MAA General Assurance Philippines, Inc.

Financial Statements
December 31, 2012 and 2011

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
MAA General Assurance Philippines, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of MAA General Assurance Philippines, Inc., which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 29 and 30 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of MAA General Assurance Philippines, Inc. 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.

Djole S. Garcia

Djole S. Garcia
Partner
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January 28, 2013, valid until January 27, 2016
PTR No. 3669686, January 2, 2013, Makati City

March 20, 2013

MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Cash and Cash Equivalents (Notes 4 and 24)	**₱103,599,763**	₱106,687,938
Short-term Investments (Notes 5 and 24)	**3,722,535**	1,300,368
Insurance Receivables - net (Notes 6 and 24)	**274,928,234**	238,397,161
Financial Assets (Notes 7 and 24)		
Available-for-sale financial assets	**733,081,210**	593,341,897
Loans and receivables	**2,581,337**	5,262,052
Accrued Income (Notes 8 and 24)	**7,269,279**	8,028,117
Reinsurance Assets (Notes 9, 14 and 24)	**489,298,730**	427,093,766
Deferred Acquisition Costs (Note 10)	**109,265,017**	82,750,639
Property and Equipment - net (Note 11)	**13,960,140**	14,615,963
Intangible Asset (Note 12)	**7,714,286**	–
Deferred Tax Assets - net (Note 23)	**14,152,160**	14,152,160
Retirement Benefit Assets - net (Note 22)	**1,569,472**	3,216,407
Other Assets (Note 13)	**11,318,039**	7,041,378
	₱1,772,460,202	₱1,501,887,846

LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 14 and 24)	**₱990,050,753**	₱822,712,692
Insurance payables (Notes 15 and 24)	**85,269,028**	48,003,677
Accounts payable and other liabilities (Notes 16, 24 and 27)	**168,846,270**	121,919,147
Deferred reinsurance commissions (Note 10)	**28,366,852**	23,562,810
Income tax payable	**–**	4,740,661
	1,272,532,903	1,020,938,987
Equity		
Capital stock (Note 17)	**300,000,000**	300,000,000
Contributed surplus	**643,832**	643,832
Contingency surplus (Notes 17 and 24)	**82,123,738**	82,123,738
Revaluation reserve on available-for-sale financial assets (Note 7)	**9,411**	13,288,857
Retained earnings	**117,150,318**	84,892,432
	499,927,299	480,948,859
	₱1,772,460,202	₱1,501,887,846

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2012	2011
Gross earned premiums on insurance contracts (Notes 14 and 18)	**₱869,891,406**	₱769,698,046
Reinsurers' share of gross earned premiums on insurance contracts (Notes 14 and 18)	**(407,657,150)**	(335,809,627)
Net insurance earned premiums	**462,234,256**	433,888,419
Commission income (Note 10)	**62,815,603**	58,247,893
Investment and other income - net (Note 19)	**87,389,715**	86,532,591
Other income	**150,205,318**	144,780,484
Total income	**612,439,574**	578,668,903
Gross insurance contract benefits and claims paid (Notes 14, 20 and 24)	**348,376,672**	385,815,815
Reinsurers' share of gross insurance contract benefits and claims paid (Notes 14, 20 and 24)	**(175,228,062)**	(198,574,632)
Gross change in insurance contract liabilities (Note 20)	**134,238,406**	42,106,180
Reinsurers' share of gross change in insurance contract liabilities (Note 20)	**(66,447,339)**	(21,283,044)
Net insurance benefits and claims	**240,939,677**	208,064,319
Commission expense (Note 10)	**201,557,998**	170,211,701
Other underwriting expense (Note 20)	**13,619,691**	13,563,747
Operating expenses (Notes 21, 22 and 25)	**112,950,406**	101,626,307
Interest expense	**2,243,185**	1,780,116
Other expenses	**330,371,280**	287,181,871
Total Benefits, Claims and Other Expenses	**571,310,957**	495,246,190
Income before income tax	**41,128,617**	83,422,713
Current	**8,870,731**	27,027,319
Deferred	–	(11,957,022)
Provision for income tax (Note 23)	**8,870,731**	15,070,297
NET INCOME (Note 26)	**32,257,886**	68,352,416
OTHER COMPREHENSIVE INCOME (Note 7)		
Changes in fair value of available-for-sale financial assets	**22,832,752**	28,175,415
Fair value gain transferred to profit or loss	**(36,112,198)**	(42,046,905)
	(13,279,446)	(13,871,490)
TOTAL COMPREHENSIVE INCOME	**₱18,978,440**	₱54,480,926

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 17)	Contributed Surplus	Contingency Surplus (Notes 17 and 24)	Revaluation Reserve on Available-for-sale Financial Assets (Note 7)	Retained Earnings	Total
As of January 1, 2012	**₱300,000,000**	**₱643,832**	**₱82,123,738**	**₱13,288,857**	**₱84,892,432**	**₱480,948,859**
Net income for the year	**–**	**–**	**–**	**–**	**32,257,886**	**32,257,886**
Other comprehensive income	**–**	**–**	**–**	**(13,279,446)**	**–**	**(13,279,446)**
Total comprehensive income for the year	**–**	**–**	**–**	**(13,279,446)**	**32,257,886**	**18,978,440**
As of December 31, 2012	**₱300,000,000**	**₱643,832**	**₱82,123,738**	**₱9,411**	**₱117,150,318**	**₱499,927,299**
As of January 1, 2011	₱250,000,000	₱643,832	₱132,123,738	₱27,160,347	₱16,540,016	₱426,467,933
Conversion of contingency surplus	50,000,000	–	(50,000,000)	–	–	–
	300,000,000	643,832	82,123,738	27,160,347	16,540,016	426,467,933
Net income for the year	–	–	–	–	68,352,416	68,352,416
Other comprehensive income	–	–	–	(13,871,490)	–	(13,871,490)
Total comprehensive income for the year	–	–	–	(13,871,490)	68,352,416	54,480,926
As of December 31, 2011	₱300,000,000	₱643,832	₱82,123,738	₱13,288,857	₱84,892,432	₱480,948,859

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱41,128,617**	₱83,422,713
Adjustments for:		
Dividend income (Note 19)	**(7,744,960)**	(5,896,816)
Depreciation and amortization (Notes 11, 12 and 21)	**4,274,213**	4,174,076
Gain on sale of:		
AFS financial assets (Note 19)	**(36,112,198)**	(41,903,025)
Property and equipment (Note 19)	**(282,919)**	(1,003,408)
Impairment loss (Notes 7 and 19)	**–**	143,880
Interest expense	**2,243,185**	1,780,116
Interest income (Note 19)	**(36,490,033)**	(32,300,092)
Operating income (loss) before working capital changes	**(32,984,095)**	8,417,444
Decrease (increase) in:		
Insurance receivables	**(36,531,073)**	(28,303,907)
Short-term investments	**(2,422,167)**	(1,300,368)
Reinsurance recoverable on unpaid losses	**(66,447,340)**	(21,283,044)
Deferred reinsurance premiums	**4,242,376**	(4,809,171)
Loans and receivables	**2,680,715**	(2,414,102)
Deferred acquisition costs	**(26,514,378)**	(12,437,213)
Net plan assets	**1,646,935**	(2,627,216)
Other assets	**(4,276,661)**	2,338,499
Increase (decrease) in:		
Provision for unearned premiums	**33,099,655**	47,575,997
Provision for claims reported and IBNR	**134,238,406**	42,106,181
Insurance payables	**37,265,351**	(24,914,378)
Accounts payable and other liabilities	**46,927,123**	20,241,053
Deferred reinsurance commissions	**4,804,042**	(1,824,677)
Net cash provided by operations	**95,728,889**	20,765,098
Income tax paid	**(13,611,392)**	(20,895,446)
Net cash from (used in) operating activities	**82,117,497**	(130,348)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Available-for-sale financial assets (Note 7)	**(2,376,365,737)**	(921,948,585)
Property and equipment (Note 11)	**(3,905,062)**	(6,249,059)
Intangible assets (Note 12)	**(7,714,286)**	
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 7)	**2,255,478,809**	873,985,366
Property and equipment (Note 11)	**569,591**	1,398,790
Interest received	**41,022,493**	33,088,399
Dividend received	**7,951,705**	5,896,816
Net cash used in investing activities	**(82,962,487)**	(13,828,273)

(Forward)

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	**(₱2,243,185)**	(₱1,780,116)
Net cash used in financing activities	**(2,243,185)**	(1,780,116)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,088,175)**	(15,738,737)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**106,687,938**	122,426,675
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱103,599,763**	₱106,687,938

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

MAA General Assurance Philippines, Inc. ("the Company"), a corporation duly organized and existing under Philippine laws, is engaged in the business of nonlife insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events. It includes lines such as fire and allied perils, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with and incident to the aforementioned lines. The Company's ultimate parent is MAA Holdings Berhad, which is domiciled in Malaysia.

The Company was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 1950. In a special Board of Directors' (BOD) meeting held on August 8, 1999, it was approved that the Articles of Incorporation will be amended to extend the existence of the Company to another fifty years from its original expiry date. The Philippine SEC approved the Amended Articles of Incorporation in 2000.

The registered office address of the Company is 10th Floor, Pearl Bank Centre Building, 146 Valero Street, Salcedo Village, Makati City.

The accompanying financial statements were authorized for issue by the BOD on March 20, 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. 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 amended PFRS and which became effective beginning January 1, 2012. Except as otherwise stated, the adoption of these amended standards did not have any impact on the financial statements.

- 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.

<u>Future Changes in Accounting Policies</u>
The Company will adopt the following new and amended standards and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the financial statements.

Effective 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 to PFRS 7 are to be applied retrospectively and are effective for annual periods beginning on or after January 1, 2013. 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 standard becomes effective for annual periods beginning on or after January 1, 2013.

