INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Mapfre Insular Insurance Corporation

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 37 and 38 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 Mapfre Insular Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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

January 31, 2013

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Cash and Cash Equivalents (Notes 6 and 31)	**₱ 286,502,753**	₱ 370,428,847
Insurance Receivables (Notes 7 and 31)	**593,189,515**	359,017,145
Financial Assets (Notes 8 and 31)		
Available-for-sale (AFS) financial assets	**1,570,370,003**	1,629,568,787
Loans and receivables - net	**137,851,851**	133,867,693
Accrued Income (Notes 9 and 31)	**29,399,801**	30,125,066
Reinsurance Assets (Notes 10 and 17)	**1,047,806,241**	890,254,692
Deferred Acquisition Costs (Note 11)	**241,905,762**	197,537,168
Investment Property (Note 12)	**23,529,233**	24,119,822
Property and Equipment (Note 13)	**160,738,391**	103,818,406
Pension asset (Note 27)	**6,227,925**	700,695
Goodwill (Note 14)	**33,794,284**	33,794,284
Other Assets (Notes 15 and 31)	**75,862,344**	57,729,605
	₱4,207,178,103	₱3,830,962,210

LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 17 and 31)	**₱2,171,195,649**	₱1,889,301,113
Other insurance contract liabilities (Notes 18 and 31)	**168,324,065**	142,755,418
Trade and other liabilities (Notes 16 and 31)	**175,442,987**	148,463,590
Deferred tax liabilities - net (Note 29)	**43,571,106**	23,724,684
Total Liabilities	**2,558,533,807**	2,204,244,805
Equity		
Capital stock (Note 20)	**500,000,000**	500,000,000
Additional paid-in capital	**200,446,070**	200,446,070
Contributed surplus	**100,000,000**	100,000,000
Other comprehensive income (Note 8)	**175,712,549**	139,628,584
Retained earnings (Note 20)	**672,485,677**	686,642,751
Total Equity	**1,648,644,296**	1,626,717,405
	₱4,207,178,103	₱3,830,962,210

See accompanying Notes to Financial Statements.

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2012	2011
Revenues		
Gross earned premiums on insurance contracts	**₱1,791,377,242**	₱1,697,955,011
Reinsurers' share of gross earned premiums on insurance contracts	**(447,402,624)**	(413,239,040)
Net earned insurance premiums (Notes 17 and 21)	**1,343,974,618**	1,284,715,971
Investment income - net (Note 22)	**129,699,713**	136,173,069
Commission income (Note 11)	**86,931,988**	84,067,279
Gain on sale of AFS financial assets (Note 8)	**58,470,370**	45,206,540
Gain on sale of property and equipment	**1,397,152**	–
Foreign exchange gain - net	**–**	53,989
Other income	**3,278,258**	3,215,377
Other revenues	**279,777,481**	268,716,254
Total revenues	**1,623,752,099**	1,553,432,225
Benefits, claims and expenses		
Gross insurance contract benefits and claims paid	**625,900,889**	516,960,362
Reinsurers' share of gross insurance contract benefits and claims paid	**(145,871,526)**	(74,043,746)
Gross change in insurance contract liabilities	**158,443,990**	102,667,568
Reinsurers' share of gross change in insurance contract liabilities	**(152,161,002)**	(70,317,688)
Net insurance benefits and claims (Notes 17 and 23)	**486,312,351**	475,266,496
Commission expense (Note 11)	**504,806,780**	478,226,978
General and administrative expenses (Note 25)	**403,111,520**	280,392,844
Finance costs (Note 24)	**3,904,376**	3,705,757
Foreign exchange loss - net	**1,726,612**	–
Other expenses (Note 26)	**18,867,290**	29,742,179
Expenses	**932,416,578**	792,067,758
Total insurance benefits, claims and expenses	**1,418,728,929**	1,267,334,254
Income before income tax	**205,023,170**	286,097,971
Current tax	**4,428,313**	8,775,552
Final tax	**19,905,509**	16,063,016
Deferred tax (Note 29)	**19,846,422**	25,100,840
Provision for income tax	**44,180,244**	49,939,408
NET INCOME (Note 33)	**₱ 160,842,926**	₱ 236,158,563

See accompanying Notes to Financial Statements.

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2012	2011
NET INCOME	**₱160,842,926**	₱236,158,563
OTHER COMPREHENSIVE INCOME		
Changes in fair value of AFS financial assets (Note 8)	**36,083,965**	94,604,789
TOTAL COMPREHENSIVE INCOME	**₱196,926,891**	₱330,763,352

See accompanying Notes to Financial Statements.

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 20)	**Additional Paid-In Capital**	**Contributed Surplus**	**Revaluation Reserve on AFS Financial Assets** (Note 8)	**Retained Earnings** (Note 20)	**Total**
As of January 1, 2012	**₱500,000,000**	**₱200,446,070**	**₱100,000,000**	**₱139,628,584**	**₱686,642,751**	**₱1,626,717,405**
Cash dividends (Note 20)	**–**	**–**	**–**	**–**	**(175,000,000)**	**(175,000,000)**
Net income	**–**	**–**	**–**	**–**	**160,842,926**	**160,842,926**
Other comprehensive income (Note 8)	**–**	**–**	**–**	**36,083,965**	**–**	**36,083,965**
Total comprehensive income	**–**	**–**	**–**	**36,083,965**	**160,842,926**	**196,926,891**
As of December 31, 2012	**₱500,000,000**	**₱200,446,070**	**₱100,000,000**	**₱175,712,549**	**₱672,485,677**	**₱1,648,644,296**
As of January 1, 2011	₱500,000,000	₱200,446,070	₱100,000,000	₱ 45,023,795	₱600,484,188	₱1,445,954,053
Cash dividends (Note 20)	–	–	–	–	(150,000,000)	(150,000,000)
Net income	–	–	–	–	236,158,563	236,158,563
Other comprehensive income (Note 8)	–	–	–	94,604,789	–	94,604,789
Total comprehensive income	–	–	–	94,604,789	236,158,563	330,763,352
As of December 31, 2011	₱500,000,000	₱200,446,070	₱100,000,000	₱139,628,584	₱686,642,751	₱1,626,717,405

See accompanying Notes to Financial Statements.

