale financial assets (Note 6)	227,032,685	33,474,277
Property and equipment (Note 9)	1,665,673	944,371
Acquisition of:		
Available-for-sale financial assets (Note 6)	(472,406,837)	(239,798,039)
Property and equipment (Note 9)	(25,541,906)	(20,845,859)
Net cash used in investing activities	(203,636,175)	(164,194,661)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	50,755,805	(73,777,486)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	669,256,937	743,034,423
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	¥720,012,742	¥669,256,937

See accompanying Notes to Financial Statements.



CHARTER PING AN INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Charter Ping An Insurance Corporation (the Company) was incorporated in the Philippines on June 21, 1960. On September 14, 2009, the Securities and Exchange Commission (SEC) granted the Company's extension of its corporate life for another 50 years. The Company's major stockholders are Global Business Holdings, Inc., First Metro Investment Corporation, Tytana Corporation and Ausan Resources Corporation, which are all domestic corporations and affiliates of Metropolitan Bank and Trust Company (MBTC).

The Company is presently engaged in the business of nonlife insurance which includes fire, motor car, marine hull, marine cargo, personal accident insurance and other products that are permitted to be sold by a nonlife insurance company in the Philippines.

The Company's registered office is at Ground Floor, Skyland Plaza, Sen. Gil J. Puyat Ave. corner Tindalo Street, Makati City.

On December 6, 2011, the Board of Directors (BOD) approved the amendment of the Articles of Incorporation to change the Company's name from Philippine Charter Insurance Corporation to Charter Ping An Insurance Corporation. The amended Articles of Incorporation was approved by the SEC on December 29, 2011.

The accompanying financial statements were approved and authorized for issue by the Audit Committee, as designated by the BOD, on March 19, 2013.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value and property and equipment which have been measured at appraised value. The financial statements are measured in Philippine Peso (₱), which is also the Company's functional and presentation currency. All values are rounded off to the nearest peso values, unless otherwise indicated.

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) interpretations which became effective beginning January 1, 2012.

- PFRS 7 (Amendments), *Financial Instruments: Disclosures - Transfers of Financial Assets*
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 amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 12 (Amendments), *Income Taxes - Deferred Tax: Recovery of Underlying Assets*
This amendment to PAS 12 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 adoption of these amendments did not have a significant impact on the Company's financial position or performance.

Future Changes in Accounting Policies

The Company will adopt the following new and amended standards and Philippine Interpretations enumerated below when these become effective.

Effective July 1, 2012

- PAS 1 (Amendment), *Financial Statement Presentation, Presentation of Items of Other Comprehensive Income (OCI)*
The amendments to PAS 1 changed the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and will have no impact on the Company's financial position or performance. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

Effective January 1, 2013

- PFRS 7 (Amendments), *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 affect disclosures only and have no impact on the Company's financial position or performance.

- **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 adoption of this standard will not have an impact on the Company's financial position or performance.
- **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 adoption of this standard will not have an impact on the Company's financial position or performance.
- **PFRS 12, *Disclosure of Interests with Other Entities***
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of this standard will not have an impact on the Company's financial position or performance.
- **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 adoption of this standard will have a significant impact on the Company's financial position and performance, as well as result to more extensive disclosures in the financial statements, considering that it currently carries its property and equipment at fair value.



- PAS 19 (Revised), *Employee Benefits*
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and 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. Once effective, the Company has to apply the amendments retrospectively to the earliest period presented.

The Company reviewed its existing employee benefits and determined that the amended standard has an 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:

Statement of Financial Position

	As of December 31, 2012	As at January 1, 2012
Increase (decrease) in:		
Pension obligation	₱13,888,760	₱26,628,079
Deferred tax asset	3,847,322	9,195,295
Other comprehensive income	(12,824,406)	(30,650,982)
Retained earnings	8,977,084	21,455,687

Statement of Income

	For the year 2012
Increase (decrease) in:	
Pension expense	₱4,719,174
Income tax expense	(1,415,752)
Net income	(3,303,422)

- PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of this standard will not have an impact on the Company's financial position or performance.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the new PFRS 11 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 adoption of this standard will not have an impact on the Company's financial position or performance.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This Philippine Interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing



asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. This Philippine Interpretation is not relevant to the Company.

Annual Improvements to PFRSs (2009-2011 cycle) effective January 1, 2013

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. These amendments are to be applied retrospectively. Earlier application is permitted.

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



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

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

Effective January 1, 2014

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

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

Effective January 1, 2015

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

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

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

This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in



which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The Philippine Interpretation is not relevant to the Company.

Product Classification

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

Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

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

Cash and Cash Equivalents

Cash includes cash on hand, cash in banks and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Insurance Receivables

Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost. 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 under 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 of financial instruments

Financial instruments are initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, FVPL investments and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

As of December 31, 2012 and 2011, the Company's financial instruments are in the nature of AFS financial assets, loans and receivables and other financial liabilities.

Determination of fair value

The fair value for financial instruments traded in active markets at the end of the reporting period 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 market observable prices exist, options pricing models, and other relevant valuation models.

Day 1 profit

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an observable data is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVPL. This accounting policy relates to the statement of financial position captions: (a) Cash and Cash Equivalents", (b) "Short-term Investments", (c) "Insurance Receivables" and (d) "Loans and Receivables".

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



AFS financial assets

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

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. Interest earned on holding AFS debt investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS equity investments are recognized in profit or loss when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as 'Revaluation reserve on available-for-sale financial assets' in equity. The losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as realized gains or losses in profit or loss. When the Company holds more than one investment in the same security, the cost is determined using the weighted average method.

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

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of comprehensive income.

This accounting policy applies primarily to the Company's insurance payables and accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit obligation and income tax payable).

Offsetting

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

Impairment of Financial Assets

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of



impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

AFS investments carried at fair value

In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income, and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.



In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

AFS investments carried at cost

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

Derecognition of Financial Assets and Liabilities

Financial Asset

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

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

Where the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Financial Liability

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

Reinsurance

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



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

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

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

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

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

Deferred Acquisition Costs (DAC)

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract except for the marine cargo where commissions for the last two months of the year are recognized as expense the following year. Amortization is charged against profit or loss. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the statement of financial position.

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

Property and Equipment

Property and equipment, except for condominium units, are stated at cost, net of accumulated depreciation and amortization and any impairment in value.

Condominium units are stated at appraised value determined by an independent firm of appraisers, less accumulated depreciation. The net appraisal increment resulting from the revaluation is credited to revaluation reserve on property and equipment separately shown under the equity section of the statement of financial position and the statement of changes in equity.

The revaluation reserve on property and equipment will be transferred directly to retained earnings when the asset is derecognized, i.e., the whole of the reserve will be transferred to retained earnings when the condominium units is retired or disposed of. Transfers from revaluation reserve to retained earnings are not made through profit or loss.



The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged against profit or loss during the financial period in which they are incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the properties as follows:

	Years
Condominium units	50
Electronic Data Processing (EDP) equipment	3
Transportation equipment	5
Office furniture, fixtures and equipment	5
Office improvements	5

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

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

Assets Held for Sale

The Company classifies assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Impairment of Non-financial Assets

The Company assesses at each end of the reporting period whether there is an indication that an asset may be impaired. If any such indication exists or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.



For assets excluding goodwill, an assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining estimated useful life.

Insurance Contract Liabilities

Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Provision for Unearned Premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums as part of "Insurance contract liabilities" and presented in the liabilities section of the statement of financial position. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims Provision and Incurred But Not Reported (IBNR) Losses

These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR losses. The liability is derecognized when the contract is discharged, cancelled or has expired.

Liability Adequacy Test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of the related DAC assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of comprehensive income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.



Pension Cost

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. 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, actuarial gains and losses and the effect of any curtailment or settlement.

The liability recognized in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments. Actuarial gains and losses is recognized in profit or loss if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Equity

Capital stock represents the value of shares that have been issued at par.

Additional paid-in capital includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Retained earnings include all the accumulated earnings of the Company, less any amount of dividends declared.

Revenue

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

Premiums revenue

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums and shown as part of "Insurance contract liabilities" presented in the liabilities section of the statements of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at end of the reporting period are accounted for as Deferred reinsurance premiums and shown as part of "Reinsurance assets" in the statements of financial position. The net changes in these accounts between each end of reporting periods are recognized in profit or loss.



Reinsurance commissions

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the deferred reinsurance commissions for the last two months of the year are considered earned the following year. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as "Deferred reinsurance commissions" and presented in the liabilities section of the statement of financial position.

Interest income

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

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

Dividend income

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

Benefits and claims

Benefits and claims consists of benefits and claims paid to policyholders, which includes changes in the valuation of Insurance contract liabilities, except for changes in the provision for unearned premiums which are recorded in insurance revenue. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Operating expense

Operating expenses, except for lease agreements, are recognized as expense as they are incurred.

Interest expense

Interest expense is charged against operations and is calculated using the effective interest method.

Leases

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

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



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

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

Foreign Exchange Transactions

The functional and presentation currency of the Company is the Philippine Peso (₱). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. Differences arising from translation of monetary assets and liabilities are taken to profit or loss while differences arising from dollar-denominated equity securities classified as AFS financial assets are included in other comprehensive income.