- 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 standard becomes effective for annual periods beginning on or after January 1, 2013.

- 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 standard becomes effective for annual periods beginning on or after January 1, 2013.

- 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 standard becomes effective for annual periods beginning on or after January 1, 2013.

  The Company does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- PAS 1 (Amendment), *Financial Statement Presentation, Presentation of Items of Other Comprehensive Income or OCI*
  The amendments to PAS 1 changed the grouping of items presented in other comprehensive income. 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 amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- 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. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.

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

  Statement of Financial Position

	As at December 31, 2012	As at January 1, 2012
Increase (decrease) in:		
Retirement benefit assets - net	**(₱657,380)**	(₱1,761,627)
Deferred tax asset - net	**(22,051)**	10,156
	(₱679,431)	(₱1,751,471)
Increase (decrease) in:		
Other comprehensive income	**(₱730,883)**	(₱1,727,775)
Retained earnings	**51,452**	(23,696)
	(₱679,431)	(₱1,751,471)

  Statement of Income

	For the year ended December 31, 2012
Increase (decrease) in:	
Pension expense	**(₱8,938)**
Income tax expense	**2,681**
Profit for the year	**₱6,257**

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- 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 becomes effective for annual periods beginning on or after January 1, 2013. This Philippine Interpretation is not relevant to the Company.

Annual Improvements to PFRSs (2009-2011 cycle)

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are 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*. The Company expects that this amendment will not have any impact on its 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 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 for annual periods beginning on or after January 1, 2014.

Effective 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. PFRS 9 is effective for annual periods beginning on or after January 1, 2015

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.

Use of Estimates, Assumptions and Judgments
The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities at the end of the reporting period as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the end of the reporting period, the actual outcome may differ from these estimates, possibly significantly. For further information on critical estimates and judgments, refer to Note 3.

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

Short-term Investments
Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

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.

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 investments, 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.

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 unobservable 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", (d) "Loans and Receivables" and (e) "Accrued Income".

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 Investment and other income account in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss.

AFS investments
AFS investments 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 investments 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 investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS 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 other comprehensive income. 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 other comprehensive income is recognized as realized gains or losses in profit or loss. Where 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 investments 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 other liabilities that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

<u>Offsetting</u>
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.

<u>Impairment of Financial Assets</u>
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, HTM investments), 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 present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. 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. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of other comprehensive income is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS 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.

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

<u>Reinsurance</u>
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 at 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.

When the Company enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Company initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as Insurance payables in the liabilities section of the statement of financial position will be withheld and recognized as Funds held for reinsurers and included as part of the Insurance payables in the liabilities section of the statement of financial position. The amount withheld is generally released after a year. Funds held by ceding companies is accounted for in the same manner.

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 are stated at cost, net of accumulated depreciation and any impairment in value.

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 is computed using the straight-line method over the estimated useful lives of the properties, or the term of the lease, whichever is shorter, for leasehold improvements, as follows:

	Years
Transportation equipment	5-10
Leasehold improvements	5
Computer equipment	5
Office furniture, fixtures and equipment	5
Building	20

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

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against profit or loss.

Intangible Asset

Intangible asset pertains to the Company's computer software.

Costs associated with the acquisition of computer software are capitalized only if the asset can be reliably measured, will generate future economic benefits, and there is an ability to use or sell the asset.

Computer software is carried at cost less accumulated amortization. Computer software cost is amortized over the expected useful life of the asset, but not to exceed five (5) years. All computer software components are amortized over five (5) years. Amortization commences when the asset is available for use or when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Company.

Impairment of Nonfinancial Assets

The Company assesses at each end of the reporting period whether there is an indication that property and equipment and its intangible assets 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 groups 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.

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 such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation 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 useful life.

Product Classification

Insurance Contracts

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.

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.

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. 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 as part of Insurance contract liabilities and presented in the liabilities section of the statement of financial position. 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 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 net pension asset recognized by the Company in respect of the defined benefit pension plan is the lower of: (a) the fair value of the plan assets less the present value of the defined benefit obligation at the end of reporting date, together with adjustments for unrecognized actuarial gains or losses that shall be recognized in later periods; or (b) the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by using risk-free interest rates of long-term government bonds that have terms to maturity approximating the terms of the related pension liability or 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.

Contributed surplus 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, net of any related income tax benefits.

Contingency surplus pertains to capital infusions of shareholders in order to comply with Margin of Solvency (MOS) deficiency as a result of the examination made by the Insurance Commission (IC).

Retained earnings include all the accumulated earnings of the Company.

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 as part of Insurance contract liabilities and 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 commission income

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.

Other Expenses
Other underwriting expense, operating expenses and interest expense, except for lease agreements, are recognized as expense as they are incurred.

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

a. There is a change in contractual 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 are taken to profit or loss while differences arising from foreign currency-denominated equity securities classified as AFS financial assets are included in the statement of 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 tax

Deferred 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 tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred 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 tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at 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 tax asset to be utilized. Unrecognized deferred 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 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 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

Below are the estimates and judgments used in preparing the Company's financial statements. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities at the end of the reporting period as well as affecting the reported income and expenses for the year. These estimates are based on management's best knowledge based on historical experiences for future expectations and judgment of information and financial data as at the date the financial statements are approved. Although these estimates are believed to be reasonable under the circumstances, the actual outcome may differ from these estimates, possibly significantly, in future periods when subject to changes.

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

Judgments
Operating leases
The Company has entered into property leases for its operations. The Company has determined that the lessor retains all the significant risks and rewards of ownership of these properties which are being leased on operating leases.

Classification of financial assets
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.

Estimates
Claims liabilities 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 end of the reporting period. It can take a significant period of time before the ultimate claims cost 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 claim 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, but can also be further analyzed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster 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 historical claims development data on which the projections are based.

As of December 31, 2012, the carrying values of provision for outstanding claims and IBNR amounted to ₱412,995,960 and ₱170,722,049 respectively. As of December 31, 2011, the carrying values of provision for outstanding claims and IBNR amounted to ₱346,481,883 and ₱102,997,720 respectively (see Note 14).

Fair Values of Financial Assets and Liabilities
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 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 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 the statement of other comprehensive income.

The carrying value of AFS financial assets is ₱733,081,210 and ₱593,341,897 as of December 31, 2012 and 2011, respectively (see Note 7).

Impairment of Financial Assets
The Company determines that AFS equity investments are 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 decline requires judgment. The Company treats 'significant' generally as 20% or more or 'prolonged' greater than twelve (12) months. In addition, the Company evaluates other factors, including the normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, like changes in technology, and operational and financing cash flows.

The Company reviews its loans and receivables at each end of the reporting period to assess whether an allowance for impairment should be recorded in the statement of comprehensive 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.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

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 doubtful accounts would increase recorded expenses and decrease net income.

Insurance receivables, net of allowance for doubtful accounts, amounted to ₱274,928,234 and ₱238,397,161 as of December 31, 2012 and 2011, respectively (see Note 6). Loans and receivables amounted to ₱2,581,337 and ₱5,262,052 as of December 31, 2012 and 2011, respectively (see Note 7).

As of December 31, 2012, the Company has no impairment loss on its AFS financial assets (see Note 7).

Estimated Useful Lives of Property and Equipment and Intangible Assets
The Company reviews annually the estimated useful lives of property and equipment and its intangible asset, 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 and its intangible assets would increase recorded depreciation and amortization expense and decrease the related asset accounts.

As of December 31, 2012 and 2011, property and equipment amounted to ₱13,960,140 and ₱14,615,963, respectively (see Note 11). Intangible asset amounted to ₱7,714,286 as of December 31, 2012 (Note 12).

Impairment of nonfinancial assets
The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the 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. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the cash-generating unit to which the asset belongs.

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

As of December 31, 2012 and 2011, The Company has not recognized any impairment losses on its nonfinancial assets.

Pension and Other Employee Benefits
The determination of the Company's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts.

Those assumptions are described in Note 20 and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Company believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect retirement obligations. Please see Note 20 for the related balances.

Recognition of Deferred Tax Assets
The Company reviews the carrying amounts of deferred tax assets at each end of the reporting period and reduces it to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. The Company looks at its projected performance in assessing the sufficiency of future taxable income.

The Company recognized net deferred tax assets amounting to ₱14,152,160 for both the period-ended December 31, 2012 and 2011 (see Note 23).

4. Cash and Cash Equivalents

This account consists of:

	2012	2011
Cash on hand and in banks	**₱83,033,417**	₱53,332,395
Short-term deposits	**20,566,346**	53,355,543
	₱103,599,763	₱106,687,938

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are money market placements maturing three (3) months or less from the date of acquisition, but with varying periods depending on the immediate cash requirements of the Company and earn interest at the rates ranging from 1.88% to 3.66% in 2012 and 0.88% to 4.69% in 2011.

5. Short-term Investments

Short-term investments amounted to ₱3,722,535 and ₱1,300,368 as of December 31, 2012 and December 31, 2011, respectively.

Short-term investments are money market placements made for varying periods of more than three (3) months and up to six (6) months and earn interest at the respective short-term investment rates.