MAPFRE INSULAR INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱205,023,170**	₱286,097,971
Adjustments for:		
Increase in reserve for unearned premiums - net of deferred reinsurance premiums (Note 17)	**118,059,999**	116,054,478
Depreciation and amortization (Notes 12, 13 and 25)	**26,595,850**	16,761,265
Interest expense (Note 24)	**3,666,876**	3,523,140
Loss on impairment of AFS financial assets (Notes 8 and 22)	**–**	3,667,913
Gain on sale of property and equipment	**(1,397,152)**	–
Provision for (reversal of) incurred but not reported losses (Note 17)	**(4,220,230)**	1,499,493
Dividend income (Note 22)	**(21,772,810)**	(36,199,236)
Gain on sale of AFS financial assets (Note 8)	**(58,470,370)**	(45,206,540)
Interest income (Note 22)	**(106,616,262)**	(101,976,989)
Operating income before changes in working capital	**160,869,071**	244,221,495
Decrease (increase) in:		
Insurance receivables	**(234,172,370)**	18,699,040
Accrued income	**174,998**	31,876
Reinsurance assets	**(129,461,151)**	(69,055,014)
Deferred acquisition costs	**(44,368,594)**	(30,887,989)
Pension asset	**(5,527,230)**	(1,555,365)
Increase in:		
Insurance contract liabilities	**139,964,369**	99,905,401
Other insurance contract liabilities	**25,568,647**	8,805,381
Trade and other liabilities	**26,871,824**	70,553,873
Net cash generated from (used in) operations	**(60,080,436)**	340,718,698
Payments for:		
Interest expense (Note 24)	**(3,666,876)**	(3,523,140)
Income tax	**(32,170,861)**	(36,527,104)
Net cash provided by (used in) operating activities	**(95,918,173)**	300,668,454
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**107,166,529**	132,529,578
Dividends received (Note 22)	**21,772,810**	35,715,106
Proceeds from sale/maturities of:		
AFS financial assets (Note 8)	**1,242,274,321**	1,466,467,855
Property and equipment (Note 13)	**1,397,152**	1,022,306
Acquisitions of:		
AFS financial assets (Note 8)	**(1,088,521,202)**	(1,571,393,853)
Property and equipment (Note 13)	**(82,925,246)**	(28,843,621)
Decrease (increase) in:		
Loans and receivables	**(3,984,158)**	101,234,074
Other assets (Note 15)	**(10,295,700)**	(15,584,308)
Net cash provided by investing activities	**186,884,506**	121,147,137

(Forward)

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM FINANCING ACTIVITY		
Cash dividends paid (Note 20)	**(₱174,892,427)**	(₱168,396,730)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(83,926,094)**	253,418,861
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**370,428,847**	117,009,986
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱286,502,753**	₱370,428,847

See accompanying Notes to Financial Statements.

1. Corporate Information

Mapfre Insular Insurance Corporation (the Company) was incorporated in the Philippines and is a subsidiary of Mapfre Internacional of Spain. The Company is engaged in the business of motor car, fire, marine, fidelity and surety insurance, and on all other kinds of insurance business of any nature. The registered office address of the Company is Mapfre Insular Corporate Center, Acacia Avenue, Madrigal Business Park, Ayala Alabang, Muntinlupa City.

2. Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value.

The financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency. All amounts are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance
The accompanying financial statements, which have been prepared for submission to the Securities and Exchange Commission (SEC) and the Bureau of Internal Revenue (BIR), have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as adopted by the Philippine SEC.

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) that are discussed below. Except as otherwise indicated, the adoption of the new and amended PFRS and Philippine Interpretations did not have any effect on the financial statements of the Company.

- Philippine Accounting Standards (PAS) 12, *Income Taxes, Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after January 1, 2012)
  The Amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements* (effective for annual periods beginning on or after July 1, 2011)
  The amendments require additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the entity's financial statements to understand the relationship with 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 the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

Future Changes in Accounting Policies

The Company has not applied the following new and amended PFRS and Philippine Interpretations which are not yet effective for the year ended December 31, 2012. Except as otherwise indicated, the following new and amended PFRS and Philippine Interpretations will not have significant impact to the financial statements of the Company:

Effective in 2013

- Amendments to PAS 1, *Financial Statement Presentation, Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after July 1, 2012)
  It 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.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after January 1, 2013)
  This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2013)
  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. The amendments affect disclosures only and have no impact on the Company's financial position and performance.

- PFRS 10, *Consolidated Financial Statements* (effective for annual periods beginning on or after January 1, 2013)
  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.

- PFRS 11, *Joint Arrangements* (effective for annual periods beginning on or after January 1, 2013)
  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.

- PFRS 12, *Disclosures of Interests in Other Entities* (effective for annual periods beginning periods on or after January 1, 2013)
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- PFRS 13, *Fair Value Measurement* (effective for annual periods beginning on or before January 1, 2013)
  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.

- Amendments to PAS 19, *Employee Benefits* (effective for annual periods beginning on or after January 1, 2013)
  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 re-wording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.

The impact on the adoption of the amendment follows:

	As at December 31, 2012	As at January 1, 2012
Increase (decrease) in:		
Statements of financial position		
Pension asset	**(₱35,635,614)**	(₱68,271,038)
Deferred tax asset on unrecognized actuarial losses	**10,690,684**	20,481,311
Deferred tax liability on pension asset	**10,690,684**	20,481,311
Other comprehensive income	**(24,944,930)**	(47,789,727)
Retained earnings	**10,690,684**	20,481,311

	2012
Statement of income	
Net benefit expense	**(₱ 2,149,394)**
Provision for deferred tax	**644,818**
Statement of comprehensive income	
Actuarial gains during the year	**22,844,797**

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

- Revised PAS 28, *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after January 1, 2013)
  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.

Improvements to PFRSs
The Improvements to PFRSs 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. Except as otherwise indicated, the Company does not expect the adoption of these new standards to have significant impact on the Company's financial statements.

- 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*.

- 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.

- 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.

- 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*.

- 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.