Provisions and Contingencies

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

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

Income Tax

Current tax

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

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible



temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

Current tax and deferred tax relating to items recognized as other comprehensive income is also recognized in the statement of other comprehensive income.

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

Events after the Reporting Period

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

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in 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 estimates are reflected in the financial statements as they become reasonably determinable.

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

Judgments

Financial Assets not quoted in an active market

The Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available,



and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Operating lease commitments - Company as lessee

The Company has entered into property leases. Substantially, all the risks and benefits incidental to ownership of the leased item are not transferred to the Company.

Estimates

Claims liability arising from insurance contracts

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claims settlement trends to predict future claims settlement trends. At each end of the reporting period, prior year claims estimates are assessed for adequacy and changes made are charged to provision.

Nonlife insurance claims provisions are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. Historical claims development is mainly analyzed by accident years, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

The carrying values of provision for outstanding claims and IBNR amounted to ₱2,756,746,169 and ₱2,262,361,932 as of December 31, 2012 and 2011, respectively (see Note 12).

Fair values of financial assets

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The carrying value of AFS financial assets amounted to ₱1,125,390,293 and ₱819,394,876 as of December 31, 2012 and 2011, respectively (see Note 6).



Impairment of 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 continuous decline for more than twelve (12) months. 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 Company reviews its insurance receivables and loans and receivables at each end of the reporting period to assess whether an allowance for impairment should be recorded in the statement of income. 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.

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, net of allowance for doubtful accounts of ₱19,000,000 and ₱13,000,000 amounted to ₱1,246,806,043 and ₱1,074,918,942 as of December 31, 2012 and 2011, respectively (see Note 5). Loans and receivables amounted to ₱40,460,771 and ₱41,014,924 as of December 31, 2012 and 2011, respectively (see Note 6). As of December 31, 2012 and 2011, the Company has recognized impairment loss amounting to ₱284,327 and ₱697,772, respectively, on its AFS financial assets (see Note 6).

Estimated useful lives of property and equipment

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

The carrying value of property and equipment amounted to ₱154,070,181 and ₱149,676,072 as of December 31, 2012 and 2011, respectively (see Note 9).

Appraised value of property and equipment

The Company carries certain property and equipment at appraised value, less accumulated depreciation. Appraised value is arrived at by using the market data approach. With this approach, the value of the property is based on sales and listings of comparable properties registered in the vicinity. The technique of this approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator and adjustment of the differences between the subject property and those actual sales and listings



regarded as comparables. The comparison was premised on the factors of location, characteristics of the lot, time element, quality and prospective use. As of December 31, 2012 and 2011, property and equipment carried at appraised value amounted to ₱112,440,996 and ₱116,866,105, respectively (see Note 9).

Impairment of nonfinancial assets

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

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

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

The carrying value of property and equipment amounted to ₱154,070,181 and ₱149,676,072 as of December 31, 2012 and 2011, respectively (see Note 9). The carrying value of assets held for sale amounted to ₱9,560,000 as of December 31, 2012 (see Note 10).

Pension 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 rates, expected return on plan assets and salary increase rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of end of the reporting period. 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.

The Company's net pension obligation amounted to ₱29,707,977 and ₱26,845,157 as of December 31, 2012 and 2011, respectively (see Note 21).

Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position. It is possible, however, that the results of operations could be materially affected by changes in the estimates.



4. Cash, Cash Equivalents and Short-term Investments

Cash and Cash Equivalents

This account consists of:

	2012	2011
Cash on hand	₱392,105	₱389,393
Cash in banks	56,473,904	151,935,097
Cash equivalents	663,146,733	516,932,447
	₱720,012,742	₱669,256,937

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods depending on the immediate cash requirements of the Company and earn interest at the rates ranging from 2.0% to 4.8% in 2012 and 1.50% to 5.00% in 2011.

Interest income earned from cash equivalents and cash in banks amounted to ₱24,649,429 and ₱1,549,303, respectively, in 2012 and ₱21,540,155 and ₱1,946,569, respectively, in 2011 (Note 17).

Short-term Investments

Short-term investments consist of money market placements amounting to ₱1,000,000 as of December 31, 2012. Short-term investments are made for periods ranging more than three (3) months and up to twelve (12) months and earn interest of the respective short-term investment rates. Interest income earned from short-term investment presented under "interest income" in the statement of the financial position amounted to ₱25,069 in 2012 (Note 17).

These investments are subject to insignificant risk of changes in value.

5. Insurance Receivables - net

This account consists of:

	2012	2011
Premiums receivable and agents' balances	₱799,607,770	₱630,232,687
Reinsurance recoverable on paid losses	398,049,562	407,318,638
Bonds recoverable on paid losses	13,739,289	12,495,554
Due from ceding companies	54,337,230	37,138,392
Funds held by ceding companies	72,192	733,671
	1,265,806,043	1,087,918,942
Less allowance for doubtful accounts	19,000,000	13,000,000
	₱1,246,806,043	₱1,074,918,942

Premiums receivable and agents balances arise from unpaid premiums from policy holders and intermediaries, due from ceding companies are premiums receivable for reinsuring the policies, while recoverable on paid losses are the share of ceding companies for the claims paid to the insured during the year. The amount of funds held by ceding companies is a percentage of the premiums, as required by the Insurance Commission. The Company's insurance receivables are all due within one year.



The following table shows aging information of insurance balances receivable:

December 31, 2012

	1 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	over 180 days	Total
Premiums receivable and agents' balances	P519,526,407	P51,996,485	P32,737,102	P31,649,227	P163,698,549	P799,607,770
Reinsurance recoverable on paid losses	279,644,044	707,019	996,634	12,253,762	104,448,103	398,049,562
Bonds recoverable on paid losses	1,706,549	865,237	—	1,609,195	9,558,308	13,739,289
Due from ceding companies	32,660,703	2,162,041	1,944,211	8,077,125	9,493,150	54,337,230
Funds held by ceding companies	72,192	—	—	—	—	72,192
	P833,609,895	P55,730,782	P35,677,947	P53,589,309	P287,198,110	P1,265,806,043

December 31, 2011

	1 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	over 180 days	Total
Premiums receivable and agents' balances	P394,488,747	P37,917,962	P34,024,472	P27,154,549	P136,646,957	P630,232,687
Reinsurance recoverable on paid losses	224,084,196	43,153,289	5,690,393	21,098,454	113,292,306	407,318,638
Bonds recoverable on paid losses	2,937,254	—	—	—	9,558,300	12,495,554
Due from ceding companies	19,327,770	817,965	1,035,057	—	15,957,600	37,138,392
Funds held by ceding companies	733,671	—	—	—	—	733,671
	P641,571,638	P81,889,216	P40,749,922	P48,253,003	P275,455,163	P1,087,918,942

The following is a reconciliation of the changes in allowance for doubtful accounts for insurance balances receivable:

December 31, 2012

	Premiums receivable and agents' balances	Due from ceding companies	Total
At January 1, 2012	P13,000,000	P—	P13,000,000
Impairment during the year (Note 19)	3,000,000	3,000,000	6,000,000
At December 31, 2012	P16,000,000	P3,000,000	P19,000,000
Collectively impaired	P16,000,000		

December 31, 2011

	Premiums receivable and agents' balances
At January 1, 2011	P7,000,000
Impairment during the year (Note 19)	6,000,000
At December 31, 2011	P13,000,000
Collectively impaired	P13,000,000



6. Financial Assets

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

	2012	2011
AFS financial assets	₱1,125,390,293	₱819,394,876
Loans and receivables	40,460,771	41,014,924
	₱1,165,851,064	₱860,409,800

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

a) AFS financial assets

	2012	2011
Equity securities - at fair value		
Quoted:		
Common shares	₱78,869,590	₱69,419,927
Preferred shares	—	22,500
Club shares	58,330,000	38,840,000
Non-quoted securities - at cost		
Common shares	60,890	14,000
Total equity securities	137,260,480	108,296,427
Debt securities - at fair value		
Government securities:		
Local currency	589,183,475	439,869,723
Foreign currency	121,137,613	43,168,968
Private debt securities	277,808,725	228,059,758
Total debt securities	988,129,813	711,098,449
Total AFS financial assets recognized in the statements of financial position	₱1,125,390,293	₱819,394,876

	2012	2011
Equity securities - at cost		
Quoted:		
Common shares - net of impairment loss amounting to ₱284,327 and ₱447,772 in 2012 and 2011, respectively.	₱52,312,881	₱46,574,953
Preferred shares	—	22,500
Club shares - net of impairment loss amounting to ₱— and ₱250,000 in 2012 and 2011, respectively.	7,062,500	3,747,500
Non-quoted securities - at cost		
Common shares	60,890	14,000
Total equity securities	59,436,271	50,358,953
Debt securities - at cost or amortized cost		
Quoted:		
Government debt securities		
Local currency	548,716,878	414,627,257
Foreign currency	120,687,925	44,930,444
Private debt securities	273,448,091	220,997,166
Total debt securities	942,852,894	680,554,867
Total AFS financial assets at cost or amortized cost	₱1,002,289,165	₱730,913,820



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

	2012	2011
At January 1	₱819,394,876	₱592,894,602
Additions	472,406,837	239,798,039
Maturities and disposals	(227,032,685)	(33,474,277)
Amortization of premium	17,848,642	2,871,926
Fair value gains credited to other comprehensive income	42,772,623	17,304,586
At December 31	₱1,125,390,293	₱819,394,876

The rollforward analysis of revaluation reserve on AFS financial assets follows:

	2012	2011
At January 1	₱88,481,056	₱69,453,779
Fair value gain credited to other comprehensive income	42,772,623	17,304,586
Fair value gain credited to profit or loss	(4,909,277)	(2,195,510)
Fair value loss charged against profit or loss due to impairment (Note 19)	284,327	697,772
Tax effect	(3,527,601)	3,220,429
At December 31	₱123,101,128	₱88,481,056

b) Loans and receivables

This account consists of the following:

	2012	2011
Accounts receivable	₱26,531,143	₱19,762,487
Less: Allowance for doubtful accounts	(13,593)	(13,593)
Accrued income	13,943,221	11,171,030
Salvage recoverable	—	10,095,000
	₱40,460,771	₱41,014,924

Accounts receivable pertains to advances granted to insurance agents and salary loans granted to employees. Advances granted to insurance agents are to be settled through regular deductions from commissions while salary loans granted to employees are non-interest bearing and payable to the Company within one year through payroll deduction.