6. **Insurance Receivables** - Net

This account consists of:

	2012	2011
Due from brokers and agents	**₱252,953,479**	₱219,782,306
Due from ceding companies	**6,197,417**	5,941,926
Funds held by ceding companies	**2,256,797**	1,508,065
Reinsurance recoverable on paid losses	**28,485,080**	20,567,047
	289,892,773	247,799,344
Less allowance for doubtful accounts	**14,964,539**	9,402,183
	₱274,928,234	₱238,397,161

The following table shows aging information of insurance receivables:

December 31, 2012

	1 to 30 days	**31 to 90 days**	**91 to 180 days**	**181 to 240 days**	**241 to 360 days**	**Total**
Due from brokers and agents	**₱79,974,906**	**₱93,523,105**	**₱60,665,891**	**₱9,729,723**	**₱9,059,854**	**₱252,953,479**
Due from ceding companies	**134,369**	**909,381**	**2,722,156**	**454,610**	**1,976,901**	**6,197,417**
Funds held by ceding companies	**–**	**–**	**2,256,797**	**–**	**–**	**2,256,797**
Reinsurance recoverable on paid losses	**8,899,035**	**4,361,088**	**4,818,257**	**823,473**	**9,583,227**	**28,485,080**
	₱89,008,309	**₱98,793,574**	**₱70,463,101**	**₱11,007,806**	**₱20,619,982**	**₱289,892,773**

December 31, 2011

	1 to 30 days	31 to 90 days	91 to 180 days	181 to 240 days	241 to 360 days	Total
Due from brokers and agents	₱43,305,781	₱97,376,368	₱59,992,467	₱8,406,733	₱10,700,957	₱219,782,306
Due from ceding companies	94,744	373,754	2,120,901	472,948	2,879,579	5,941,926
Funds held by ceding companies	–	–	1,508,065	–	–	1,508,065
Reinsurance recoverable on paid losses	15,877,563	316,594	1,147,364	591,547	2,633,979	20,567,047
	₱59,278,088	₱98,066,716	₱64,768,797	₱9,471,228	₱16,214,515	₱247,799,344

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

December 31, 2012

	Due from brokers and agents	**Due from ceding Companies**	**Reinsurance recoverable on paid losses**	**Total**
At January 1, 2012	**₱3,960,248**	**₱909,305**	**₱4,532,630**	**₱9,402,183**
Impairment (reversals) during the year	**(2,242,268)**	**(704,717)**	**8,509,341**	**5,562,356**
At December 31, 2012	**₱1,717,980**	**₱204,588**	**₱13,041,971**	**₱14,964,539**
Individually impaired	**₱471,226**	**₱–**	**₱12,882,128**	**₱13,353,354**
Collectively impaired	**1,246,754**	**204,588**	**159,843**	**1,611,185**
	₱1,717,980	**₱204,588**	**₱13,041,971**	**₱14,964,539**

December 31, 2011

	Due from brokers and agents	Due from ceding Companies	Reinsurance recoverable on paid losses	Total
At January 1, 2011	₱3,684,282	₱518,091	₱3,170,290	₱7,372,663
Impairment during the year	275,966	391,214	1,362,340	2,029,520
At December 31, 2011	₱3,960,248	₱909,305	₱4,532,630	₱9,402,183
Individually impaired	₱1,887,195	₱905,518	₱4,498,430	₱7,291,143
Collectively impaired	2,073,053	3,787	34,200	2,111,040
	₱3,960,248	₱909,305	₱4,532,630	₱9,402,183

7. **Financial Assets**

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

	2012	2011
AFS financial assets	**₱733,081,210**	₱593,341,897
Loans and receivables	**2,581,337**	5,262,052
	₱735,662,547	₱598,603,949

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

a) AFS financial assets

	2012	2011
Quoted securities - at fair value		
Listed equity securities:		
Common shares	**₱504,560**	₱549,080
Preferred shares	**124,054,000**	83,956,523
Club shares	**2,900,000**	2,400,000
Government debt securities:		
Local currency	**515,971,250**	429,149,500
Foreign currency	**33,805,458**	45,770,167
Private debt securities	**55,825,942**	31,496,627
Non-quoted securities - at cost		
Unlisted equity securities:		
Common shares	**20,000**	20,000
Total AFS financial assets recognized in the statements of financial position	**₱733,081,210**	₱593,341,897

	2012	2011
Quoted securities - at cost or amortized cost		
Listed equity securities		
Common shares - net of allowance for impairment loss of ₱143,880 in 2011.	**₱549,080**	₱549,080
Preferred shares	**122,516,000**	80,016,026
Club shares	**1,600,000**	1,600,000
Government debt securities		
Local currency	**521,459,839**	421,943,216
Foreign currency	**32,840,000**	45,705,688
Private debt securities	**54,086,880**	30,219,030
Non-quoted securities - at cost		
Unlisted equity securities:		
Common shares	**20,000**	20,000
Total AFS financial assets at cost or amortized cost	**₱733,071,799**	₱580,053,040

As of December 31, 2012 and 2011, the unrealized gains in respect of AFS financial assets recorded in equity amounted to ₱9,411 and ₱13,288,857, respectively.

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

	2012	2011
At January 1	**₱593,341,897**	₱519,424,385
Additions	**2,376,365,737**	921,948,585
Disposals/maturities	**(2,255,478,809)**	(873,985,366)
Amortization of bond	**(3,980,367)**	(2,077,242)
Impairment loss	–	(143,880)
Fair value gains credited to other comprehensive income	**22,832,752**	28,175,415
At December 31	**₱733,081,210**	₱593,341,897

b) *Loans and receivables*

This account consists of the following:

	2012	2011
Intercompany accounts receivables (see Notes 24 and 25)	**₱2,189,518**	₱2,056,186
Accounts receivables (see Note 24)	**10,466**	140,237
Miscellaneous receivables (see Note 24)	**381,353**	3,065,629
	₱2,581,337	₱5,262,052

Miscellaneous receivables account includes employees' loans, social security system (SSS) receivables and documentary stamp tax (DST) receivables. Loans granted to employees are non-interest bearing and payable to the Company within one year through payroll deduction.

As of December 31, 2012 and 2011, the Company's outstanding loans and receivables are all due within one year, except for the intercompany accounts receivables which are payable on demand.

8. Accrued Income

Accrued income consists of interest receivable amounting to ₱7,269,279 and ₱8,028,117 as of December 31, 2012 and 2011, respectively, which pertains mainly to interest accrued arising from cash and cash equivalents, AFS debt securities and contributions to the security fund.

9. Reinsurance Assets

This account consists of the following:

	2012	2011
Reinsurance recoverable on unpaid losses (see Note 14)	**₱354,886,097**	₱288,438,757
Deferred reinsurance premiums (see Note 14)	**134,412,633**	138,655,009
	₱489,298,730	₱427,093,766

10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs
The rollforward analysis of this account follows:

	2012	2011
At January 1	**₱82,750,639**	₱70,313,426
Costs deferred during the year	**228,072,376**	182,648,914
Amortization during the year	**(201,557,998)**	(170,211,701)
At December 31	**₱109,265,017**	₱82,750,639

Deferred Reinsurance Commissions
The rollforward analysis of this account follows:

	2012	2011
At January 1	**₱23,562,810**	₱25,387,487
Income deferred during the year	**67,619,645**	56,423,216
Amortization during the year	**(62,815,603)**	(58,247,893)
At December 31	**₱28,366,852**	₱23,562,810

11. **Property and Equipment** - Net

The rollforward analysis of this account follows:

December 31, 2012

	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2012	**₱12,339,981**	**₱6,727,708**	**₱47,923,547**	**₱4,820,394**	**₱3,250,000**	**₱75,061,630**
Additions	**526,786**	**655,287**	**1,963,630**	**759,359**	**–**	**3,905,062**
Disposals	**(957,649)**	**–**	**–**	**–**	**–**	**(957,649)**
At December 31, 2012	**11,909,118**	**7,382,995**	**49,887,177**	**5,579,753**	**3,250,000**	**78,009,043**
Accumulated depreciation						
At January 1, 2012	**6,015,923**	**5,849,564**	**43,369,204**	**4,195,351**	**1,015,625**	**60,445,667**
Depreciation	**2,037,612**	**289,376**	**1,536,587**	**248,138**	**162,500**	**4,274,213**
Disposals	**(670,977)**	**–**	**–**	**–**	**–**	**–**
At December 31, 2012	**7,382,558**	**6,138,940**	**44,905,791**	**4,443,489**	**1,178,125**	**64,048,903**
Net book value as of December 31, 2012	**₱4,526,560**	**₱1,244,055**	**₱4,981,386**	**₱1,136,264**	**₱2,071,875**	**₱13,960,140**

December 31, 2011

	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2011	₱13,320,906	₱6,486,549	₱45,087,024	₱4,577,096	₱3,250,000	₱72,721,575
Additions	2,908,886	241,159	2,855,716	243,298	–	6,249,059
Disposals	(3,889,811)	–	(19,193)	–	–	(3,909,004)
At December 31, 2011	12,339,981	6,727,708	47,923,547	4,820,394	3,250,000	75,061,630
Accumulated depreciation						
At January 1, 2011	7,413,990	5,533,390	42,024,608	3,960,100	853,125	59,785,213
Depreciation	2,096,489	316,174	1,363,662	235,251	162,500	4,174,076
Disposals	(3,494,556)	–	(19,066)	–	–	(3,513,622)
At December 31, 2011	6,015,923	5,849,564	43,369,204	4,195,351	1,015,625	60,445,667
Net book value as of December 31, 2011	₱6,324,058	₱878,144	₱4,554,343	₱625,043	₱2,234,375	₱14,615,963

Depreciation expense charged against operations amounted to ₱4,274,213 and ₱4,174,076 in 2012 and 2011, respectively (see Note 21).

12. **Intangible Asset**

On August 17, 2012, the Company has acquired computer software amounting to ₱7,714,286 which is to be implemented in 2013. As such, no amortization expense was charged against operations in 2012.