Effective in 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014)
  These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Effective in 2015

- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2015)
  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 other

comprehensive income (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 have no impact on the classification and measurement of financial liabilities. Based on initial assessment, the maximum impact on the classification and measurement of the Company's financial assets upon the adoption of the standard follows:

	As at December 31, 2012	As at January 1, 2012
Increase (decrease) in:		
Statements of financial position		
Other comprehensive income	**(₱175,712,549)**	(₱139,628,584)
Retained earnings	**175,712,549**	139,628,584

	2012
Statement of income	
Changes in fair value of AFS financial assets	**₱94,554,333**
Statement of comprehensive income	
Other comprehensive income	**(36,083,965)**

4. Summary of Significant Accounting Policies

Use of Judgments, Estimates and Assumptions

The preparation of the financial statements necessitates the use of judgments, estimates, and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the reporting dates 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 at the reporting date, the actual outcome may differ from these estimates, possibly significantly. For further information on critical judgments and estimates, refer to Note 5.

Revenue Recognition

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue agreements. The following specific recognition criteria must also be met before revenue is recognized:

Premiums revenue

Premiums are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two (2) months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at reporting date is accounted for as "Provision for Unearned

Premiums" and presented in the liabilities section of the statement of financial position under "Insurance Contract Liabilities". The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as "Reinsurance Premiums Reserve" presented in the assets section of the statement of financial position under "Reinsurance Assets" account. The net changes in these accounts between reporting date are credited to or charged against current operations.

Commission income
Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the deferred reinsurance commission pertains to the premiums for the last two (2) months of the year. The portion of the commission that relates to the unexpired periods of the policies at the reporting date is accounted for as Deferred Reinsurance Commissions which is deducted against the "Deferred Acquisition Cost (DAC)" in the asset section of the statement of financial position.

Interest income
Interest income are recognized in the statement of income as it accrues, taking into account the effective yield of the asset or liability. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate (EIR) basis.

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

Rental income
Rental income from investment property is accounted for on a straight-line basis over the lease term.

<u>Cash and Cash Equivalents</u>
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 (3) months or less and that are subject to an insignificant risk of changes in value.

<u>Insurance Receivables</u>
Insurance receivables are recognized when due. The carrying values of insurance receivables are reviewed for impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable, with the impairment loss recorded in the statement of income.

Insurance receivables are derecognized following the derecognition criteria of financial assets.

<u>Financial Instruments</u>
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 market place are recognized on the settlement date.

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial instruments valued at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets into the following categories: AFS financial assets and loans and receivables. The Company classifies its financial liabilities into other financial liabilities.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on its 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 asking 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 and other relevant revaluation models.

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

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

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

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, from reported earnings and are reported under the equity section of the statement of financial position, if any.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Where the Company holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets are reported as interest income using the EIR. Dividends earned on holding AFS financial assets are recognized in the statement of income, when the right to receive payment has been established. The losses arising from impairment of such investments are recognized in the statement of income.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS financial assets or financial assets designated at FVPL. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the EIR method.

This accounting policy applies primarily to the Company's insurance receivables, loans and receivables, accrued income and security deposits.

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. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Company's insurance contract liabilities, other insurance contract liabilities and trade and other liabilities (other than liabilities covered by other accounting standards, such as income tax payable and pension liability).

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

The components of accrued financial instruments that contain both liabilities and equity statements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component or the date of issue.

Derecognition of Financial Assets and Liabilities

Financial assets

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

- 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 the control of the asset.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or 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 the statement of income.

Impairment of Financial Assets

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

AFS financial assets
In case of equity investments classified as AFS, this 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 income - is removed from equity and recognized in the statement of income. Impairment losses on AFS equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

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 using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Interest income" in the statement of income. 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 the statement of income, the impairment loss is reversed through the statement of income.

Loans and receivables
For financial assets carried at amortized cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original EIR. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the statement of income.

The Company assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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 of impairment.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to 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 the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Offsetting of Financial Instruments
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.

Reinsurance Assets
The Company cedes insurance risks in the normal course of business. Reinsurance assets primarily include balances due from reinsurance companies for ceded insurance liabilities. Recoverable amounts are estimated in a manner consistent with the outstanding claims provisions and are in accordance with the reinsurance contract.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

Ceded reinsurance arrangements do not relieve the Company from its obligation 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 as income and expense in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

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

Deferred Acquisition Costs (DAC)

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis over the life of the contract. Amortization is charged to the statement of income. The unamortized acquisition costs are shown as DAC in the assets section of the statement of financial position.

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

Investment Property

Property held for long term rental yields or for capital appreciation or for both, is classified as investment property. These properties are initially measured at cost, which includes transaction cost, but excludes day-to-day service cost. Replacement cost is capitalized if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Subsequently, at each reporting date, such properties are carried at cost less accumulated depreciation and impairment in value, if any.

Depreciation is computed using the straight-line method over the estimated useful life (EUL) of fifty (50) years of the investment property, regardless of utilization. The EUL and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic activity.

Investment property is derecognized when it has either been disposed of or the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss from derecognition of an investment property is recognized in the statement of income in the year of derecognition.

Rental income from investment property is recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives are recognized as an integral part of the total rental income.

Property and Equipment

Property and equipment are carried at cost, net of accumulated depreciation and amortization and impairment losses, if any. Cost of property and equipment comprises of its purchase price and any cost directly attributable in bringing the asset to its intended location and working condition. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation relating to property and equipment installed or constructed on leased properties, if any.

Subsequent costs are capitalized as part of property and equipment account, 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 current operations as incurred.

Foreign exchange differentials arising from the acquisition of property and equipment charged against current operations are no longer capitalized.

Depreciation and amortization of property and equipment commence, once the property and equipment are available for use, are computed using the straight-line method over the EUL of the assets, regardless of the utilization.

The EUL of the Company's property and equipment follow:

	Years
Building and building improvements	50
Office furniture and equipment	5
Transportation equipment	5
Leasehold improvements	5

Leasehold improvements are amortized over the EUL of the improvements or the term of the lease, whichever is shorter.

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

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

Impairment of Nonfinancial Assets

The carrying values of assets (i.e., investment property and property and equipment) are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of an asset is the greater of its net selling price and value in use. 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 assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the statement of income.