Accrued income pertains to interest accrued arising from cash and cash equivalents and AFS debt securities.

Salvage recoverable pertains to amount recoverable on account of losses on direct business. In 2012, salvage recoverable amounting to ₱9,560,000 has been reclassified as "Assets held for sale" (see Note 10).



7. Reinsurance Assets

This account consists of the following:

	2012	2011
Reinsurance recoverable on unpaid losses (Note 12)	₱2,193,590,450	₱1,776,802,390
Deferred reinsurance premiums (Note 12)	648,447,979	260,125,966
	₱2,842,038,429	₱2,036,928,356

8. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs

The rollforward analysis of this account follows:

	2012	2011
At January 1	₱160,776,202	₱137,620,922
Costs deferred during the year	436,031,042	352,653,282
Amortization during the year	(402,782,594)	(329,498,002)
At December 31	₱194,024,650	₱160,776,202

Deferred Reinsurance Commissions

The rollforward analysis of this account follows:

	2012	2011
At January 1	₱24,972,778	₱20,424,637
Income deferred during the year	74,054,824	58,937,650
Amortization during the year	(67,321,226)	(54,389,509)
At December 31	₱31,706,376	₱24,972,778

9. Property and Equipment

The rollforward analysis of this account follows:

December 31, 2012

	Condominium Units	EDP Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Office Improvements	Total
Cost						
At January 1, 2012	₱207,418,939	₱80,531,538	₱39,694,272	₱26,059,724	₱25,523,597	₱379,228,070
Additions	—	2,303,419	9,509,446	4,074,219	9,654,822	25,541,906
Disposals	—	—	(3,193,084)	(394,016)	—	(3,587,100)
At December 31, 2012	207,418,939	82,834,957	46,010,634	29,739,927	35,178,419	401,182,876
Accumulated depreciation and amortization						
At January 1, 2012	90,552,834	71,734,223	27,392,505	20,983,806	18,888,630	229,551,998
Depreciation and amortization (Note 19)	4,425,109	5,414,764	5,012,690	2,117,809	2,691,257	19,661,629
Disposals	—	—	(1,706,922)	(394,010)	—	(2,100,932)
At December 31, 2012	94,977,943	77,148,987	30,698,273	22,707,605	21,579,887	247,112,695
Net book value as of December 31, 2012	₱112,440,996	₱5,685,970	₱15,312,361	₱7,032,322	₱13,598,532	₱154,070,181



December 31, 2011

	Condominium Units	EDP Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Office Improvements	Total
Cost						
At January 1, 2011	P207,418,939	P76,153,765	P35,640,822	P21,872,795	P19,831,084	P360,917,405
Additions	—	5,616,448	5,349,969	4,186,929	5,692,513	20,845,859
Disposals	—	(1,238,675)	(1,296,519)	—	—	(2,535,194)
At December 31, 2011	207,418,939	80,531,538	39,694,272	26,059,724	25,523,597	379,228,070
Accumulated depreciation and amortization						
At January 1, 2011	86,127,725	68,226,399	23,613,731	19,708,518	17,297,106	214,973,479
Depreciation and amortization (Note 19)	4,425,109	4,746,486	4,282,301	1,275,288	1,591,524	16,320,708
Disposals	—	(1,238,662)	(503,527)	—	—	(1,742,189)
At December 31, 2011	90,552,834	71,734,223	27,392,505	20,983,806	18,888,630	229,551,998
Net book value as of December 31, 2011	P116,866,105	P8,797,315	P12,301,767	P5,075,918	P6,634,967	P149,676,072

The Company's condominium units is reported at its fair value and was appraised by independent appraisers. Revalued amount is arrived at by using the market data approach. With this approach, the value of the property is based on sales and listings of comparable properties registered in the vicinity. The technique of this approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator and adjustment of the differences between the subject property and those actual sales and listings regarded as comparables. The comparison was premised on the factors of location, characteristics of the lot, time element, quality and prospective use.

If condominium units were carried at the cost model, the carrying amount would be as follows:

	2012	2011
Cost	P60,933,959	P60,933,959
Less accumulated depreciation	27,715,124	26,415,501
Net carrying amount	P33,218,835	P34,518,458

During 2012 and 2011, the Company disposed items of property and equipment at a gain of P179,505 and P151,366, respectively. Details are as follows:

2012

	Selling price	Carrying amount	Gain on sale
Transportation equipment	P1,623,101	P1,486,162	P136,939
Office equipment	42,572	6	42,566
	P1,665,673	P1,486,168	P179,505

2011

	Selling price	Carrying amount	Gain on sale
Transportation equipment	P876,116	P792,992	P83,124
EDP equipment	68,255	13	68,242
	P944,371	P793,005	P151,366



10. Assets Held for Sale

In 2012, salvage recoverable amounting to ₱9,560,000 which the Company presented in prior periods as part of its "Loans and receivables" has been reclassified as "Assets held for sale".

Salvage recoverable pertains to amount recoverable on account of losses on direct business. These recoveries are available for immediate sale in its present condition and its sale are highly probable. In 2012, management is committed to a plan to sell the asset and is actively locating a buyer.

No amount of gain or loss arising from the initial measurement of these assets was recognized in 2012.

11. Other Assets

This account consists of the following:

	2012	2011
Deposits	₱9,507,745	₱8,205,859
Security fund	51,216	51,216
	₱9,558,961	₱8,257,075

Deposits pertain to the rental and security deposits on rented properties, and advance payments for the electric meter and telephone. Security fund pertains to the fund set-up for payment of claims against insolvent insurance companies in compliance with Section 367 of Presidential Decree (PD) No. 612, as amended under PD No. 1640.

12. Insurance Contract Liabilities

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2012	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2011
Provision for claims reported and loss adjustment expenses	₱2,714,148,315	₱2,192,950,399	₱521,197,916	₱2,235,569,171	₱1,767,879,585	₱467,689,586
Provision for IBNR	42,597,854	640,050	41,957,804	26,792,761	8,922,805	17,869,956
Total claims reported and IBNR	2,756,746,169	2,193,590,449	563,155,720	2,262,361,932	1,776,802,390	485,559,542
Provision for unearned premiums	1,495,239,516	648,447,980	846,791,536	940,953,054	260,125,966	680,827,088
Total insurance contract liabilities	₱4,251,985,685	₱2,842,038,429	₱1,409,947,256	₱3,203,314,986	₱2,036,928,356	₱1,166,386,630



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

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2012	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2011
At January 1	P2,262,361,932	P1,776,802,390	P485,559,542	P2,190,388,775	P1,743,042,244	P447,346,531
Claims incurred during the year	1,233,518,946	687,987,812	545,531,134	1,712,025,404	1,003,270,139	708,755,265
Claims adjustments	—	—	—	(497,853,770)	(297,466,415)	(200,387,355)
Increase (decrease) in IBNR (Note 18)	15,805,093	(8,282,755)	24,087,848	11,038,911	5,408,179	5,630,732
Claims paid during the year (Note 18)	(754,939,802)	(262,916,998)	(492,022,804)	(1,153,237,388)	(677,451,757)	(475,785,631)
At December 31	P2,756,746,169	P2,193,590,449	P563,155,720	P2,262,361,932	P1,776,802,390	P485,559,542

Provision for unearned premiums may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2012	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2011
At January 1	P940,953,054	P260,125,966	P680,827,088	P780,183,083	P189,622,539	P590,560,544
New policies written during the year (Note 16)	2,893,732,761	1,280,496,622	1,613,236,139	2,257,438,089	990,333,941	1,267,104,148
Premiums earned during the year (Note 16)	(2,339,446,299)	(892,174,608)	(1,447,271,691)	(2,096,668,118)	(919,830,514)	(1,176,837,604)
At December 31	P1,495,239,516	P648,447,980	P846,791,536	P940,953,054	P260,125,966	P680,827,088

13. Insurance Balances Payable

This account consists of:

	2012	2011
Due to reinsurers and ceding companies	P251,416,934	P275,097,723
Funds held for reinsurers	19,508,064	13,367,929
	P270,924,998	P288,465,652

The funds held for reinsurers are interest-bearing, wherein the Company recognized an amount of P907,190 and P1,384,336 as "Interest expense" charged against the statements of comprehensive income in 2012 and 2011, respectively.