13. Other Assets

This account consists of:

	2012	2011
Deposits	**₱4,725,825**	₱4,297,848
Creditable withholding tax	**3,873,311**	–
Claims fund	**2,137,165**	2,455,702
Prepaid expenses	**511,023**	217,113
Security fund	**70,715**	70,715
	₱11,318,039	₱7,041,378

14. Insurance Contract Liabilities and Reinsurance Assets

Short-term nonlife insurance liabilities may be analyzed as follows:

	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2012	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2011
Provision for claims reported and loss adjustment expenses	**₱412,995,960**	**₱277,365,047**	**₱135,630,913**	₱346,481,883	₱241,173,815	₱105,308,068
Provision for IBNR losses	**170,722,049**	**77,521,050**	**93,200,999**	102,997,720	47,264,942	55,732,778
Total claims reported and IBNR	**583,718,009**	**354,886,097**	**228,831,912**	449,479,603	288,438,757	161,040,846
Provision for unearned premiums	**406,332,744**	**134,412,633**	**271,920,111**	373,233,089	138,655,009	234,578,080
Total insurance contract liabilities	**₱990,050,753**	**₱489,298,730**	**₱500,752,023**	₱822,712,692	₱427,093,766	₱395,618,926

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

	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2012	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2011
At January 1	**₱449,479,603**	**₱288,438,757**	**₱161,040,846**	₱407,373,423	₱267,155,713	₱140,217,710
Claims incurred during the year	**414,890,748**	**211,419,294**	**203,471,454**	370,966,900	201,645,444	169,321,456
Claims paid during the year - net of salvage and subrogation (see Note 20)	**(348,376,672)**	**(175,228,062)**	**(173,148,610)**	(385,815,815)	(198,574,632)	(187,241,183)
Increase in IBNR	**67,724,330**	**30,256,108**	**37,468,222**	56,955,095	18,212,232	38,742,863
At December 31	**₱583,718,009**	**₱354,886,097**	**₱228,831,912**	₱449,479,603	₱288,438,757	₱161,040,846

Provision for unearned premiums may be analyzed as follows:

	Insurance contract liabilities	**Reinsurers' share of liabilities** (see Note 9)	**Net 2012**	Insurance Contract Liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2011
At January 1	**₱373,233,089**	**₱138,655,009**	**₱234,578,080**	₱325,657,091	₱133,845,838	₱191,811,253
New policies written during the year (see Note 18)	**902,991,061**	**403,414,774**	**499,576,287**	817,274,044	340,618,798	476,655,246
Premiums earned during the year (see Note 18)	**(869,891,406)**	**(407,657,150)**	**(462,234,256)**	(769,698,046)	(335,809,627)	(433,888,419)
At December 31	**₱406,332,744**	**₱134,412,633**	**₱271,920,111**	₱373,233,089	₱138,655,009	₱234,578,080

15. Insurance Payables

This account consists of:

	2012	2011
Due to reinsurers and ceding companies (see Note 24)	**₱41,298,901**	₱15,824,397
Funds held for reinsurers (see Note 24)	**43,970,127**	32,179,280
	₱85,269,028	₱48,003,677

The rollforward analysis of insurance payables follows:

	Due to reinsurers and ceding companies	**Funds held for reinsurers**	**Total**
At January 1, 2011	₱47,727,231	₱25,190,825	₱72,918,056
Arising during the year	31,926,796	6,988,455	38,915,251
Utilized	(63,829,630)	–	(63,829,630)
At December 31, 2011	**15,824,397**	**32,179,280**	**48,003,677**
Arising during the year	**65,489,834**	**11,790,847**	**77,280,681**
Utilized	**(40,015,330)**	**–**	**(40,015,330)**
At December 31, 2012	**₱41,298,901**	**₱43,970,127**	**₱85,269,028**

16. Accounts Payable and Other Liabilities

This account consists of:

	2012	2011
Value added tax (VAT) payable	**₱56,185,901**	₱36,694,690
Commission payable	**50,099,988**	37,286,889
Accounts payable	**30,113,273**	19,207,927
Withholding taxes payable	**22,082,853**	14,352,825
Documentary stamp tax (DST) payable	**2,460,515**	6,393,754
Others	**7,903,740**	7,983,062
	₱168,846,270	₱121,919,147

17. Capital Stock

The Company's capital stock consists of:

	2012		2011	
	Shares	**Amount**	Shares	Amount
Authorized: Common stock				
₱1,000 par value	**300,000**	**₱300,000,000**	300,000	₱300,000,000
Issued and outstanding:				
At beginning of year	**300,000**	**300,000,000**	250,000	250,000,000
Issuances during the year	–	–	–	–
Conversion of contingency Surplus	–	–	50,000	50,000,000
At end of the year	**300,000**	**₱300,000,000**	300,000	₱300,000,000

In 2010, the Company requested from the IC to convert ₱50,000,000 of its contingency surplus amounting to ₱182,123,738 to paid-up capital. Such request was approved by the IC on November 30, 2010. As a result, the Company's capital stock amounted to ₱250,000,000 as of December 31, 2010.

In 2011, the Company requested from the IC to convert ₱50,000,000 of its contingency surplus amounting to ₱132,123,738 to paid-up capital. Such request was approved by the IC on September 29, 2011. As a result, the Company's capital stock amounted to ₱300,000,000 as of December 31, 2011.

18. Net Insurance Earned Premiums

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

	2012	2011
Gross premiums on insurance contracts:		
Direct insurance	**₱753,404,386**	₱644,148,035
Assumed reinsurance	**149,586,675**	173,126,009
Total gross premiums on insurance contracts (see Note 14)	**902,991,061**	817,274,044
Gross change in provision for unearned premiums	**(33,099,655)**	(47,575,998)
Total gross earned premiums on insurance contracts (see Note 14)	**869,891,406**	769,698,046
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	**167,057,176**	185,009,651
Assumed reinsurance	**236,357,598**	155,609,147
Total reinsurers' share of gross premiums on insurance contracts (see Note 14)	**403,414,774**	340,618,798
Reinsurers' share of gross change in provision for unearned premiums	**4,242,376**	(4,809,171)
Total reinsurers' share of gross earned premiums on insurance contracts (see Note 14)	**407,657,150**	335,809,627
Total net insurance earned premiums (see Note 14)	**₱462,234,256**	₱433,888,419

19. **Investment and other income** - Net

This account consists of:

	2012	2011
Interest income on:		
AFS financial assets	**₱32,995,175**	₱27,808,440
Cash and cash equivalents	**3,494,858**	4,255,469
Treaty reinsurance	–	234,259
Security fund	–	1,924
Dividend income	**7,744,960**	5,896,816
Gain on sale of available-for-sale financial assets (Note 7)	**36,112,198**	41,903,025
Gain on sale of property and equipment (Note 11)	**282,919**	1,003,408
Impairment loss (Note 7)	–	(143,880)
Foreign exchange gain - net	**3,119,910**	314,687
Others	**3,639,695**	5,258,443
	₱87,389,715	₱86,532,591

20. **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	**₱338,330,612**	₱290,893,497
Assumed reinsurance	**10,046,060**	94,922,318
Total insurance contract benefits and claims paid (see Note 14)	**₱348,376,672**	₱385,815,815

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	**₱102,585,342**	₱139,125,948
Assumed reinsurance	**72,642,720**	59,448,684
Total reinsurers' share of insurance contract benefits and claims paid (see Note 14)	**₱175,228,062**	₱198,574,632

Gross change in insurance contract liabilities:

	2012	2011
Change in provision for claims reported (see Note 14):		
Direct insurance	**₱32,421,787**	₱63,514,016
Assumed reinsurance	**34,092,290**	(78,362,931)
Change in provision for IBNR	**67,724,329**	56,955,095
Total gross change in insurance contract liabilities	**₱134,238,406**	₱42,106,180

Reinsurers' share of gross change in insurance contract liabilities:

	2012	2011
Reinsurers' share of gross change in insurance contractliabilities (see Note 14):		
Direct insurance	**₱36,191,231**	₱3,070,812
Reinsurers' share of change in provision for IBNR	**30,256,108**	18,212,232
Total reinsurers' share of gross change in insurance contract liabilities	**₱66,447,339**	₱21,283,044

21. **Operating Expenses and Other Underwriting Expense**

This account consists of:

	2012	2011
Salaries and employee benefits (see Note 22)	**₱54,864,600**	₱44,727,051
Rent	**7,414,776**	7,548,422
Advertising and promotion	**6,507,464**	4,942,585
Outside services	**6,236,956**	5,005,072
Communication, light and water	**5,922,694**	5,402,606
Provision for allowance for doubtful accounts (see Note 6)	**5,562,356**	2,029,520
Depreciation and amortization (see Note 11)	**4,274,213**	4,174,076
Repairs and maintenance	**4,077,288**	3,857,322
Printing and office supplies	**3,395,102**	3,271,627
Transportation and travel	**2,660,509**	2,783,611
Entertainment, amusement and recreation	**2,650,609**	3,511,062
Agency fees	**1,720,275**	1,292,729
Data processing fees	**910,485**	855,374
Director's fees	**823,334**	541,000
Taxes and licenses	**499,088**	6,992,795
Survey fees	**306,653**	521,711
Insurance	**248,930**	554,701
Bank service fees	**222,322**	566,469
Donations and contributions	**89,360**	209,309
Miscellaneous	**4,563,392**	2,839,265
Total Operating Expenses	**₱112,950,406**	₱101,626,307

Other underwriting expenses amounted to ₱13,619,691 and ₱13,563,747 in 2012 and in 2011, respectively. These generally pertain on the Company's share on the administrative and miscellaneous expenses reported by Philippine Accident Managers, Inc. and overseas Filipino workers' accounts.

22. **Retirement Plan**

The Company has a funded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The plan provides a retirement benefit equal to one hundred percent (100%) of Plan Salary for every year of Credited Service plus Retirement Bonus, if any. The plan is administered by a local bank as trustee.