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

<u>Goodwill</u>
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. A previously recorded impairment loss for goodwill can never be reversed.

<u>Product Classification</u>
Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder 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 expire.

Insurance Contract Liabilities

Provision for claims reported and claims incurred but not reported (IBNR)

The provision for claims reported and IBNR claims are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of insurance claims, particularly in respect of liability business, therefore the ultimate cost of which cannot be known with certainty at the reporting date.

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 expensed, is deferred as provision for unearned premiums using the 24th method, except for the marine cargo's last two (2) months of the year. The change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests.

Equity

Capital stock is measured at par value for all shares issued. When the Company issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC). Incremental costs incurred that are directly attributable to the issuance of new shares are treated as deduction from APIC. Contributed surplus represents the original contribution of the stockholder of the Company, in addition to the paid-up capital stock, in order to comply with the pre-licensing requirements as provided under the Insurance Code.

Retained earnings represent accumulated earnings of the Company less dividends declared.

Provisions

Provisions are recognized when: (a) the Company has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) 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 the statement of income, 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 a borrowing cost.

Pension Benefit Obligation
Pension cost is actuarially determined using the projected unit credit (PUC) valuation 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, expected return on any plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working lives of the employees participating in the plan.

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

The pension benefit obligation recognized in the statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation as of reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. The defined benefit obligation is calculated annually by an independent actuary using the PUC valuation method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using long-term government bonds risk-free interest rates 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.

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 by the reporting date.

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

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

Deferred tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced 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. Unrecognized deferred tax assets are reassessed at each reporting date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recognized.

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the statement of 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 the deferred tax relate to the same taxable entity and the same taxation authority.

<u>Benefits and Claims</u>
Benefits and claims consist 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 premium income. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. General insurance claims are recorded on the basis of notifications received.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, 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; a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(b) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(c) 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 any of the scenarios above, and at the date of renewal or extension period for the second scenario.

Company as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same bases as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Company as a lessor
Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

General and Administrative Expenses
General and administrative expenses constitute costs of administering the business. These are recognized as expenses when incurred.

Finance cost
Interest paid is recognized in the income statement as it accrues and is calculated using effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

Foreign Currency Transactions
The functional and presentation currency of the Company is the Philippine Peso. Transactions denominated in foreign currencies are recorded in Philippine Peso based on the exchange rates prevailing at the transaction dates. Foreign currency-denominated monetary assets and liabilities are translated to Philippine Peso at closing exchange rate prevailing at the reporting date. Foreign exchange differentials between rate at transaction date and rate at settlement date or reporting date of foreign currency-denominated monetary assets or liabilities are credited to or charged against current operations.

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

Events after the Reporting Date
Any post year-end event up to the date of approval of the Board of Directors (BOD) of the financial statements that provides additional information about the Company's position at reporting date (adjusting event) is reflected in the financial statements. Any post year-end event that is not an adjusting event is disclosed in the notes to the financial statements, when material.

5. **Significant Accounting Judgments, Estimates and Assumptions**

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

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

Judgments

Impairment of AFS financial assets
The Company determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

The carrying value of AFS financial assets amounted to ₱1,570,370,003 and ₱1,629,568,787 as of December 31, 2012 and 2011, respectively (Note 8). Loss on impairment of AFS financial assets amounted to nil and ₱3,667,913 in 2012 and 2011, respectively (Notes 8 and 22).

Operating leases - Company as lessor
The Company has entered into operating leases on the investment property portfolio. The Company has determined that it retains all the significant risks and rewards of ownership of these properties and accounts for them as operating leases. The future minimum rental receivables under noncancelable operating lease amounted to ₱890,623 and ₱4,463,079 as of December 31, 2012 and 2011, respectively (Note 34).

Operating leases - Company as lessee
The Company has entered into property leases. Substantially, all the risks and benefits incidental to ownership of the leased item are not transferred to the Company. The future minimum rental payable under noncancelable operating lease amounted to ₱65,075,436 and ₱20,477,469 as of December 31, 2012 and 2011, respectively (Note 34).

Estimates and Assumptions

Claims liability arising from insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate costs of the IBNR claims as of reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. The primary technique adopted by management in estimating the cost of notified and IBNR claims is that of using past claims settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. 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 geographical area, as well as by significant business lines and claim types. Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or projected separately in order to reflect their future development. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future (i.e., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The carrying value of gross claims payable amounted to ₱1,195,890,404 and ₱1,037,446,414 as of December 31, 2012 and 2011, respectively (Note 17).

Estimated allowance for impairment losses
The Company maintains the allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a regular basis.

For specific assessment of impairment, the Company individually identifies which account should be provided with allowance. For collective assessment, historical cancellation rates for the past three (3) years were used to determine the provision for the current year.

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

As of December 31, 2012 and 2011, loans and receivables, net of allowance for impairment losses, amounted to ₱137,851,851 and ₱133,867,693, respectively (Note 8). Insurance receivables, net of allowance for impairment losses, amounted to ₱593,189,515 and ₱359,017,145 as of December 31, 2012 and 2011, respectively (Note 7).

Impairment of nonfinancial assets
The Company assesses impairment on Property, Plant and Equipment, Investment Property and Goodwill whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

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

In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.

No impairment loss has been recognized for the Company's nonfinancial assets in 2012 and 2011.

As of December 31, 2012 and 2011, the balances of the Company's nonfinancial assets, net of accumulated depreciation and amortization follow:

	2012	2011
Investment property (Note 12)	**₱ 23,529,233**	₱ 24,119,822
Property and equipment (Note 13)	**160,738,391**	103,818,406
Goodwill (Note 14)	**33,794,284**	33,794,284

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

As of December 31, 2012 and 2011, the fair value of financial instruments follows (Note 31):

	2012	2011
Financial assets	**₱2,654,343,967**	₱2,574,916,976
Financial liabilities	**2,409,584,979**	2,087,783,328

EUL of property and equipment and investment property
The Company reviews annually the EUL of property and equipment and investment property 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 EUL of property and equipment and investment property would increase recorded depreciation expense and decrease the related asset accounts.