The rollforward analysis of this account follows:

	Due to Reinsurers	Funds Held for Reinsurers	Total
At January 1, 2010	P287,919,535	P11,433,214	P299,352,749
Arising during the year	789,048,732	13,983,733	803,032,465
Utilized	(801,870,544)	(12,049,018)	(813,919,562)
At December 31, 2011	275,097,723	13,367,929	288,465,652
Arising during the year	538,607,826	19,967,383	558,575,209
Utilized	(562,288,615)	(13,827,248)	(576,115,863)
At December 31, 2012	P251,416,934	P19,508,064	P270,924,998



14. Accounts Payable and Accrued Expenses

This account consists of:

	2012	2011
Commissions payable	₱240,436,727	₱190,022,974
Taxes payable	145,278,977	123,945,950
Accounts payable	91,352,082	85,471,029
Accrued expenses	6,515,310	4,414,900
	₱483,583,096	₱403,854,853

Accounts payable and accrued expenses are expected to be settled within twelve (12) months after the end of the reporting period.

15. Capital Stock

The authorized number of capital stock consists of 3,500,000 shares as of December 31, 2012 and 2011 with par value of ₱100 per share. The total number of shares issued and outstanding is 3,500,000 and 2,500,000 as of December 31, 2012 and 2011.

On April 20, 2012, the BOD and the stockholders approved and declared stock dividends amounting to ₱100,000,000 consisting of 1,000,000 shares to all stockholders of record as of March 31, 2012. The stock dividends were issued on May 2, 2012.

On April 26, 2011, the BOD approved and declared stock dividends amounting to ₱100,000,000 consisting of 1,000,000 shares to all stockholders of record as of March 31, 2011. The stock dividends were issued on April 30, 2011.

16. Net Insurance Earned Premiums

Gross earned premiums and reinsurers' share in gross earned premiums on insurance contracts consist of the following:

	2012	2011
Gross premiums on insurance contracts:		
Direct insurance	₱2,792,674,824	₱2,184,500,122
Assumed reinsurance	101,057,937	72,937,967
Total gross premiums on insurance contracts (Note 12)	2,893,732,761	2,257,438,089
Gross change in provision for unearned premiums (Note 12)	(554,286,462)	(160,769,971)
Total gross earned premiums on insurance contracts (Note 12)	2,339,446,299	2,096,668,118

(Forward)



	2012	2011
Reinsurers' share of insurance contracts premiums:		
Direct insurance	₱1,256,146,216	₱979,087,370
Assumed reinsurance	24,350,406	11,246,571
Total reinsurers' share of insurance contracts premiums (Note 12)	1,280,496,622	990,333,941
Reinsurers' share of gross change in provision for unearned premiums (Note 12)	(388,322,014)	(70,503,427)
Total reinsurers' share of gross earned premiums on insurance contracts (Note 12)	892,174,608	919,830,514
Net insurance earned premiums	₱1,447,271,691	₱1,176,837,604

17. Interest, Dividend and Other Income

Interest income consists of the following:

	2012	2011
Long-term investments	₱54,433,724	₱43,547,191
Cash equivalent (short-term deposits)	24,649,429	21,540,155
Cash in banks (savings deposits)	1,549,303	1,946,569
Short-term investments	25,069	—
Car loan	17,869	39,320
Salary loans	211,413	133,627
Security fund	—	19,136
	₱80,886,807	₱67,225,998

Dividend income from AFS equity financial assets amounted to ₱2,576,046 and ₱823,220 in 2012 and 2011, respectively.

Other income consists of:

	2012	2011
Other underwriting income	₱27,959,920	₱20,484,582
Gain on sale of property and equipment	179,505	151,366
Others	172,001	170,916
	₱28,311,426	₱20,806,864

Other underwriting income pertains to the fronting fees earned by the Company for fronting arrangements made during the year with several agencies and intermediaries.

18. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid consist of the following:

	2012	2011
Insurance contract benefits and claims paid:		
Direct insurance	₱731,292,555	₱1,133,443,474
Assumed reinsurance	23,647,247	19,793,914
Total insurance contract benefits and claims paid (Note 12)	₱754,939,802	₱1,153,237,388



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

	2012	2011
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	₱247,671,333	₱668,046,864
Assumed insurance	15,245,665	9,404,893
Total reinsurers' share of insurance contract benefits and claims paid (see Note 12)	₱262,916,998	₱677,451,757

Gross change in insurance contract liabilities:

	2012	2011
Change in provision for claims reported (Note 12)	₱478,579,145	₱60,934,246
Change in provision for IBNR	15,805,093	11,038,911
Total gross change in insurance contract liabilities	₱494,384,238	₱71,973,157

Reinsurers' share of gross change in insurance contract liabilities:

	2012	2011
Reinsurers' share of gross change in insurance contract liabilities (Note 12)	₱425,070,814	₱28,351,967
Reinsurers' share of change in provision for IBNR	(8,282,755)	5,408,179
Total reinsurers' share of gross change in insurance contract liabilities	₱416,788,059	₱33,760,146

19. Operating Expenses

This account consists of:

	2012	2011
Salaries, allowances and employee benefits (Note 20)	₱202,988,461	₱163,581,030
Outside services	38,223,470	31,956,731
Depreciation and amortization (Note 9)	19,661,629	16,320,708
Advertising and promotion	20,218,079	10,256,954
Other underwriting expense	11,981,136	13,111,548
Communication and postage	11,516,463	9,073,239
Transportation and travel	10,667,790	7,940,738
Supplies	10,899,690	7,679,064
Unrealized foreign exchange losses	9,245,201	1,983,632
Rent (Note 24)	9,084,629	6,886,959
Utilities	7,445,426	5,095,077
Provision for doubtful accounts (Note 5)	6,000,000	6,000,000

(Forward)



	2012	2011
Representation and entertainment	₱4,596,733	₱5,221,255
Association and pool dues	2,364,985	2,148,141
Repairs and maintenance	2,172,135	1,338,098
Others	1,220,309	2,458,826
Insurance	893,756	972,783
Taxes and licenses	798,230	753,758
Loss on impairment of AFS financial assets (Note 6)	284,327	697,772
	₱370,262,449	₱293,476,313

20. Salaries, Allowances and Employee Benefits

Expenses recognized for salaries, allowances and employee benefits are presented below.

	2012	2011
Salaries and wages	₱110,557,023	₱93,209,923
Allowances and bonuses	40,500,177	31,981,071
Other employee benefits	22,196,447	16,559,469
Retirement expense (Note 21)	19,279,817	13,108,603
Director's fees and allowances	4,930,000	3,837,000
Social security costs	4,157,597	3,696,539
Philhealth insurance contribution	960,200	814,425
Pag-ibig contribution	407,200	374,000
	₱202,988,461	₱163,581,030

Other employee benefits pertain to the clothing and medical allowances, leave conversion, and holiday pay of the employees during the year.

21. Pension Benefits

The following tables summarize the components of net benefit expense recognized in the statement of comprehensive income and the amounts recognized in the statement of financial position:

Net Benefit Expense

	2012	2011
Current service cost	₱13,328,100	₱9,040,600
Interest cost on benefit obligation	7,389,630	6,563,430
Amortization for actuarial loss	2,529,262	198,764
Expected return on plan assets	(3,967,175)	(2,694,191)
Net benefit expense	₱19,279,817	₱13,108,603
Actual return on plan assets	₱4,263,026	₱4,120,549



Net Pension Obligation

	2012	2011
Benefit obligation	₱145,923,500	₱121,708,000
Plan assets	(65,564,987)	(54,870,164)
	80,358,513	66,837,836
Unrecognized actuarial losses	(50,650,536)	(39,992,679)
Net pension obligation	₱29,707,977	₱26,845,157

Changes in the defined benefit obligation are as follows:

	2012	2011
Defined benefit obligation, beginning of year	₱121,708,000	₱78,698,200
Current service cost	13,328,100	9,040,600
Actuarial losses	13,482,970	31,561,595
Interest cost	7,389,630	6,563,430
Benefits paid	(9,985,200)	(4,155,825)
Defined benefit obligation, end of year	₱145,923,500	₱121,708,000

Changes in fair value of plan assets are as follows:

	2012	2011
Fair value of plan assets, beginning of year	₱54,870,164	₱38,488,443
Expected return	3,967,175	2,694,191
Contributions	16,416,997	16,416,997
Actuarial gains	295,851	1,426,358
Benefits paid	(9,985,200)	(4,155,825)
Fair value of plan assets, end of year	₱65,564,987	₱54,870,164

Changes in unrecognized net actuarial losses are as follows:

	2012	2011
At beginning of year	(₱39,992,679)	(₱10,056,206)
Actuarial losses on obligation	(13,482,970)	(31,561,595)
Actuarial gains on plan assets	295,851	1,426,358
Actuarial losses recognized	2,529,262	198,764
At end of year	(₱50,650,536)	(₱39,992,679)

The principal assumptions used in determining pension obligation for the Company's plan are shown below:

	2012	2011
Discount rate	5.68%	6.36%
Expected rate of return on plan assets	7.00%	7.00%
Rate of salary increases	10.00%	10.00%

The overall expected return on plan assets is determined based on the market expectations prevailing as of December 31, 2012 applicable to the period over which the obligations are to be settled.