Pension Expense

	2012	2011
Current service cost	**₱1,709,905**	₱1,635,839
Interest cost	**845,600**	788,105
Expected return on plan assets	**(658,186)**	(609,053)
Net actuarial loss recognized during the year	**–**	30,712
Effect of changes in the asset limit	**(250,384)**	250,384
Total pension expense	**₱1,646,935**	₱2,095,987
Actual return on plan assets	**₱929,682**	₱1,404,320

Retirement Benefit Asset

	2012	2011
Plan assets	**₱15,396,539**	₱14,785,857
Benefit obligation	**(16,917,853)**	(11,994,323)
Surplus (deficit)	**(1,521,314)**	2,791,534
Unrecognized net actuarial loss	**3,090,786**	675,257
Amount not recognized as asset due to "limit"	**–**	(250,384)
Benefit asset	**₱1,569,472**	₱3,216,407

Changes in present value of the defined benefit obligation are as follows:

	2012	2011
Opening defined benefit obligation	**₱11,994,323**	₱9,938,270
Current service cost	**1,709,905**	1,635,839
Interest cost	**845,600**	788,105
Actuarial loss (gain) on obligation	**2,687,025**	(260,391)
Benefits paid	**(319,000)**	(107,500)
At end of year	**₱16,917,853**	₱11,994,323

Changes in fair value of plan assets are as follows:

	2012	2011
Opening fair value of plan assets	**₱14,785,857**	₱8,765,834
Contributions	**–**	4,723,203
Expected return on plan assets	**658,186**	609,053
Actuarial gain	**271,496**	795,267
Benefits paid	**(319,000)**	(107,500)
At end of year	**₱15,396,539**	₱14,785,857

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

	2012	2011
Cash in bank	**₱147,339**	₱2,102,896
Short-term investments	**70,000**	2,525,000
Units investment trust fund	**4,681,928**	10,151,987
Government debt securities	**10,393,678**	–
Interest receivables	**108,179**	8,736
Total	**15,401,124**	14,788,619
Less: Accrued trust fees	**(4,585)**	(2,762)
Total plan assets	**₱15,396,539**	₱14,785,857

The Company's estimated contribution to the plan for next accounting period is ₱3,101,301.

Changes in unrecognized net actuarial losses are as follows:

	2012	2011
At beginning of year	**₱675,257**	₱1,761,627
Actuarial loss (gain) on obligation during the year	**2,687,025**	(260,391)
Actuarial gain on plan assets during the year	**(271,496)**	(795,267)
Actuarial loss recognized	**–**	(30,712)
At end of year	**₱3,090,786**	₱675,257

Asset Ceiling/Limit Test:

	2012	2011
Unrecognized actuarial losses	**₱3,090,786**	₱675,257
Present value of reductions in future contributions	**–**	2,541,150
Asset Ceiling/Limit	**₱3,090,786**	₱3,216,407

The principal assumptions used to determine pension benefits for the Company are as follows:

	2012	2011
Discount rate	**5.63%**	7.05%
Expected salary rate increase	**6.00%**	5.00%
Expected rate of return on plan assets	**5.00%**	4.50%

Amounts for the current year and previous four years are as follows:

	2012	2011	2010	2009	2008
Plan assets	**₱15,396,539**	₱14,785,857	₱8,765,834	₱–	₱–
Defined benefit obligation	**(16,917,853)**	(11,994,323)	(9,938,270)	(6,554,720)	(1,896,200)
Surplus (Deficit)	**(₱1,521,314)**	₱2,791,534	(₱1,172,436)	(₱6,554,720)	(₱1,896,200)

	2012	2011	2010	2009	2008
Experience adjustments:					
Gain (loss) on plan liabilities	**(₱570,406)**	₱295,483	₱706,970	(₱484,427)	(₱183,200)
Gain on plan assets	**271,496**	795,267	344,586	–	–

Staff costs and other employee related costs:

	2012	2011
Salaries and wages	**₱44,014,251**	₱38,123,215
Net benefit expense	**1,646,935**	2,095,987
Others	**9,203,414**	4,507,849
	₱54,864,600	₱44,727,051

23. Income Tax

The components of the Company's net deferred tax asset consist of the tax effects of the following:

	2012	2011
Deferred tax assets on:		
Excess of provision for unearned premiums per books over per tax basis	**₱19,429,702**	₱17,979,414
Deferred reinsurance commissions	**8,510,056**	7,068,843
IBNR – net	**20,187,189**	16,719,833
Allowance for doubtful accounts	**4,489,361**	2,820,655
Unrealized foreign exchange loss	**950,071**	319,497
Accrued expenses	**–**	1,693,734
Total deferred tax assets	**53,566,379**	46,601,976
Deferred tax liabilities on:		
Deferred acquisition costs	**₱32,779,505**	₱24,825,192
Excess of deferred reinsurance premiums per books over tax basis	**6,163,872**	6,659,702
Pension asset	**470,842**	964,922
Total deferred tax liabilities	**39,414,219**	32,449,816
Net deferred tax assets	**₱14,152,160**	₱14,152,160

The table below shows the temporary differences for which no deferred income tax assets have been set up because the Company believes that there will be no future taxable profit against which the benefit from these can be utilized.

	2012	2011
Provision for IBNR - net	**₱25,910,368**	₱–
Unamortized past service cost	**7,274,616**	8,269,742
Excess MCIT	**1,118,029**	–
NOLCO	**14,303,333**	–

The excess MCIT and NOLCO in 2012 will both expire on December 31, 2015.

The reconciliation of pretax income at statutory income tax rate to effective income tax follows:

	2012	2011
Tax at statutory income tax rate	**₱12,338,585**	₱25,026,814
Add (deduct) tax effects of:		
Change in unrecognized deferred tax assets	**12,883,601**	(763,542)
Interest income subjected to final tax	**(10,947,010)**	(9,619,172)
Final tax paid	**7,752,702**	14,722,986
Gain on sale of AFS financial assets	**(10,833,659)**	(12,570,907)
Dividend income	**(2,323,488)**	(1,769,045)
Nondeductible expenses	**–**	43,164
Effective income tax	**₱8,870,731**	₱15,070,297

In 2011, MCIT amounting to ₱1,391,213 was claimed as a deduction against income tax due.

24. Management of Capital, Insurance and Financial Risks

Governance Framework
The primary objective of the Company's risk and financial management framework is to ensure that the risks related to the Company are managed through a systematic and consistent risk management process. The Company recognizes the critical importance of having efficient and effective risk management systems in place.

The Company is guided by its standard operating procedures and internal control procedures designed to ensure attainment of the Company objective. More so it is strongly backed up by its strong treaty agreements, which more or less limits the risk acceptance.

The Company has already outlined its risk management manual and is for endorsement to the Risk Management Committee for approval. Said manual clearly outlines the structure of the Risk Management Organization and defines integral role of each position. It also states reportorial requirements and processes.

The Risk Management Committee is composed of not less than (3) members of the Board whereas, the Chief Underwriting Technical is appointed as the Risk Champion. To serve as member of the organization, the head of each department are automatically called the Risk Owner.

Risk Owners are task to conduct regular identification, evaluation and review of the risk factors of their respective department through semi-annual submission of risk scorecards. The same shall be used as basis of reporting to the Board of Directors.

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

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

Capital Management Framework

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 usually higher than the minimum capital requirements set by the regulators as imposed under Department of Finance Order (DO) 27-06 and the amount computed under the Risk Based Capital (RBC) Model.

The Company reviews the capital requirements through monthly computation of the Margin of Solvency and the RBC which is regularly communicated to the major shareholders. With this procedure, shareholders are forewarned in anticipation of the IC requirements of additional capital infusion. Shareholders are well updated with these externally imposed capital requirements since these are being discussed during annual BOD meeting. Evidently they have shown their commitment to comply with this regulation, same as prior years when they willingly infused additional cash as the need arises.

Margin of Solvency (MOS)

Under the Insurance Code, a nonlife insurance company doing business in the Philippines shall maintain, at all times, a MOS equal to ₱500,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The MOS shall be the excess of the value of its admitted assets (as defined under the same Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums, and reinsurance reserves. Provision for unearned premiums as of December 31, 2012, determined in accordance with the same Code for purposes of MOS, amounted to ₱227,700,677. In the accompanying financial statements, the net Provision for unearned premiums amounted to ₱271,920,111 computed as Provision for unearned premiums of ₱406,332,744 less deferred reinsurance premiums of ₱134,412,633 (see Note 12).

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)	**₱108,503,472**	₱92,326,138
Intercompany accounts receivable	**2,189,518**	2,056,186
Accounts receivables	**499,863**	140,237
Property and equipment - net	**6,906,880**	7,827,245
Miscellaneous receivables	**381,353**	3,065,629
Other assets	**12,816,794**	6,970,663
	₱131,297,880	₱112,386,098

As of December 31, 2012 and 2011, the Company's MOS, based on its estimate, amounted to ₱89,873,727 and ₱71,796,109, respectively, for which the Company is in excess by ₱42,208,203 and ₱33,057,207, respectively. The final amount of the MOS can only be determined after the accounts of the Company have been examined by the IC, particularly with respect to the determination of admitted and nonadmitted assets.

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

Based on the scheduled increases under DO 27-06, 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 October 29, 2008, the IC issued Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with requirements of IMC No. 10-2006, the scheduled increases due December 31, 2007 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007. 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, the Department of Finance issued DO No. 15-2012 which provides for minimum paid up capital requirements of all insurance and professional reinsurance companies to supplement the requirements of DO No. 27-06 after December 31, 2012. Under the said DO, the minimum paid up capital requirements for all existing insurance and professional reinsurers regardless of its citizenship is going to be on a staggered basis for the years December 31, 2012 up to 2020. The DO also allows all existing insurance and professional reinsurance companies a one-time one-year deferral in the compliance to minimum paid up capital requirements provided it has met the RBC hurdle rate based on the schedule set out in the said DO.

The table below shows the amount of minimum paid-up capital and the schedule of compliance per DO No. 15-2012:

Paid up capital	Compliance date
₱250,000,000	On or before December 31, 2012 (Pursuant to DO 27-06 and IMC No. 10-2006)
400,000,000	On or before December 31, 2014
600,000,000	On or before December 31, 2016
800,000,000	On or before December 31, 2018
1,000,000,000	On or before December 31, 2020

On November 22, 2012, the IC issued an advisory to all insurance and reinsurance companies doing business in the Philippines regarding the implementation of DO No. 27-06. According to the advisory, the minimum paid-up capital for December 31, 2012 must at least be equal to the amount previously scheduled for December 31, 2011 per DO 27-06

On December 11, 2012, DO No. 15-2012 was issued with a temporary restraining order. Accordingly, the minimum paid up capital requirement would be ₱250,000,000 by the end of 2012 as advised by the IC.