As of December 31, 2012 and 2011, related balances follow:

	2012	2011
Investment property (Note 12)	**₱ 23,529,233**	₱ 24,119,822
Property and equipment (Note 13)	**160,738,391**	103,818,406

Pension and other employee benefits
The determination of obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the Company's assumptions are accumulated and

amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations.

As of December 31, 2012 and 2011, the Company has unrecognized actuarial losses amounting ₱35,635,614 and ₱68,271,038, respectively (Note 27). The carrying value of net pension asset as of December 31, 2012 and 2011 amounted to ₱6,227,925 and ₱700,695, respectively (Note 27).

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

The accrued balance of other employee benefits included as accrued expenses in 'Trade and other liabilities' account as of December 31, 2012 and 2011 amounted to ₱7,811,717 (Note 16).

Deferred tax assets
The Company reviews the carrying amounts of deferred tax assets at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred tax assets to be utilized.

The Company's deferred tax assets amounted to ₱42,411,632 and ₱47,668,849 as of December 31, 2012 and 2011, respectively (Note 29).

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

6. Cash and Cash Equivalents

This account consists of:

	2012	2011
Cash on hand and in banks	**₱114,856,097**	₱156,331,473
Short-term deposits	**171,646,656**	214,097,374
	₱286,502,753	₱370,428,847

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of between one (1) day and three (3) months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates.

Interest income earned on cash and cash equivalents amounted to ₱4,430,645 and ₱6,030,429 in 2012 and 2011, respectively (Note 22).

7. **Insurance Receivables**

This account consists of:

	2012	2011
Premiums receivable	**₱272,459,871**	₱208,129,138
Reinsurance recoverable on paid losses	**195,678,613**	94,938,385
Due from ceding companies	**74,691,908**	16,107,674
Due from brokers	**66,442,456**	55,925,281
	609,272,848	375,100,478
Less allowance for impairment losses	**16,083,333**	16,083,333
	₱593,189,515	₱359,017,145

Premiums receivable and due from brokers pertains to amounts receivable from the Company's agents, dealers and brokers.

Reinsurance recoverable on paid losses pertains to amounts recoverable from the reinsurers in respect of claims already paid by the Company.

Due from ceding companies pertains to amounts receivable from facultative and treaty reinsurance panels of the Company.

The carrying amounts disclosed above reasonably approximate fair values at year-end.

The following table shows aging information of insurance receivables:

2012

	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total
Premiums receivable	**₱ 85,588,877**	**₱54,791,536**	**₱ 40,106,348**	**₱ 69,777,195**	**₱22,195,915**	**₱ –**	**₱272,459,871**
Reinsurance recoverable on paid losses	**182,857,776**	**448,574**	**226,835**	**6,878,321**	**2,001,912**	**3,265,195**	**195,678,613**
Due from ceding companies	**876,236**	**2,026,647**	**57,239,938**	**5,555,842**	**2,930,822**	**6,062,423**	**74,691,908**
Due from brokers	**16,953,321**	**14,935,703**	**10,070,769**	**22,577,673**	**1,904,990**	**–**	**66,442,456**
	₱286,276,210	**₱72,202,460**	**₱107,643,890**	**₱104,789,031**	**₱29,033,639**	**₱9,327,618**	**₱609,272,848**

2011

	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	over 360 days	Total
Premiums receivable	₱ 66,491,430	₱41,148,704	₱36,432,121	₱45,403,121	₱18,653,762	₱ –	₱208,129,138
Reinsurance recoverable on paid losses	75,835,938	3,383,721	738,482	11,672,239	–	3,308,005	94,938,385
Due from ceding companies	1,132,774	1,095,479	5,489,585	4,835,439	593,501	2,960,896	16,107,674
Due from brokers	16,365,379	14,107,512	7,177,378	12,397,471	5,877,541	–	55,925,281
	₱159,825,521	₱59,735,416	₱49,837,566	₱74,308,270	₱25,124,804	₱6,268,901	₱375,100,478

The following is a reconciliation of the changes in allowance for impairment losses for insurance receivables:

2012

	Premiums Receivable	Due from Ceding Companies	Reinsurance Recoverable on Paid Losses	Due from Brokers	Total
At January 1, 2012	**₱8,216,860**	**₱3,574,856**	**₱3,308,005**	**₱983,612**	**₱16,083,333**
Charge (reversal) for the year (Note 25)	**–**	**(449,790)**	**449,790**	**–**	**–**
At December 31, 2012	**₱8,216,860**	**₱3,125,066**	**₱3,757,795**	**₱983,612**	**₱16,083,333**
Individually impaired	**₱8,109,871**	**₱3,125,066**	**₱3,757,795**	**₱ 71,457**	**₱15,064,189**
Collectively impaired	**106,989**	**–**	**–**	**912,155**	**1,019,144**
	₱8,216,860	**₱3,125,066**	**₱3,757,795**	**₱983,612**	**₱16,083,333**

2011

	Premiums Receivable	Due from Ceding Companies	Reinsurance Recoverable on Paid Losses	Due from Brokers	Total
At January 1, 2011	₱4,515,460	₱6,997,463	₱3,265,195	₱983,612	₱15,761,730
Charge (reversal) for the year (Note 25)	3,701,400	(3,422,607)	42,810	–	321,603
At December 31, 2011	₱8,216,860	₱3,574,856	₱3,308,005	₱983,612	₱16,083,333
Individually impaired	₱8,109,871	₱3,574,856	₱3,308,005	₱71,457	₱15,064,189
Collectively impaired	106,989	–	–	912,155	1,019,144
	₱8,216,860	₱3,574,856	₱3,308,005	₱983,612	₱16,083,333

8. Financial Assets

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

	2012	2011
AFS financial assets	**₱1,570,370,003**	₱1,629,568,787
Loans and receivables – net	**137,851,851**	133,867,693
	₱1,708,221,854	₱1,763,436,480

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

a) AFS financial assets

	2012	2011
Securities at fair value		
Equity securities		
Listed and club shares	**₱ 326,117,485**	₱ 340,300,742
Unlisted	**519,738**	519,738
	326,637,223	340,820,480

(Forward)