The following is the distribution of the Company's plan assets stated at fair value as of December 31:

	2012	2011
Government securities	₱50,329,082	₱35,673,476
Deposit in banks	8,747,797	10,486,640
Other securities and debt instruments	5,703,459	6,572,523
Receivables	825,692	731,021
Loans and discounts	—	1,440,450
Total assets	65,606,030	54,904,110
Liabilities	(41,043)	(33,946)
Net assets	₱65,564,987	₱54,870,164

The Company expects to contribute ₱16,416,997 to its retirement plan in 2013.

Amounts for the current and previous periods are as follows:

	2012	2011	2010	2009	2008
Defined benefit obligation	₱145,923,500	₱121,708,000	₱78,698,200	₱52,712,800	₱52,564,310
Plan assets	65,196,904	54,870,164	38,488,443	20,264,648	18,420,931
Deficit	80,726,596	66,837,836	40,209,757	32,448,152	34,143,379
Experience adjustments:					
Gain (loss) on plan liabilities	₱3,804,870	₱10,498,495	₱3,572,563	(₱6,559,283)	₱3,150,285
Gain (loss) on plan assets	295,851	1,426,358	3,273,511	(253,280)	(1,631,537)

22. Income Tax

Current Tax

The provision for current income tax consists of:

	2012	2011
Current	₱65,711,526	₱47,692,237
Final	14,731,701	11,950,357
	₱80,443,227	₱59,642,594

Deferred Tax

The net deferred income tax asset consists of the tax effects of the following:

	2012	2011
Deferred tax assets:		
Excess of provision for unearned premiums per books over tax basis	₱39,296,725	₱36,656,721
Deferred reinsurance commissions	9,511,913	7,491,833
Unrealized foreign exchange loss	2,773,560	595,090
Provision for IBNR	12,779,356	8,037,828
Allowance for doubtful accounts	5,704,078	3,904,078
Unamortized past service cost	4,586,083	4,256,480
Retirement benefit obligation	8,912,393	8,053,547
Total deferred tax assets	83,564,108	68,995,577

(Forward)



	2012	2011
Deferred tax liabilities:		
Reserve for revaluation of property and equipment	₱23,766,649	₱24,704,295
Deferred acquisition costs	58,207,395	48,232,861
Reserve for fluctuation on AFS	4,113,346	585,745
Total deferred tax liabilities	86,087,390	73,522,901
	(₱2,523,282)	(₱4,527,324)

Movements in deferred tax that were recognized in OCI and profit or loss in 2012 and 2011 follows:

	2012	2011
Recognized in other comprehensive income	₱3,527,601	₱3,220,429
Recognized in profit or loss	(5,531,643)	(24,860,050)
	(₱2,004,042)	(₱21,639,621)

A reconciliation of the statutory income tax rate to effective income tax rate in 2012 follows:

	2012	2011
Statutory income tax rate	30.00%	30.00%
Tax effects of:		
Interest income already subjected to (exempt from) final taxes	(3.28)	(4.19)
Gain on sale of AFS financial assets	(0.51)	(0.36)
Dividend income	(0.27)	(0.13)
Unrecognized deferred tax assets	—	(6.64)
Nondeductible expenses	0.03	0.11
Effective income tax rate	25.97%	18.79%

23. Related Party Transactions

Parties are considered to be 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. Parties are also considered to be related if they are subject to common control or common significant influence.

The Company, in its regular conduct of business, has entered into transactions with related parties principally consisting of interest income and cash balances.

December 31, 2012

Category	Volume/ Amount	Outstanding Balance	Terms	Condition
MBTC				
Cash in bank	₱—	₱56,866,009	On demand, 0.50% to 1%	Unsecured; no impairment
Cash equivalents	—	266,500,000	90 days, 2.5% to 5%	Unsecured; no impairment
Short-term investments	1,000,000	1,000,000	365 days, 2.5%	Unsecured; no impairment
Interest income	17,806,984	—	—	—

(Forward)



December 31, 2012

Category	Volume/ Amount	Outstanding Balance	Terms	Condition
AFS equity securities	₱-	₱27,828,381	--	Unsecured; no impairment
Dividend income	3,895,500	--	--	--
FMIC				
AFS debt securities	9,980,352	20,125,894	7 years, 5.675% to 5.75%	Unsecured; no impairment
Interest income	803,785	--	--	--
PS Bank				
AFS debt securities	7,900,000	7,900,000	10 years, 7.1875%	Unsecured; no impairment
AFS equity securities	--	7,424,406	--	Unsecured; no impairment
Interest income	458,982	--	--	--
Key Management Personnel				
Salaries and Wages	25,206,334	--	--	--
Directors' fees and allowance	4,930,000	--	--	--
Other employee benefits	2,723,259	--	--	--

December 31, 2011

Category	Volume/ Amount	Outstanding Balance	Terms	Condition
MBTC				
Cash in bank	₱-	₱152,324,490	On demand, 0.50% to 1%	Unsecured; no impairment
Cash equivalents	--	516,932,447	90 days, 1% to 4.75%	Unsecured; no impairment
Interest income	18,324,143	--	--	--
AFS equity securities	--	21,938,151	--	Unsecured; no impairment
FMIC				
AFS debt securities	--	9,999,846	6 years, 5.675%	Unsecured; no impairment
Interest income	56,750	--	--	--
PS Bank				
AFS equity securities	--	5,399,568	--	Unsecured; no impairment
Key Management Personnel				
Salaries and Wages	20,614,066	--	--	--
Directors' fees and allowance	3,342,000	--	--	--
Other employee benefits	1,608,937	--	--	--

24. Lease Commitments

The Company is a party under various leases covering certain offices which have lease terms between one to five years for its branches. In 2012 and 2011, "rent expense" amounted to ₱9,084,629 and ₱6,886,959, respectively, and is included under Operating Expenses account in the statement of comprehensive income (see Note 19).

Minimum lease payments due:

	2012	2011
Within one (1) year	₱4,915,956	₱3,250,823
More than one (1) year but less than five (5) years	7,186,133	5,306,051
	₱12,102,089	₱8,556,874



25. Management of Capital, 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 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 strategy to the corporate goals and specify reporting requirements.

Regulatory Framework

The Insurance Commission (IC) capital requirements are the Margin of Solvency (MOS), Fixed Capitalization Requirements, and Risk-Based Capital (RBC).

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is higher than the minimum capital requirements set by the regulators and the amount computed under the RBC Model.

The premiums received by the Company from policyholders are properly invested not only to provide for policy obligations but also to serve as capital or surplus to provide margin of safety which will attract insurance buyers.

The funds invested shall produce an investment income that will be needed to pay stockholders a fair return. While part of this income are due to favorable loss experience and sound cost management, a major portion of additional profits must be earned by managing the investment portfolio to produce a higher return on investment. While there may be a wide range of investment opportunities, the investment portfolio must always reflect the safety of the funds.

Since these funds are held in fiduciary capacity, the Insurance Code (the "Code") contains investment provisions that the Company should observe to protect the interest of the policyholders and of the stockholders.

The three (3) general classifications of investment requirements are:

1. Capital Investments - The Company must invest at least 25% of its minimum paid-up capital in bonds or other evidences of debt of the Government of the Philippines or its political subdivisions or in government-owned or controlled corporations and entities, including the Bangko Sentral ng Pilipinas.

Furthermore, investments shall at all times be maintained free from any lien or encumbrance and shall be deposited and held by the Commissioner of the IC for the benefit and security of the policyholders.

2. Reserve Investment - The Company must invest 100% of the Reserve for unearned premiums and Reserve funds withheld for authorized reinsurer in common or preferred stocks and government or private bonds, real estate and real estate loans, collateral loans, adequately secured obligations and other securities as may be approved by the Commissioner.
3. Surplus Investment - After complying with the capital and reserve investment requirements, the Company may invest any portion of its funds, representing earned surplus in stocks, bonds, real estate, equities of other financial institutions, engaged in the buying and selling of



short term debt instruments, securities issued by registered enterprises under R.A. 5186, otherwise known as the Investment Incentives Act.

Section 195 of the Insurance Code, *Limitation on Dividend Declaration*, provides that a domestic nonlife insurance company shall declare or distribute dividends on its outstanding capital stock only from profits remaining on hand after retaining unimpaired:

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

Margin of Solvency

The Company is required to maintain at all times, an MOS equal to ₱500,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The MOS shall be the excess of the value of its admitted assets (as defined under the Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves.

Net provision for unearned premiums as of December 31, 2012 determined in accordance with the same Code for purposes of MOS, amounted to ₱715,408,704. In the accompanying financial statements, the PFRS net provision for unearned premiums amounted to ₱846,791,536 (see Note 12), computed as provision for unearned premiums of ₱1,495,239,515 less deferred reinsurance premiums of ₱648,447,979.