On February 5, 2013, the Senate of the Philippines approved the Amended Insurance Code which provides the new capitalization requirements of all existing insurance companies based on networth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required networth and the schedule of compliance per Amended Insurance Code:

Networth	Compliance date
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of March 20, 2013, the Amended Insurance Code has not been signed by the President of the Philippines for it to become a law.

As of December 31, 2012, the Company has complied with the minimum paid-up capital requirement while the Company's statutory net worth based on its computation amounted to ₱389,873,727.

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 net worth or equity is at least equal to the actual paid-up capital.

As of December 31, 2012, 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 net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC.

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

	2012	2011
Net worth	**₱389,873,727**	₱371,796,109
RBC requirement	**288,492,473**	257,628,611
RBC Ratio	**135%**	144%

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

If an insurance company failed to meet the minimum required MOS, fixed capitalization requirements and RBC requirements, 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.

Consolidated Compliance Framework

The IC issued IMC 10-2006 integrating the compliance standards for the fixed capitalization and risk-based capital framework. Under this IMC, all insurers must possess the capitalization required for the year 2006. Likewise, all insurers shall annually comply with the RBC ratio requirements.

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 Rate is 250%. 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.

In cases where the Company will be required to comply with the higher capital requirements of the IC including the RBC ratio, the Company's stockholders are committed to infuse additional contribution to cover up any deficiency it may have and meet the capital requirements as mandated by the IC.

Insurance Risk

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

The Company principally issue the following types of general insurance contracts: fire, motor, health and accident, aviation/hull, marine, engineering, professional indemnity, bonds, fidelity guarantee and surety. Risks under general insurance policies usually cover twelve month duration.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities.

These risks vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforce a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example, hurricanes, earthquakes and flood damages.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by management.

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

December 31, 2012

	Gross Claims Liabilities	**Reinsurers' Share of Claims Liabilities**	**Net Claims Liabilities**
Fire	**₱219,829,426**	**₱187,089,377**	**₱32,740,049**
Motor	**192,668,914**	**41,924,151**	**150,744,763**
Marine	**87,674,143**	**74,397,983**	**13,276,160**
General Accounts	**19,678,670**	**16,253,241**	**3,425,429**
Engineering	**16,086,170**	**11,259,471**	**4,826,699**
Personal Accident	**21,830,405**	**5,568,041**	**16,262,364**
Bonds	**25,950,281**	**18,393,833**	**7,556,448**
Total	**₱583,718,009**	**₱354,886,097**	**₱228,831,912**

December 31, 2011

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	₱158,481,426	₱142,228,780	₱16,252,646
Motor	143,651,846	29,439,899	114,211,947
Marine	82,590,042	72,026,961	10,563,081
General Accounts	28,394,456	22,088,118	6,306,338
Engineering	16,590,283	15,162,002	1,428,281
Personal Accident	13,087,307	3,535,253	9,552,054
Bonds	6,684,243	3,957,744	2,726,499
Total	₱449,479,603	₱288,438,757	₱161,040,846

Terms and Conditions
The major classes of general insurance written by the Company include fire, marine, and motor 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 include 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%**	**₱87,557,701**	**₱34,324,787**	**(₱34,324,787)**	**(₱24,027,351)**
Average number of claims	**+10%**	**58,371,801**	**22,883,191**	**(22,883,191)**	**(16,018,234)**

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%	₱67,421,940	₱24,156,127	(₱24,156,127)	(₱16,909,289)
Average number of claims	+10%	44,947,960	16,104,085	(16,104,085)	(11,272,859)

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, marine and motor lines only.

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.

The Company aims to maintain strong reserves in respect of its general insurance in order to protect against adverse future claims experience and development. As claims develop and ultimate costs of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

Accident year	**2002 and prior years**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
Estimate of ultimate claims costs:												
At the end of accident year	₱68,282,452	₱178,781,778	₱200,893,231	₱221,143,622	₱203,233,292	₱176,540,244	₱354,020,024	₱703,455,884	₱351,768,139	₱290,055,315	₱491,680,498	₱491,680,498
One year later	80,967,488	199,767,832	243,524,364	228,127,026	242,876,952	210,016,821	350,711,481	617,311,664	295,380,180	249,236,892	–	249,236,892
Two years later	81,146,238	205,284,452	243,692,311	249,290,190	242,908,209	209,733,446	349,210,333	644,380,617	298,215,370	–	–	298,215,370
Three years later	81,154,684	205,700,942	243,692,311	249,297,669	243,951,003	209,649,711	346,043,817	642,105,266	–	–	–	642,105,266
Four years later	81,182,589	205,700,942	243,692,311	250,051,455	203,801,487	216,716,586	346,594,361	–	–	–	–	346,594,361
Five years later	81,182,589	205,700,942	243,844,640	250,320,833	199,876,937	216,922,135	–	–	–	–	–	216,922,135
Six years later	81,222,589	206,914,097	244,005,563	250,352,010	201,291,846	–	–	–	–	–	–	201,291,846
Seven years later	81,263,474	207,072,477	244,139,631	250,352,010	–	–	–	–	–	–	–	250,352,010
Eight years later	81,378,486	207,915,321	244,139,631	–	–	–	–	–	–	–	–	244,139,631
Nine years later	81,385,528	207,915,321	–	–	–	–	–	–	–	–	–	207,915,321
Ten years later	81,385,528	–	–	–	–	–	–	–	–	–	–	81,385,528
Current estimate of cumulative claims	**81,385,528**	**207,915,321**	**244,139,631**	**250,352,010**	**201,291,846**	**216,922,135**	**346,594,361**	**642,105,266**	**298,215,370**	**249,236,892**	**491,680,497**	**3,229,838,858**
Cumulative payments to date	**(81,385,528)**	**(177,915,321)**	**(244,139,631)**	**(250,352,010)**	**(201,291,846)**	**(216,922,135)**	**(344,476,441)**	**(621,080,273)**	**(287,156,544)**	**(206,515,410)**	**(98,431,236)**	**(2,729,666,375)**
Total gross insurance liabilities included in the statement of financial position	**₱–**	**₱30,000,000**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,117,920**	**₱21,024,993**	**₱11,058,826**	**₱42,721,482**	**₱393,249,261**	**₱500,172,483**

Accident year	2002 and prior years	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Estimate of ultimate claims costs:												
At the end of accident year	₱46,105,312	₱115,040,197	₱99,672,402	₱174,725,047	₱134,133,973	₱125,625,286	₱116,148,062	₱212,252,765	₱154,584,623	₱163,791,499	₱261,005,450	₱261,005,450
One year later	50,240,160	134,169,598	139,003,958	183,330,768	174,339,641	130,533,162	100,305,430	280,268,882	125,266,766	139,967,859		139,967,859
Two years later	50,858,566	134,309,798	161,516,416	184,261,160	174,539,493	130,456,897	100,047,676	285,109,844	125,793,379			125,793,379
Three years later	52,210,107	157,481,065	161,516,416	184,273,144	174,957,885	130,364,269	98,975,740	285,043,458				285,043,458
Four years later	53,266,578	157,481,065	161,516,416	184,372,296	175,044,463	130,615,539	99,351,772					99,351,772
Five years later	53,266,578	157,481,065	161,651,565	184,402,354	176,078,021	130,821,088						130,821,088
Six years later	53,266,578	157,515,967	161,789,349	184,433,531	175,170,604							175,170,604
Seven years later	53,294,014	157,568,971	161,923,417	184,433,531								184,433,531
Eight years later	53,334,181	157,704,088	161,923,417									161,923,417
Nine years later	53,341,224	157,704,088										157,704,088
Ten years later	53,341,224											53,341,224
Current estimate of cumulative claims	53,341,224	157,704,088	161,923,417	184,433,531	175,170,604	130,821,088	99,351,772	285,043,458	125,793,379	139,967,859	261,005,450	1,774,555,870
Cumulative payments to date	(53,341,224)	(157,379,218)	(161,923,417)	(184,433,531)	(175,170,604)	(130,821,088)	(98,294,253)	(281,948,985)	(122,604,488)	(130,580,012)	(81,298,078)	(1,577,794,898)
Total net insurance liabilities included in the statement of financial position	**₱–**	**₱324,870**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,057,519**	**₱3,094,473**	**₱3,188,891**	**₱9,387,847**	**₱179,707,375**	**₱196,760,972**

Financial Instruments
Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, accrued income, insurance payables, accounts payable and commission payable, their carrying values reasonably approximate fair values as at December 31, 2012 and 2011.

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

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

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

The Company classifies its financial assets carried at fair value as follows:

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
AFS Financial Assets				
Listed equity securities				
Common shares	**₱504,560**	**₱–**	**₱–**	**₱504,560**
Preferred shares	**124,054,000**	–	–	**124,054,000**
Club shares	**2,900,000**	–	–	**2,900,000**
Government debt securities				
Local currency	**515,971,250**	–	–	**515,971,250**
Foreign currency	**33,805,458**	–	–	**33,805,458**
Private debt securities	**55,825,942**	–	–	**55,825,942**
Total AFS financial assets	**₱733,061,210**	**₱–**	**₱–**	**₱733,061,210**

	2011			
	Level 1	Level 2	Level 3	Total
AFS Financial Assets				
Listed equity securities				
Common shares	₱549,080	₱–	₱–	₱549,080
Preferred shares	83,956,523	–	–	83,956,523
Club shares	2,400,000			2,400,000
Government debt securities				
Local currency	429,149,500	–	–	429,149,500
Foreign currency	45,770,167	–	–	45,770,167
Private debt securities	31,496,627	–	–	31,496,627
Total AFS financial assets	₱593,321,897	₱–	₱–	₱593,321,897

As of December 31, 2012 and 2011, the Company classifies AFS financial assets under Level 1 of the fair value hierarchy, except for the unlisted equity securities that do not have quoted market prices in an active market which are measured at cost and hence, not included above. 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 that the Company is exposed to 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.