	2012	2011
Government debt securities		
Local currency	**₱ 845,785,481**	₱1,080,849,923
Bonds and notes		
Local currency	**350,483,524**	158,677,405
Foreign currency	**47,463,775**	49,220,979
	1,243,732,780	1,288,748,307
	₱1,570,370,003	₱1,629,568,787

The costs or amortized costs of AFS financial assets are as follows:

	2012	2011
Securities at cost or amortized cost		
Equity securities		
Listed and club shares	**₱ 316,057,906**	₱ 330,863,151
Unlisted	**519,738**	519,738
	316,577,644	331,382,889
Government debt securities		
Local currency	**722,366,311**	963,413,441
Bonds and notes		
Local currency	**310,600,000**	147,000,000
Foreign currency	**45,113,499**	48,143,873
	1,078,079,810	1,158,557,314
	₱1,394,657,454	₱1,489,940,203

The following tables present the breakdown of investments in bonds, government and other securities by contractual maturity dates as of December 31, 2012 and 2011 classified under AFS financial assets:

2012

	Due Within One Year	Due Beyond One Year	Total
Government debt securities	**₱ 5,212,331**	**₱ 840,573,150**	**₱ 845,785,481**
Bonds and notes	**46,711,037**	**351,236,262**	**397,947,299**
	₱51,923,368	**₱1,191,809,412**	**₱1,243,732,780**

2011

	Due Within One Year	Due Beyond One Year	Total
Government securities	₱ –	₱1,080,849,923	₱1,080,849,923
Bonds and notes	41,707,835	166,190,549	207,898,384
	₱41,707,835	₱1,247,040,472	₱1,288,748,307

The AFS financial assets earn interest at rates ranging from 5.38% to 11.25% and from 5.50% to 11.25% in 2012 and 2011, respectively.

As of December 31, 2012 and 2011, government securities amounting ₱125,400,000 is deposited with the Insurance Commission (IC) in accordance with the provisions of the Insurance Code (the Code) as security for the benefit of policyholders and creditors of the Company.

The rollforward of revaluation reserve on AFS financial assets follows:

	2012	2011
As of January 1	**₱139,628,584**	₱ 45,023,795
Other comprehensive income:		
Changes in fair value of AFS financial assets	**94,554,335**	136,143,416
Transfer to statements of comprehensive income:		
Gain on sale of AFS financial assets	**(58,470,370)**	(45,206,540)
Loss on impairment of AFS financial assets (Note 22)	**–**	3,667,913
	36,083,965	94,604,789
As of December 31	**₱175,712,549**	₱139,628,584

The carrying values of AFS financial assets (excluding loans and receivables) have been determined as follows:

	Total
At December 31, 2010	₱1,388,499,373
Additions	1,571,393,853
Disposals and maturities	(1,421,261,315)
Fair value gain transferred to statement of income	(45,206,540)
Fair value gain reported as other comprehensive income	136,143,416
At December 31, 2011	1,629,568,787
Additions	**1,088,521,202**
Disposals and maturities	**(1,183,803,951)**
Fair value gain transferred to statement of income	**(58,470,370)**
Fair value gain reported as other comprehensive income	**94,554,335**
At December 31, 2012	**₱1,570,370,003**

b) *Loans and receivables - net*

	2012	2011
Accounts receivable	**₱ 59,636,929**	₱ 54,541,028
Long-term notes	**48,000,000**	48,500,000
Car financing loans	**13,285,858**	10,155,232
Mortgage loans	**13,091,224**	12,371,770
Long-term investments	**10,000,000**	10,000,000
Short-term investments	**1,483,152**	1,444,975
	145,497,163	137,013,005
Less allowance for impairment losses	**7,645,312**	3,145,312
	₱137,851,851	₱133,867,693

Long-term investments pertain to time deposits with maturities of one (1) to ten (10) years which earn interest rates ranging from 10.00% to 10.25% and 8.18% to 10.25% in 2012 and 2011, respectively.

Accounts receivable are noninterest-bearing and all due within one (1) year.

On November 24, 2008, the Company granted long-term notes to International Container Terminal Services, Inc. amounting ₱50,000,000. It bears annual interest of 10.25% based on a seven (7)-year fixed coupon note.

Mortgage and car financing loans earn interest at rates ranging from 1.00% to 16.00% per annum and with maturity of one (1) to fifteen (15) years.

The following is a reconciliation of the changes in allowance for impairment losses for accounts receivable:

	2012	2011
As of January 1	**₱3,145,312**	₱1,760,432
Charge for the year (Note 25)	**4,500,000**	1,384,880
As of December 31	**₱7,645,312**	₱3,145,312

The following table presents the breakdown of loans and receivables by contractual maturity dates as of December 31, 2012 and 2011:

			2012		
	Up to a year	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Accounts receivable	**₱42,309,739**	**₱17,327,190**	**₱ –**	**₱ –**	**₱ 59,636,929**
Long-term notes	**–**	**–**	**48,000,000**	**–**	**48,000,000**
Car financing loans	**416,577**	**4,265,366**	**6,543,049**	**2,060,866**	**13,285,858**
Mortgage loans	**138,425**	**1,300,480**	**1,510,597**	**10,141,722**	**13,091,224**
Long-term investments	**–**	**–**	**10,000,000**	**–**	**10,000,000**
Short-term investments	**1,483,152**	**–**	**–**	**–**	**1,483,152**
Total	**₱44,347,893**	**₱22,893,036**	**₱66,053,646**	**₱12,202,588**	**₱145,497,163**

			2011		
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Accounts receivable	₱54,541,028	₱ –	₱ –	₱ –	₱ 54,541,028
Long-term notes	500,000	1,000,000	47,000,000	–	48,500,000
Car financing loans	727,217	1,541,696	5,332,542	2,553,777	10,155,232
Mortgage loans	163,343	166,773	2,039,566	10,002,088	12,371,770
Long-term investments	–	–	–	10,000,000	10,000,000
Short-term investments	1,444,975	–	–	–	1,444,975
Total	₱57,376,563	₱ 2,708,469	₱54,372,108	₱22,555,865	₱137,013,005

9. Accrued Income

This account consists of:

	2012	2011
Accrued interest income	**₱21,614,027**	₱22,164,294
Accrued dividends	**7,685,858**	7,685,858
Accrued rent	**99,916**	274,914
	₱29,399,801	₱30,125,066

Accrued interest income pertains mainly to interest accrued arising from cash and cash equivalents, long-term investments, long-term notes, investments in government securities, corporate bonds and notes.