The estimated amounts of nonadmitted assets as of December 31, 2012 and 2011, as defined under the Code, which are included in the accompanying statements of financial position follow:

	2012	2011
Premiums in course of collection (direct)	₱280,081,363	₱235,743,940
Property and equipment - net	154,070,181	149,676,072
Accounts receivables	26,517,550	19,748,894
Other assets	9,558,961	8,257,075
	₱470,228,055	₱413,425,981

The Company is still in the process of computing for its 2012 MOS to be reported to the IC. As of December 31, 2011, the Company's MOS amounted to ₱55,777,723.

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 nonadmitted assets as defined in the Code.

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 Order (DO) No. 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

Based on scheduled increases under DO No. 27-06, the required statutory networth and minimum paid up capital for domestic insurance companies ₱1,000,000,000 and ₱250,000,000, respectively, as of December 31, 2012.

On October 29, 2008, the IC issued the Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of IMC No. 10-2006, the scheduled increases due December 31, 2008 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007. Based on this Circular Letter, the required statutory net worth and minimum paid-up capital for the Company amounted to ₱600,000 and ₱300,000,000, respectively, as of December 31, 2011.

On June 1, 2012, to further supplement DO No. 27-06 after December 31, 2012, the Department of Finance issued DO no. 15-2012 which provides for the minimum paid-up capital requirements for all insurance and professional reinsurance companies. Under the new DO, all insurance and professional reinsurance companies, regardless of citizenship, must comply with the staggered basis increase in the required minimum capital from 2012 to 2020. Included in the provisions of the new DO is the allowance of one-time, one-year deferral for all existing insurance and professional reinsurance companies in the compliance of the required minimum paid-up capital provided it has met the RBC hurdle rate based on the schedule set out in the DO.

The table below shows the matrix of the minimum paid up capital as required by the DO No. 15-2012:

Minimum paid-up capital	Compliance date
₱250,000,000	December 31, 2012
400,000,000	December 31, 2014
600,000,000	December 31, 2016
800,000,000	December 31, 2018
1,000,000,000	December 31, 2020

As of December 31, 2012, the Company is compliant with the minimum paid-up capital requirement set out in the new DO.

Unimpaired capital requirement

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



Risk-based Capital Requirements

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

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

The following table shows how the RBC ratio as of December 31, 2012 and 2011 was determined by the Company:

	2012	2011
Net worth	₱1,176,463,659	₱937,818,011
RBC requirement	960,847,363	1,283,642,843
RBC Ratio	122%	73%

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

Compliance Framework

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

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2011 which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review. Based on IC Circular Letter No. 26-2008 and DO 27-06, the next level of capital requirement for the Company subsequent to December 31, 2012 will be ₱500,000,000 for statutory networth and ₱250,000,000 for minimum paid-up capital.

On June 1, 2012, to further supplement DO No. 27-06 after December 31, 2012, the Department of Finance issued DO no. 15-2012 which provides for the minimum paid-up capital requirements for all insurance and professional reinsurance companies. Under the new DO, all insurance and professional reinsurance companies, regardless of citizenship, must comply with the staggered basis increase in the required minimum capital from 2012 to 2020. Included in the provisions of the new DO is the allowance of one-time, one-year deferral for all existing insurance and professional reinsurance companies in the compliance of the required minimum paid-up capital provided it has met the RBC hurdle rate based on the schedule set out in the DO.



Insurance Risk

The risk under insurance contracts is the possibility of occurrence of insured event and uncertainty of the amount and timing of resulting claims. The principal risk the Company faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence risk - the possibility that the number of insured events will differ from those expected.

Severity risk - the possibility that the cost of the events will differ from those expected.

Development risk - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

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 a change in any subset of the portfolio. The variability of risks can also be improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Company comprises short-term nonlife insurance contracts. For general insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

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 management information systems that provide up-to-date, accurate and reliable data on risk exposure at any point in time.
- Guidelines are issued for concluding insurance contracts and assuming insurance risks.
- Pro-active claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.
- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.
- Diversification is accomplished by achieving 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.

Reinsurance

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota-share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.



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.

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

	2012			2011		
	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities
Fire	₱1,958,479,715	₱1,646,385,347	₱312,094,368	₱1,463,426,963	₱1,212,731,794	₱250,695,169
Bonds	540,532,444	450,090,864	90,441,580	531,948,610	448,355,988	83,592,622
Motorcar	144,035,431	17,407,603	126,627,828	125,986,635	9,420,241	116,566,394
Marine	56,564,066	41,262,250	15,301,816	101,834,794	81,745,386	20,089,408
Engineering	28,865,690	27,760,107	1,105,583	22,743,513	18,914,114	3,829,399
Casualty	20,339,543	6,083,649	14,255,894	8,947,406	1,020,154	7,927,252
Accident	7,929,280	4,600,629	3,328,651	7,474,011	4,614,713	2,859,298
	₱2,756,746,169	₱2,193,590,449	₱563,155,720	₱2,262,361,932	₱1,776,802,390	₱485,559,542

Terms and Conditions

The major classes of general insurance written by the Company include motor, fire and marine insurance. Risks under these policies usually cover 12-month duration.

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

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

Claims provisions are separately analyzed by class of business. In addition, larger claims are usually either separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example once off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions includes variation in interest rate, delays in settlement and changes in foreign currency rates.



Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, etc., is not possible to quantify.

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on the statement of comprehensive income and equity.

December 31, 2012

	Change in assumptions	Increase (decrease) on gross liabilities	Increase (decrease) on net liabilities	Increase (decrease) on profit before tax	Increase (decrease) on equity
Average claim cost	-15.33%	(P422,609,188)	(P336,277,416)	(P336,277,416)	(P235,394,191)
Average number of claims	6.80%	187,458,740	149,164,151	149,164,151	104,414,906

December 31, 2011

	Change in assumptions	Increase (decrease) on gross liabilities	Increase (decrease) on net liabilities	Increase (decrease) on profit before tax	Increase (decrease) on equity
Average claim cost	-15.33%	(P346,820,084)	(P272,383,806)	(P272,383,806)	(P190,668,664)
Average number of claims	6.80%	153,840,611	80,022,563	80,022,563	56,015,794

Claims Development Table

Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis for fire, surety, marine and motorcar lines.

The tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each end of the reporting period, together with cumulative payments to date.

Gross general insurance contract liabilities for 2012

Accident year	2008 and Prior	2009	2010	2011	2012	Total
Estimate of ultimate claims costs:						
At the end of accident year	P520,228,009	P791,128,113	P261,796,368	P605,361,091	P915,416,134	P915,416,134
One year later	542,646,619	1,043,260,761	567,613,144	291,287,323	—	291,287,323
Two years later	1,559,925,827	1,811,180,333	228,565,982	—	—	228,565,982
Three years later	1,516,501,560	705,184,937	—	—	—	705,184,937
Four years later	1,030,141,589	—	—	—	—	1,030,141,589
Current estimate of cumulative claims	1,030,141,589	705,184,937	228,565,982	291,287,323	915,416,134	3,170,595,965
Cumulative payments to date	(150,515,724)	(165,563,963)	(50,754,273)	(47,015,836)	—	(413,849,796)
Total gross insurance liabilities included in the statement of financial position	P879,625,865	P539,620,974	P177,811,709	P244,271,487	P915,416,134	P2,756,746,169



Net general insurance contract liabilities for 2012

Accident year	2008 and Prior	2009	2010	2011	2012	Total
Estimate of ultimate claims costs:						
At the end of accident year	₱83,916,280	₱20,951,946	₱72,638,879	₱283,038,068	₱324,727,491	₱324,727,491
One year later	116,757,618	89,936,995	231,255,835	45,241,825	—	45,241,825
Two years later	192,528,695	318,867,339	50,477,476	—	—	50,477,476
Three years later	366,400,044	16,547,486	—	—	—	16,547,486
Four years later	338,966,483	—	—	—	—	338,966,483
Current estimate of cumulative claims	338,966,483	16,547,486	50,477,476	45,241,825	324,727,491	775,960,761
Cumulative payments to date	(112,794,497)	(16,547,486)	(38,221,233)	(45,241,825)	—	(212,805,041)
Total gross insurance liabilities included in the statement of financial position	₱226,171,986	₱—	₱12,256,243	₱—	₱324,727,491	₱563,155,720

Financial Instruments

The table below presents the carrying amounts and fair values of the Company's non-derivative financial instruments as of December 31, 2012 and 2011.

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents	₱720,012,742	₱720,012,742	₱669,256,937	₱669,256,937
Short-term Investments	1,000,000	1,000,000	—	—
Insurance receivables - net	1,246,806,043	1,246,806,043	1,074,918,942	1,074,918,942
Loans and receivables:				
Accounts receivable	26,517,550	26,517,550	19,748,894	19,748,894
Accrued income	13,943,221	13,943,221	11,171,030	11,171,030
Salvage recoverable	—	—	10,095,000	10,095,000
AFS Financial Assets				
Equity securities	137,260,480	137,260,480	108,296,427	108,296,427
Government debt	710,321,088	710,321,088	483,038,691	483,038,691
Private debt	277,808,725	277,808,725	228,059,758	228,059,758
Total Financial Assets	₱3,133,669,849	₱3,133,669,849	₱8,865,925,377	₱2,604,585,679
Other Financial Liabilities:				
Insurance payables:				
Due to reinsurers and ceding companies	₱251,416,934	₱251,416,934	₱275,097,723	₱275,097,723
Funds held for reinsurers	19,508,064	19,508,064	13,367,929	13,367,929
Commissions payable	240,436,727	240,436,727	190,022,974	190,022,974
Accounts payable and accrued expenses	97,867,392	97,867,392	89,885,929	89,885,929
Taxes payable	145,278,977	145,278,977	123,945,950	123,945,950
Total Other Financial Liabilities	₱754,508,094	₱754,508,094	₱692,320,505	₱692,320,505

Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, insurance payables, commissions payable and accounts payable and accrued expenses, their carrying values reasonably approximate fair values at year-end.