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

The Company manages the level of credit risk by setting up limits of exposure. Exposure in the sense that the concentration of its businesses is widespread in scope, in terms of counterparties involved, location or geographical and industry segments. A counter party may be subjected to a credit investigation prior to entering into a contract considering the financial condition or credit standing and character of the prospective producer, reinsurer and policy holder.

Regular review of company policies is being conducted to ensure proper monitoring of direct and reinsurance receivables versus payables. The Company reserves the right to offset where counterparties are both debtors and creditors; cancel policies which are beyond the credit-term or those with lesser probability of being collected and terminate contract which the management believes to be non-productive. Commissions and claims are likewise being used as leverage to collect from counterparty. In the event of a major loss, the Company is backed up by reinsurers with strong financial standing. Reinsurers and agents' portfolio are periodically being rated with A+ being the highest and B- the lowest.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs.

The following table provides information regarding the credit risk exposure of the Company as of December 31, 2012 and 2011:

	2012	2011
Cash and cash equivalents	**₱103,467,763**	₱106,592,938
Short-term investments	**3,722,535**	1,300,368
Insurance receivables:		
Due from brokers and agents	**252,953,479**	219,782,306
Due from ceding companies	**6,197,417**	5,941,926
Funds held by ceding companies	**2,256,797**	1,508,065
Reinsurance recoverable on paid losses	**28,485,080**	20,567,047
Financial assets:		
AFS		
Equity securities	**127,478,560**	86,925,603
Debt securities	**605,602,650**	506,416,294
Loans and receivables		
Intercompany receivable	**2,189,518**	2,056,186
Accounts receivable	**10,466**	140,237
Miscellaneous receivables	**381,353**	3,065,629
Accrued income	**7,269,279**	8,028,117
Total	**₱1,140,014,897**	₱962,324,716

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	
	High	**Medium**	**Low**	**or impaired**	**Total**
Cash and cash equivalents	**₱103,467,763**	**₱–**	**₱–**	**₱–**	**₱103,467,763**
Short-term investments	**3,722,535**	–	–	–	**3,722,535**
Insurance receivables:					
Due from brokers and agents	**173,498,011**	–	–	**79,455,468**	**252,953,479**
Due from ceding companies	**1,043,750**	–	–	**5,153,667**	**6,197,417**
Funds held by ceding company	**2,256,797**	–	–	–	**2,256,797**
Reinsurance recoverable on paid losses	**13,260,123**	–	–	**15,224,957**	**28,485,080**
Financial assets:					
AFS financial assets:					
Equity securities	**126,974,000**	–	–	**692,960**	**127,666,960**
Debt securities	**605,602,650**	–	–	–	**605,602,650**
Loans and receivables:					
Intercompany receivable	**2,189,518**	–	–	–	**2,189,518**
Accounts receivable	**10,466**	–	–	–	**10,466**
Miscellaneous receivables	**381,353**	–	–	–	**381,353**
Accrued income	**7,269,279**	–	–	–	**7,269,279**
Total	**₱1,039,676,245**	**₱–**	**₱–**	**₱100,527,052**	**₱1,140,203,297**

December 31, 2011

	Neither past due nor impaired			Past due	
	High	Medium	Low	or impaired	Total
Cash and cash equivalents	₱106,592,938	₱–	₱–	₱–	₱106,592,938
Short-term investments	1,300,368				1,300,368
Insurance receivables:					
Due from brokers and agents	140,682,149			79,100,157	219,782,306
Due from ceding companies	468,498	–	–	5,473,428	5,941,926
Funds held by ceding company	1,508,065	–	–	–	1,508,065
Reinsurance recoverable on paid losses	15,681,997	–	–	4,885,050	20,567,047
Financial assets:					
AFS financial assets:					
Equity securities	86,376,523	–	–	692,960	87,069,483
Debt securities	506,416,294	–	–	–	506,416,294
Loans and receivables:					
Intercompany receivable	2,056,186	–	–	–	2,056,186
Accounts receivable	140,237	–	–	–	140,237
Miscellaneous receivables	3,065,629	–	–	–	3,065,629
Accrued income	8,028,117	–	–	–	8,028,117
Total	₱872,317,001	₱–	₱–	₱90,151,595	₱962,468,596

The credit quality of the financial assets was determined as follows:

The above assets were classified by the Company as High grade, Medium grade, Low grade or Past due. High grade pertains to assets of the Company that are highly convertible to cash based on the Company's experience and those that are classified by the Insurance Commission as readily admitted assets. Accounts beyond the standard 90-day credit term are classified as Past due. Although categorized as past due, these are highly collectible accounts based on Company's experience. Normally, these are corporate accounts wherein the Company has reciprocity of business. It is to be noted that out of the total ₱252,953,479 due from agents and brokers, only 1% has been specifically identified as doubtful accounts.

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

December 31, 2012

	Age analysis of financial assets past-due but not impaired				Total past due but not impaired	Past-due and impaired	Total
	< 30 days	**31 to 60 days**	**61 to 90 days**	**> 90 days**			
Insurance receivables							
Due from brokers and agents	**₱26,187,050**	**₱20,525,421**	**₱13,953,420**	**₱17,071,597**	**₱77,737,488**	**₱1,717,980**	**₱79,455,468**
Due from ceding companies	**731,341**	**585,259**	**1,405,556**	**2,226,923**	**4,949,079**	**204,588**	**5,153,667**
Reinsurance recoverable on paid losses	**1,818,502**	**313,895**	**50,589**	**–**	**2,182,986**	**13,041,971**	**15,224,957**
AFS financial assets	**–**	**–**	**–**	**–**	**–**	**692,960**	**692,960**
Total	**₱28,736,893**	**₱21,424,575**	**₱15,409,565**	**₱19,298,520**	**₱84,869,553**	**₱15,657,499**	**₱100,527,052**

December 31, 2011

	Age analysis of financial assets past-due but not impaired				Total past due but not impaired	Past-due and impaired	Total
	< 30 days	31 to 60 days	61 to 90 days	> 90 days			
Insurance receivables							
Due from brokers and agents	₱27,044,660	₱20,021,426	₱12,926,382	₱15,147,441	₱75,139,909	₱3,960,248	₱79,100,157
Due from ceding companies	1,378,498	171,207	571,195	2,443,223	4,564,123	909,305	5,473,428
Reinsurance recoverable on paid losses	–	–	164,493	187,927	352,420	4,532,630	4,885,050
AFS financial assets	–	–	–	–	–	692,960	692,960
Total	₱28,423,158	₱20,192,633	₱13,662,070	₱17,778,591	₱80,056,452	₱10,095,143	₱90,151,595

The standard credit-term given by the Company is 90 days. However, accounts more than 90 days may be past due but not necessarily impaired. A 180-day credit-term may be given to those accounts with reciprocal business and those accounts involving bigger amount of sum insured or the jumbo accounts which as practiced are subject to quarterly remittance scheme.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The Company holds sufficient liquid assets to enable it to continue normal operations. To achieve this objective, the Company positions its investments to match the projected cash requirements.

To strike the optimal balance between generating adequate investment returns and holding securities that can be easily sold for cash if required, the Company divides its investment portfolio into tranches with liquidity objective and benchmarks. The Company's core liquidity portfolio is invested in relatively liquid securities that can be readily sold if required. In addition to the core portfolio, the Company maintains a second tranche of liquidity that is always invested in the most highly liquid securities to cover its expected operational cash flow needs. The third tranche of liquidity are the Company's equity resources held together with a portfolio of fixed income securities which are both designated as AFS investments.

Maturity profiles

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

December 31, 2012	**Within a year**	**2-3 years**	**4-5 years**	**Over 5 years**	**No Term**	**Total**
Cash and cash equivalents	**₱103,599,763**	**₱–**	**₱–**	**₱–**	**₱–**	**₱103,599,763**
Short-term investments	**3,722,535**	**–**	**–**	**–**	**–**	**3,722,535**
Insurance receivables	**274,928,234**					
AFS securities	**18,568,275**	**59,503,701**	**4,007,388**	**523,523,286**	**127,478,560**	**733,081,210**
Loans and receivables	**2,581,337**	**–**	**–**	**–**	**–**	**2,581,337**
Accrued income	**7,269,279**	**–**	**–**	**–**	**–**	**7,269,279**
Total financial assets	**₱410,669,423**	**₱59,503,701**	**₱4,007,388**	**₱523,523,286**	**₱127,478,560**	**₱850,254,124**
Insurance payables	**₱85,269,028**	**₱–**	**₱–**	**₱–**	**₱–**	**₱85,269,028**
Accounts payable	**30,113,273**	**–**	**–**	**–**	**–**	**30,113,273**
Commission payable	**50,099,988**	**–**	**–**	**–**	**–**	**50,099,988**
Total other financial liabilities	**₱165,482,289**	**₱–**	**₱–**	**₱–**	**₱–**	**₱165,482,289**

December 31, 2011	Within a year	2-3 years	4-5 years	Over 5 years	No Term	Total
Cash and cash equivalents	₱106,687,938	₱–	₱–	₱–	₱–	₱106,687,938
Short-term investments	1,300,368	–	–	–	–	1,300,368
Insurance receivables	238,397,161	–	–	–	–	238,397,161
AFS securities	36,664,726	78,929,124	26,415,206	364,407,238	86,925,603	593,341,897
Loans and receivables	5,262,052	–	–	–	–	5,262,052
Accrued income	8,028,117	–	–	–	–	8,028,117
Total financial assets	₱396,340,362	₱78,929,124	₱26,415,206	₱364,407,238	₱86,925,603	₱953,017,533
Insurance payables	₱48,003,677	₱–	₱–	₱–	₱–	₱48,003,677
Accounts payable	19,207,927	–	–	–	–	19,207,927
Commission payable	37,286,889	–	–	–	–	37,286,889
Total other financial liabilities	₱104,498,493	₱–	₱–	₱–	₱–	₱104,498,493

Market risk

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

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

(a) Currency risk

The Company's principal transactions are carried out in Philippine peso and its foreign exchange risk arises primarily with respect to US dollars. The Company's financial assets are primarily denominated in the same currencies as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than in which the insurance contracts are expected to be settled.