Accrued dividends pertain to dividends accruing from its investments in preferred shares. The preferred shares earn dividends ranging from 8.00% to 8.88% in 2012 and 2011.

10. **Reinsurance Assets**

This account consists of (Note 17):

	2012	2011
Reinsurance recoverable on unpaid losses	**₱ 887,123,169**	₱734,962,167
Reinsurance premiums reserve	**160,683,072**	155,292,525
	₱1,047,806,241	₱890,254,692

11. **Deferred Acquisition Costs**

The rollforward analysis of this account follows:

	2012	2011
At beginning of the year	**₱197,537,168**	₱166,649,179
Cost deferred during the year	**462,243,386**	425,047,688
Amortization during the year	**(417,874,792)**	(394,159,699)
At end of the year	**₱241,905,762**	₱197,537,168

12. **Investment Property**

The rollforward analysis of this account follows:

	2012	2011
Acquisition cost	**₱29,217,064**	₱29,217,064
Accumulated depreciation:		
At beginning of year	**5,097,242**	4,506,653
Depreciation (Note 25)	**590,589**	590,589
At end of year	**5,687,831**	5,097,242
Net book value	**₱23,529,233**	₱24,119,822

Rental income earned from investment property amounted to ₱2,201,942 and ₱2,524,177 in 2012 and 2011, which is included in investment income (Notes 22 and 34).

Based on the appraisal report dated November 22, 2010, the estimated fair value of the investment property amounted to ₱31,289,483. The property was independently valued by a professional qualified appraiser using the Market Data Approach which considers the sales and listings of comparable property registered within the vicinity.

13. Property and Equipment

The rollforward analysis of this account follows:

2012

	Building and Building Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
As of January 1, 2012	**₱99,229,776**	**₱114,090,061**	**₱39,487,649**	**₱14,586,121**	**₱267,393,607**
Additions	**10,386,883**	**37,996,992**	**13,454,156**	**21,087,215**	**82,925,246**
Disposals	**–**	**(19,337,211)**	**(22,826,029)**	**–**	**(42,163,240)**
As of December 31, 2012	**109,616,659**	**132,749,842**	**30,115,776**	**35,673,336**	**308,155,613**
Accumulated Depreciation and Amortization					
As of January 1, 2012	**37,817,682**	**89,233,371**	**23,982,011**	**12,542,137**	**163,575,201**
Depreciation and amortization (Note 25)	**2,955,775**	**11,296,903**	**9,256,497**	**2,496,086**	**26,005,261**
Disposals	**–**	**(19,337,211)**	**(22,826,029)**	**–**	**(42,163,240)**
As of December 31, 2012	**40,773,457**	**81,193,063**	**10,412,479**	**15,038,223**	**147,417,222**
Net Book Value as of December 31, 2012	**₱68,843,202**	**₱ 51,556,779**	**₱19,703,297**	**₱20,635,113**	**₱160,738,391**

2011

	Building and Building Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
As of January 1, 2011	₱98,686,587	₱100,433,660	₱37,932,993	₱12,891,439	₱249,944,679
Additions	543,189	13,818,682	12,787,068	1,694,682	28,843,621
Disposals	–	(162,281)	(11,232,412)	–	(11,394,693)
As of December 31, 2011	99,229,776	114,090,061	39,487,649	14,586,121	267,393,607
Accumulated Depreciation and Amortization					
As of January 1, 2011	35,643,475	80,885,667	29,568,826	11,678,944	157,776,912
Depreciation and amortization (Note 25)	2,174,207	8,439,688	4,693,588	863,193	16,170,676
Disposals	–	(91,984)	(10,280,403)	–	(10,372,387)
As of December 31, 2011	37,817,682	89,233,371	23,982,011	12,542,137	163,575,201
Net Book Value as of December 31, 2011	₱61,412,094	₱ 24,856,690	₱15,505,638	₱ 2,043,984	₱103,818,406

Fully depreciated assets that are still actively used amounted to ₱15,699,466 and ₱20,290,166 as of December 31, 2012 and 2011, respectively.

14. Goodwill

The goodwill arose from the merger of the Company with Insular General Insurance Co., Inc. (Insular General) in 2005. As of December 31, 2012 and 2011, no impairment loss has been recognized on goodwill. The recoverable amount has been determined based on the value in use calculation using cash flow projections from financial budgets approved by senior management covering a five (5)-year period. The pre-tax discount rate applied to cash flow projections is 5.90% plus return on equity and cash flows beyond the five (5)-year period are extrapolated using a steady growth rate.

15. Other Assets

This account consists of:

	2012	2011
Input value-added tax (VAT)	**₱33,031,095**	₱25,652,578
Income tax refund	**11,362,902**	3,525,863
Security deposits (Note 31)	**7,500,441**	14,493,375
Prepaid assets	**6,707,296**	1,377,590
Documentary stamps inventory	**6,685,870**	6,486,285
Others	**10,574,740**	6,193,914
	₱75,862,344	₱57,729,605

The input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

The security deposits represent advance rental on operating leases and will be refunded to the Company within thirty (30) to sixty (60) days upon termination of the lease contract (Note 34).

The other assets also include the Company's 49.875% investment in MAIC Insurance Agency, which is carried at cost amounting ₱249,375. The Company did not present consolidated financial statements because it is a subsidiary of Mapfre Internacional, the ultimate parent, with registered office address at Ctra. de Pozuelo, 52 28222 Majadahonda Madrid, Spain. Mapfre Internacional prepares and publishes consolidated financial statements for the Group. The financial statements prepared by the ultimate parent comply with IFRS.

16. Trade and Other Liabilities

This account consists of:

	2012	2011
Taxes payable	**₱ 62,131,232**	₱ 57,838,098
Accounts payable	**61,072,240**	47,342,725
Output VAT	**43,213,669**	34,865,874
Accrued expenses	**8,596,543**	8,095,163
Dividends payable (Note 20)	**396,482**	288,909
Others	**32,821**	32,821
	₱175,442,987	₱148,463,590

All liabilities are expected to be settled within twelve (12) months after the reporting date.