The fair value of 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 last trading day as applicable.



The fair value of unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of cash flows and the lack of suitable method at arriving at a reliable fair value are carried at cost.

Fair Value Hierarchy

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

Level 1: quoted (unadjusted prices) in active markets for identical assets and 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

As of December 31, 2012 and 2011, the Company classifies AFS financial assets under Level 1 of the fair value hierarchy. During the reporting period ended December 31, 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Financial Risk

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities is credit risk, liquidity risk and interest rate risk.

The Company's objectives in managing exposure to financial risks include providing financial security to policyholders, ensure prompt payment of its obligations and to provide owners with a satisfactory return on their investments.

To ensure that these objectives are met, the Company's policies and procedures require monitoring of financial risks by the Comptroller and regularly reviewed by the BOD.

Credit risk

Credit risk is a risk due to uncertainty in a counterparty's (also called an obligor) ability to meet its obligation.

Management has established a credit control policy, which provides for terms of business and credit reference criteria. The policy requires that financial references are obtained for each agent and broker when credit is given. Credit terms are set for the counterparty but these are withdrawn or restricted when these are breached. Any deviation from the policy requires justification subject to approval by the management.

The Company's procedures provide for the monitoring of the counterparty's ability to meet its obligations through regular review of each account. Statements of accounts with covering letter are regularly sent to agents and brokers reminding them of their outstanding balances and to follow up payment. Reconciliation of accounts is also done on a regular basis.



The credit control policy is regularly reviewed by the management and amended as necessary.

For cash and cash equivalents and investments, the Company considers the safety of the investment, yield or income, liquidity, diversification, capital growth and appreciation. The following are the acceptable instruments set up by the Investment Committee in order of priority:

1. Government securities
2. Special savings accounts/ bank promissory notes
3. Commercial papers with credit rating of two (2) for short term and B for long term
4. Preferred and common stocks (Blue chip stocks only)

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

	2012	2011
Cash and cash equivalents (excluding cash on hand)	₱719,617,637	₱668,867,544
Short-term Investments	1,000,000	
Insurance receivables	1,246,806,043	1,074,918,942
Financial assets:		
AFS financial assets		
Quoted equity securities	137,199,590	108,282,427
Unquoted equity securities	60,890	14,000
Quoted debt securities	988,129,813	711,098,449
Loans and receivables	40,460,771	41,014,924
	₱3,133,274,744	₱2,604,196,286

The Company does not hold any collateral held as security and other credit enhancements on its financial assets as of December 31, 2012 and 2011. Therefore, the Company's maximum exposure to credit risk is equal to the carrying amount of its financial assets as of December 31, 2012 and 2011.

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

December 31, 2012

	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Satisfactory		
Cash and cash equivalents	₱719,617,637	₱-	₱-	₱719,617,637
Short-term Investments	1,000,000			1,000,000
Insurance receivables:				
Premiums receivable and agents' balances	519,526,407	-	280,081,363	799,607,770
Reinsurance recoverable on paid losses	279,644,044	-	118,405,518	398,049,562
Bonds recoverable on paid losses	1,706,549	-	12,032,740	13,739,289
Due from ceding companies and reinsurers	32,660,703	-	21,676,527	54,337,230
Funds held by ceding companies	72,192	-	-	72,192

(Forward)



	Neither Past Due nor Impaired		Past Due	
	Investment Grade	Satisfactory	or Impaired	Total
Financial assets:				
AFS financial assets:				
Quoted equity securities				
Common shares	₱78,589,653	₱—	₱284,327	₱78,873,980
Preferred shares	—	—	—	—
Club shares	58,330,000	—	—	58,330,000
Unquoted equity securities:				
Common shares	56,500	—	—	56,500
Government debt securities				
Local currency	589,183,475	—	—	589,183,475
Foreign currency	121,137,613	—	—	121,137,613
Private debt securities	277,808,725	—	—	277,808,725
Other receivables:				
Accounts receivable	26,517,550	—	—	26,517,550
Accrued income	13,943,221	—	—	13,943,221
Salvage recoverable	—	—	—	—
Total	₱2,719,794,269	₱—	₱432,480,475	₱3,152,274,744

December 31, 2011

	Neither Past Due nor Impaired		Past Due	
	Investment Grade	Satisfactory	or Impaired	Total
Cash and cash equivalents	₱669,216,841	₱—	₱—	₱669,216,841
Insurance receivables:				
Premiums receivable and agents' balances	394,488,747	—	235,743,940	630,232,687
Reinsurance recoverable on paid losses	224,084,196	—	183,234,442	407,318,638
Bonds recoverable on paid losses	2,937,254	—	9,558,300	12,495,554
Due from ceding companies and reinsurers	19,327,770	—	17,810,622	37,138,392
Funds held by ceding companies	733,671	—	—	733,671
Financial assets:				
AFS financial assets:				
Quoted equity securities				
Common shares	68,036,811	—	1,830,888	69,867,699
Preferred shares	22,500	—	—	22,500
Club shares	38,530,000	—	560,000	39,090,000
Unquoted equity securities:				
Common shares	14,000	—	—	14,000
Government debt securities				
Local currency	439,869,723	—	—	439,869,723
Foreign currency	43,168,968	—	—	271,228,726
Private debt securities	228,059,758	—	—	228,059,758
Other receivables:				
Accounts receivable	19,748,894	—	—	19,748,894
Accrued income	11,171,030	—	—	11,171,030
Salvage recoverable	10,095,000	—	—	10,095,000
Total	₱2,169,505,163	₱—	₱448,738,192	₱2,618,243,355

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

Investment grade - This rating class is given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations. These financial assets have the smallest degree of financial risk.



Satisfactory - This rating class is given to borrowers and counterparties who possess above average capacity to meet its obligations.

The tables below show the analysis of age of financial assets that are past due or impaired:

December 31, 2012

	Age analysis of financial assets past-due but not impaired				Total past due but not impaired	Past-due and impaired	Total
	1 to 30 days	31 to 60 days	61 to 90 days	over 90 days			
Insurance receivables:							
Premiums receivable and agents' balances	P51,996,485	P32,737,102	P31,649,227	P147,698,549	P264,081,363	P16,000,000	P280,081,363
Reinsurance recoverable on paid losses	707,019	996,634	12,253,763	104,448,103	118,405,518	—	118,405,518
Bonds recoverable on paid losses	865,237	—	1,609,195	9,558,308	12,032,740	—	12,032,740
Due from ceding companies and reinsurers	2,162,041	1,944,211	8,077,125	6,493,150	18,676,527	3,000,000	21,676,527
AFS financial assets						1,821,352	1,821,352
Total	P55,730,782	P35,677,947	P53,589,310	P268,198,110	P413,196,148	P20,821,352	P434,017,500

December 31, 2011

	Age analysis of financial assets past-due but not impaired				Total past due but not impaired	Past-due and impaired	Total
	1 to 30 days	31 to 60 days	61 to 90 days	over 90 days			
Insurance receivables:							
Premiums receivable and agents' balances	P37,917,962	P34,024,472	P27,154,549	P123,646,957	P222,743,940	P13,000,000	P235,743,940
Reinsurance recoverable on paid losses	43,153,289	5,690,393	21,098,454	113,292,306	183,234,442	—	183,234,442
Bonds recoverable on paid losses	—	—	—	9,558,299	9,558,300	—	9,558,299
Due from ceding companies and reinsurers	817,965	1,035,058	—	15,957,599	17,810,622	—	17,810,622
AFS financial assets	—	—	—	—	—	2,390,888	2,390,888
Total	P81,889,216	P40,749,923	P48,253,003	P275,455,161	P446,347,304	P15,390,888	P448,738,191

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

Liquidity risk is a risk due to uncertain liquidity. An institution may suffer liquidity problem when its credit rating falls. The Company is also exposed to liquidity risk if markets on which it depends on are subject to loss of liquidity.

It is the Company's objective to develop a plan that will provide a well-balanced cash flow to ensure that enough cash is available to meet its obligations and to fund its operational requirements. A well-managed cash flow statement will yield positive cash balance in compliance to the requirement of the IC.

To meet these objectives, the Company prepares a Cash Flow Plan which entails forecasting and tabulating all significant cash inflows relating to premiums paid by policyholders, interest received from investments and others, and analyzing in detail the timing of expected payments relating to supplies, wages, other expenses, capital expenditure, dividends, tax, and others. Excess funds resulting from a positive cash flows are invested in short term placements and high yielding government securities.