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

	2012		2011	
	USD	**PHP**	USD	PHP
Financial assets:				
Cash and cash equivalents	**$41,894**	**₱1,719,738**	$221,462	₱9,708,890
Government securities	**823,519**	**33,805,458**	1,044,028	45,770,167
	$865,413	**₱35,525,196**	$1,265,490	₱55,479,057

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	**+2.79%**	**₱991,153**
USD	**–2.79%**	**(991,153)**

December 31, 2011

	Change in variables	Impact on profit before tax Increase (decrease)
USD	+1.00%	₱554,791
USD	–1.00%	(554,791)

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

(b) 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 risk. The Company's fixed rate investments in particular are exposed to fair value risk.

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**				
		Within a year	**2-3 years**	**4-5 years**	**Over 5 years**	**Total**
AFS debt securities						
2012	**6.0500%-9.6250%**	**₱18,568,275**	**₱59,503,701**	**₱4,007,388**	**₱523,523,286**	**₱605,602,650**
2011	0.8750%-8.1381%	36,664,726	78,929,124	26,415,206	364,407,238	506,416,294

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 AFS financial assets).

December 31, 2012

	Change in variables	**Impact on equity Increase (decrease)**
Peso	**+100 basis points**	**(₱54,420,996)**
Peso	**–100 basis points**	**63,123,304**

December 31, 2011

	Change in variables	Impact on equity Increase (decrease)
Peso	+150 basis points	(₱44,952,930)
Peso	–150 basis points	53,483,559

(c) 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 investments, diversification plan, and limits on investment in each sector and market.

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 changes in fair value of AFS financial assets).

December 31, 2012

Market Index	**Change in Variable**	**Impact on equity Increase (decrease)**
PSEi 2012	**+18.51%**	**₱23,053,787**
PSEi 2012	**–18.51%**	**(23,053,787)**

December 31, 2011

Market Index	Change in Variable	Impact on equity Increase (decrease)
PSEi 2011	+3.00%	₱2,965,791
PSEi 2011	–3.00%	(2,965,791)

25. **Related Party Transactions**

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or if the parties are subject to common control or common significant influence. A related party may be an individual or a corporate entity.

In the ordinary course of business, the Company has transactions with related parties. Significant transactions with related parties follow:

December 31, 2012

	Transactions during the year	**Outstanding balance**	**Terms**	**Conditions**
Intercompany accounts receivable:				
MAA Corporate and Compliance Phil., Inc. (Common Control)	**₱–**	**₱1,841,901**	**On-demand; non-interest bearing**	**Unsecured; no impairment**
MAA Mutualife Phil., Inc. (Common Control)	**133,332**	**347,617**	**On-demand; non-interest bearing**	**Unsecured; no impairment**
	₱133,332	**₱2,189,518**		

Short-term benefits				
Key Management Personnel	**₱16,319,936**	**₱–**	**Not applicable**	**Not applicable**

December 31, 2011

	Transactions during the year	Outstanding balance	Terms	Conditions
Intercompany accounts receivable:				
MAA Corporate and Compliance Phil., Inc. (Common Control)	₱–	₱1,841,901	On-demand; non-interest bearing	Unsecured; no impairment
MAA Mutualife Phil., Inc. (Common Control)	–	214,285	On-demand; non-interest bearing	Unsecured; no impairment
	₱–	₱2,056,186		

Short-term benefits				
Key Management Personnel	₱14,356,164	₱–	Not applicable	Not applicable

The Company has no provision for doubtful debts related to the outstanding balances and expense recognized during the period in respect of doubtful debts due from related parties in 2012 and 2011.

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

The reconciliation of net income under PFRS to statutory net income follows:

	2012	2011
PFRS net income	**₱32,257,886**	₱68,352,416
Adjustments for:		
Difference in change in provision for unearned premiums - net	**6,487,059**	8,858,753
Deferred acquisition costs - net	**(21,710,336)**	(14,261,890)
Change in IBNR - net	**37,468,222**	38,742,863
Tax effects of PFRS adjustments	**(6,673,484)**	(10,001,918)
Statutory net income	**₱47,829,347**	₱91,690,224

27. Contingencies

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. Note to Statements of Cash Flows

The principal noncash transaction of the Company in 2011 pertains to the conversion of contingency surplus to capital stock amounting to ₱50,000,000.

29. Supplementary Information Required Under Revenue Regulations 19-2011

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

a. The Company's revenues in 2012 amounted to ₱468,721,315.

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

	Regular tax rate
Net insurance benefits and claims	₱203,471,455
Commissions expense	228,072,377
Direct charges - Salaries, wages and benefits	35,158,747
Direct charges - Others	23,946,355
Total cost of services	**₱490,648,934**

c. The summary of the Company's other taxable income not subjected to final tax in 2012 are as follows:

	Regular tax rate
Commissions income	₱67,619,645
Realized foreign exchange gain	6,286,816
Gain on sale of fixed assets	282,919.
Others	3,639,694
Total other taxable income not subjected to final tax	**₱77,829,074**

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

	Regular tax rate
Salaries and allowances	₱16,102,798
Rental	7,414,776
Professional fees	3,083,214
Director's fees	823,334
Janitorial and messengerial services	2,261,845
Other outside services	1,198,550
Advertising	8,140,785
Repairs and maintenance	2,133,970
Office supplies	3,395,102
Interest	2,243,185
SSS, GSIS, Philhealth, HDMF and other contributions	1,956,121
Insurance	248,930
Transportation and travel	2,660,509
Communication, light and water	5,922,694
Taxes and licenses	499,088
Depreciation	4,274,213
Charitable contributions	89,360
Realized foreign exchange loss	1,064,991
Amortization of pension trust	995,126
Bank service fees	222,322
Miscellaneous	5,473,875
Total itemized deductions	**₱70,204,788**

e. Details of the taxes and licenses in 2012 are as follows:

Insurance Commission Fees	₱189,250
Mayor's Permit	116,648
Land Transportation Office (LTO) Registration Fees	51,433
Fringe Benefit Taxes (FBT)	32,141
Real Estate Taxes	15,492
DST	3,004
Others	91,120
Total taxes and licenses	**₱499,088**

30. **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 ₱61,694,847 for the year based on the amount reflected in the Direct Premiums of ₱514,123,726.

   The Company has exempt sales amounting to ₱21,877,816 pursuant to the provisions of RA 7227, RR2-2005, and BIR Ruling ITAD-45-00.

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

Balance at January 1	₱5,525,286
Current year's purchases/payments :	
Goods other than for resale	11,165,364
Services paid lodged under operating expenses	21,033,748
	37,724,398
Input VAT applied against Output VAT	(29,907,535)
Balance at December 31	₱7,816,863

c. Taxes relating to nonlife insurance policies that have been shifted or passed on the policyholders and are not recognized in the Statement of Comprehensive Income follow:

   Details of DST for following transactions during the year are:

Transaction	Amount	DST
DS110-Policies of insurance upon property	₱405,383,671	₱50,672,959
DS114-Motor	264,826,125	33,103,266
DS109-Accident and Health	83,194,590	207,986
	₱753,404,386	₱83,984,211

   The total unpaid DST as at December 31, 2012 amounted to ₱1,052,635.

   Other taxes during year which represent the total accrued and paid follow:

Tax	Amount
Premium Taxes	₱1,136,026
Fire Service Taxes (FST)	2,966,482
Local Government Taxes (LGT)	1,425,876
	₱5,528,384

   The total unpaid as at December 31, 2012 amounted to ₱1,008,649 which comprised of ₱82,653, ₱135,781, and ₱790,215 for Premium Taxes, FST, and LGT, respectively.

d. 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:

National:

Insurance Commission Fees	₱189,250
LTO Registration Fees	51,433
FBT	32,141
DST	3,004
Total	₱275,828

Local:

Mayor's Permit	₱116,648
Real Estate Taxes	15,492
Others	91,120
Total	₱223,260

e. The amount of withholding taxes for the year amounted to :

Tax on compensation and benefits	₱6,581,202
Creditable withholding taxes	17,980,887
Final withholding taxes	336,478
Total	₱24,898,567

The total unpaid withholding taxes as at December 31, 2012 amounted to ₱2,835,425 which comprised of ₱1,139,667 and ₱1,695,758 for Tax on compensation and benefits and Creditable withholding taxes, respectively. All taxes due related to Final withholding taxes had been paid during the year.

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

MAA GENERAL ASSURANCE PHILIPPINES, INC.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
PFRS 7	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	*Not early adopted*		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	*Not early adopted*		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments	*Not early adopted*		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	*Not early adopted*		
PFRS 10	Consolidated Financial Statements	*Not early adopted*		
PFRS 11	Joint Arrangements	*Not early adopted*		
PFRS 12	Disclosure of Interests in Other Entities	*Not early adopted*		
PFRS 13	Fair Value Measurement	*Not early adopted*		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	*Not early adopted*		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Amended)	Employee Benefits	*Not early adopted*		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements	*Not early adopted*		
PAS 28	Investments in Associates			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	*Not early adopted*		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2012**		**Adopted**	**Not Adopted**	**Not Applicable**
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	*Not early adopted*		
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	Equipment			
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
IFRIC 9	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