The table below summarizes the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual amounts based on remaining contractual maturity, or for the insurance contract liabilities, based on the estimated timing of net cash outflows.

December 31, 2012

	No term	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	Total
Cash and cash equivalents	P--	P720,012,742	P--	P--	P--	720,012,742
Short-term Investments		1,000,000				1,000,000
Insurance receivables	--	1,246,806,043	--	--	--	1,246,806,043
Financial assets						
AFS financial assets	137,260,480	57,144,370	130,233,946	292,929,864	507,821,633	1,125,390,293
Loans and receivables	--	40,460,771	--	--	--	40,460,771
Reinsurance assets	--	2,193,590,450	--	--	--	2,193,590,450
Total financial assets	P137,260,480	P4,259,014,376	P130,233,946	P292,929,864	P507,821,633	P5,327,260,299
Insurance contract liabilities	P--	P2,756,746,170	P--	P--	P--	P2,756,746,170
Insurance payables	--	270,924,998	--	--	--	270,924,998
Commissions payable	--	240,436,727	--	--	--	240,436,727
Accounts payable and accrued expenses	--	97,867,392	--	--	--	97,867,392
Taxes payable	--	145,278,977	--	--	--	145,278,977
Total financial liabilities	P--	P3,511,254,264	P--	P--	P--	P3,511,254,264

December 31, 2011

	No term	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	Total
Cash and cash equivalents	P--	P669,256,937	P--	P--	P--	P669,256,937
Insurance receivables	--	1,074,918,942	--	--	--	1,074,918,942
Financial assets						
AFS financial assets	108,296,427	71,226,420	115,745,860	98,986,612	425,139,557	819,394,876
Loans and receivables	--	41,014,924	--	--	--	41,014,924
Reinsurance assets	--	1,776,802,390	--	--	--	1,776,802,390
Total financial assets	P108,296,427	P3,633,219,613	P115,745,860	P98,986,612	P425,139,557	P4,381,388,069
Insurance contract liabilities	P--	P2,262,361,932	P--	P--	P--	P2,262,361,932
Insurance payables	--	288,465,652	--	--	--	288,465,652
Commissions payable	--	190,022,974	--	--	--	173,172,331
Accounts payable and accrued expenses	--	89,885,929	--	--	--	89,885,929
Total financial liabilities	P--	P2,830,736,487	P--	P--	P--	P2,813,885,844

Market risk

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

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Company manages market risk by evenly distributing capital among investment instruments.

The Company structures the levels of market risk it accepts through a sound market risk policy based on specific guidelines set by the Investment Committee. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation and portfolio limit structure. Moreover, control of relevant market risks can be addressed through compliance reporting of



market risk exposures, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

Currency risk

The Company's principal transactions are carried out in Philippine peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements.

The Company's financial assets are denominated in the same currencies as its insurance liabilities which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

The following table summarizes the Company's exposure to foreign currency exchange risk as of December 31, 2012 and 2011:

	2012		2011	
	US\$	PHP	US\$	PHP
Assets				
Cash and cash equivalents	\$1,050,349	₱43,116,837	\$3,130,391	₱137,230,529
AFS financial assets	2,950,977	121,137,612	1,007,733	44,179,030
	\$4,001,326	₱164,254,449	\$4,138,124	₱181,409,559

The analysis below is performed for reasonably possible movements in key variables 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).

December 31, 2012

	Change in variables	Impact on profit before tax Increase (decrease)
USD	+3.00%	₱8,212,722
USD	-3.00%	(8,212,722)

December 31, 2011

	Change in variables	Impact on profit before tax Increase (decrease)
USD	+3.00%	₱5,442,461
USD	-3.00%	(5,442,461)

There is no impact on the Company's equity other than those already affecting the net income.

Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.



Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk. The Company's fixed rate investments in particular are exposed to fair value interest rate risk.

The Company's market risk policy requires it to manage interest rate risk by investing in fixed rate instruments.

The following table shows the information relating to the Company's financial instruments that are exposed to fair value interest rate risk presented by maturity profile:

	Interest Rates	Maturity				Total
		Within 1 year	1-3 years	3-5 years	Over 5 years	
AFS financial assets						
2012	2.32%-9.13%	₱59,170,442	₱130,233,946	₱292,929,864	₱507,821,633	₱990,155,885
2011	5.38% - 9.13%	71,226,420	115,745,860	98,986,612	425,139,557	711,098,449

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects adjustments on revaluing fixed rate available-for-sale financial assets).

December 31, 2012

	Change in variables	Impact on equity Increase (decrease)
AFS Debt securities	+150 basis points	(₱39,180,905)
	-150 basis points	55,644,776

December 31, 2011

	Change in variables	Impact on equity Increase (decrease)
AFS Debt securities	+150 basis points	(₱23,983,398)
	-150 basis points	26,267,960

Price risk

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

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 market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investment, diversification plan and limits on investments.



The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects changes in fair value of available-for-sale financial assets).

December 31, 2012

	Change in Variable	Impact on equity Increase (decrease)
PSEi	+5.00%	₱3,924,793
PSEi	-5.00%	(3,924,793)

December 31, 2012

	Change in Variable	Impact on equity Increase (decrease)
PSEi	+8.00%	₱5,955,618
PSEi	-8.00%	(5,955,618)

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

The reconciliation of net profit under PFRS and statutory net profit follows:

	2012	2011
PFRS net income	₱213,546,545	₱150,296,010
Difference in change in reserve for unearned premiums	8,800,013	39,821,730
Deferred acquisition costs - net	(27,471,609)	(18,607,139)
Change in IBNR	15,805,093	11,038,911
Tax effect of reconciling items	572,922	(9,676,051)
Statutory net income	₱211,252,964	₱172,873,461

27. Contingent Liabilities

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no material liabilities are likely to result.

28. Supplementary Information Required Under Revenue Regulations 19-2011

In compliance with the requirements set forth by RR 19-2011, hereunder are the information on the Company's taxable income and deductions taken in 2012.



The Company is subject to the regular tax rate of 30% and minimum corporate income tax rate of 2%.

- a. The Company's revenue from sale of services in 2012 amounted to ₱1,456,071,705.
- b. The summary of the Company's taxable other income in 2012 are as follows:

	Regular tax rate
Taxable other income	
Commission income	₱74,054,824
Foreign exchange gain	752,873
Interest income not subject to final tax	229,282
Other income (see Note 17)	28,311,426
	<u>₱103,348,405</u>

- c. The summary of the Company's cost of services in 2012 are as follows:

	Regular tax rate
Cost of services - Direct charges:	
Claims and benefits paid, net of change in provision for IBNR	₱553,813,890
Commission expense, net of change in deferred acquisition cost	436,031,042
Direct costs:	
Salaries and wages	52,612,365
Other employee benefits	6,393,674
Allowances and bonuses	16,342,576
	<u>₱1,065,193,547</u>

- d. The itemized deductions of the Company in 2012 are as follows:

	Regular tax rate
Itemized deductions:	
Salaries and allowances	₱123,667,052
Other outside services	29,160,462
Advertising	20,218,079
Communication, light and water	18,961,889
Depreciation	16,536,143
Other Underwriting Expense	11,981,136
Office supplies	10,899,690
Transportation and travel	10,667,790
Rental	9,084,629
Professional fees	5,882,934
Representation and entertainment	4,596,733
Management and consultancy fee	3,180,072
Association and dues	2,364,985
Repairs and maintenance - labor	2,172,135
Unrealized forex loss in 2011 realized in 2012 - net	1,983,633

(Forward)



	Regular tax rate
Miscellaneous	₱1,220,309
Interest	907,190
Insurance	893,756
Taxes and licenses	798,230
Fringe Benefits	11,294
Total itemized deductions	₱275,188,141

29. Supplementary Information Required Under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year.

- a. The Company is a VAT-registered company with VAT output tax declaration of ₱260,416,135 for the year based on the amount reflected in the Premium Income account of ₱2,170,134,456.

The Company has zero-rated sales amounting to ₱32,930,183.

- b. The amount of input VAT Input taxes claimed are broken down as follows:

	2012
Balance at January 1	₱4,830,813
Current year's purchases/payments :	
Goods other than for resale	2,720,204
Services paid lodged under operating expenses	57,511,975
	65,062,992
Input VAT applied against Output VAT	59,441,523
Balance at December 31	₱5,621,469

- c. The DST paid on the following transactions are:

Transaction	Amount	DST
Policy issuance	₱468,838,741,830	₱286,691,147
Issuance of shares of stocks	500,000	2,500

- d. Other taxes paid are:

Transaction	Amount	Tax
Premium tax	₱535,595,502	₱10,711,910
Fringe benefit tax	35,294	11,294

- e. Details of other taxes, local and national, including real estate taxes, license and permit fees lodged under the "Taxes and Licenses" account under operating expenses follow:

<u>Local:</u>	
Real estate taxes	₱478,811
Business license	194,865
Communicate tax certificate	14,170
Total	₱687,846



<u>National:</u>	
Motor vehicle registration fees	₱58,350
Registration fees	37,500
Miscellaneous	14,534
Total	₱110,384

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

	2012
Expanded withholding taxes	₱56,158,823
Tax on compensation and benefits	27,699,247
Total	₱83,858,070

As of December 31, 2012, the Company has no tax assessments.