Taxes payable consists primarily of documentary stamp tax, expanded withholding tax and local government tax.

Accounts payable consist of collateral bond from policy holders, rental deposits, unpaid utility bills and fees.

Accrued expenses mainly include unpaid employee benefits and accrued rentals.

17. **Insurance Contract Liabilities and Reinsurance Assets**

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

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 10)	**Net 2012**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 10)	Net 2011
Provision for claims reported	**₱1,127,177,881**	**₱ 853,471,876**	**₱ 273,706,005**	₱ 987,213,512	₱724,010,725	₱263,202,787
Provision for IBNR claims	**68,712,523**	**33,651,293**	**35,061,230**	50,232,902	10,951,442	39,281,460
Total claims reported and IBNR	**1,195,890,404**	**887,123,169**	**308,767,235**	1,037,446,414	734,962,167	302,484,247
Reserve for unearned premiums	**975,305,245**	**160,683,072**	**814,622,173**	851,854,699	155,292,525	696,562,174
Total insurance contract liabilities	**₱2,171,195,649**	**₱1,047,806,241**	**₱1,123,389,408**	₱1,889,301,113	₱890,254,692	₱999,046,421

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

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 10)	**Net 2012**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 10)	Net 2011
At beginning of the year	**₱1,037,446,414**	**₱734,962,167**	**₱302,484,247**	₱ 934,778,846	₱664,644,479	₱270,134,367
Claims incurred during the year	**765,865,258**	**275,332,677**	**490,532,581**	616,865,763	143,098,760	473,767,003
Claims paid - net of recoveries (Note 23)	**(625,900,889)**	**(145,871,526)**	**(480,029,363)**	(516,960,362)	(74,043,746)	(442,916,616)
Increase (decrease) in IBNR (Note 23)	**18,479,621**	**22,699,851**	**(4,220,230)**	2,762,167	1,262,674	1,499,493
At end of the year	**₱1,195,890,404**	**₱887,123,169**	**₱308,767,235**	₱1,037,446,414	₱734,962,167	₱302,484,247

Provision for unearned premiums may be analyzed as follows:

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 10)	**Net 2012**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 10)	Net 2011
At beginning of the year	**₱ 851,854,699**	**₱155,292,525**	**₱ 696,562,174**	₱ 711,965,517	₱131,457,821	₱ 580,507,696
New policies written during the year (Note 21)	**1,914,827,788**	**452,793,171**	**1,462,034,617**	1,837,844,193	437,073,744	1,400,770,449
Premiums earned during the year (Note 21)	**(1,791,377,242)**	**(447,402,624)**	**(1,343,974,618)**	(1,697,955,011)	(413,239,040)	(1,284,715,971)
At end of the year	**₱ 975,305,245**	**₱160,683,072**	**₱ 814,622,173**	₱ 851,854,699	₱155,292,525	₱ 696,562,174

18. **Other Insurance Contract Liabilities**

This account consists of:

	2012	2011
Due to reinsurers	**₱ 89,346,045**	₱ 71,524,302
Funds held for reinsurers	**78,978,020**	71,231,116
	₱168,324,065	₱142,755,418

The rollforward analysis of other insurance contract liabilities follows:

	Due to Reinsurers	Funds held for reinsurers
At January 1, 2011	₱ 67,899,043	₱66,050,994
Arising during the year	238,112,070	71,231,116
Utilized	(234,486,811)	(66,050,994)

(Forward)

	Due to Reinsurers	Funds held for reinsurers
At December 31, 2011	₱ 71,524,302	₱71,231,116
Arising during the year	**213,301,657**	**78,978,020**
Utilized	**(195,479,914)**	**(71,231,116)**
At December 31, 2012	**₱ 89,346,045**	**₱78,978,020**

19. **Insurance Contract Liabilities and Reinsurance Assets - Terms, Assumptions and Sensitivities**

Terms and Conditions
The major classes of general insurance written by the Company include motor car, property, casualty, marine and engineering. Risks under these policies usually cover twelve (12) - month duration.

For general insurance contracts, claims provisions (comprising of provisions for claims reported by policyholders and IBNR claims) 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 reporting date.

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

The measurement process primarily includes projections of future claims through use of historical experience statistics. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by geographical area and class of business. In addition, claims are usually assessed by loss adjusters.

Assumptions
The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs and claim numbers for each accident year. Judgment is 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, 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 variables such as legislative change and uncertainty in the estimation process is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting date.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

The table below indicates the impact of changes in certain key assumptions in respect of general insurance business while other assumptions remain unchanged.

2012

	Change in Assumption %	**Impact on Insurance Contract Liabilities / Reinsurance Assets**	**Impact on Profit Before Tax**
Average claim costs	**7.75%**	**₱32,085,540**	**(₱32,085,540)**
Average number of claims	**12.24%**	**50,680,171**	**(50,680,171)**
Period of settlement	**Within 12 months**		

2011

	Change in Assumption %	Impact on Insurance Contract Liabilities / Reinsurance Assets	Impact on Profit Before Tax
Average claim costs	0.81%	₱ 3,232,593	(₱ 3,232,593)
Average number of claims	10.02%	39,895,600	(39,895,600)
Period of settlement	Within 12 months		

Loss Development Tables

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis:

At Gross

Accident year	**2008 and prior**	**2009**	**2010**	**2011**	**2012**	**Total**
Estimate of ultimate claim costs						
At the end of accident year	₱2,838,749,653	₱ 659,479,570	₱ 515,391,998	₱ 642,863,378	₱728,854,274	₱ 728,854,274
One year later	2,715,710,695	1,128,760,022	892,833,942	1,239,747,137	–	1,239,747,137
Two years later	2,724,011,205	1,138,970,687	1,802,697,282	–	–	1,802,697,282
Three years later	2,747,189,246	1,125,912,547	–	–	–	1,125,912,547
Four years later	2,743,356,603	–	–	–	–	2,743,356,603
Current estimate of cumulative claims	2,743,356,603	1,125,912,547	1,802,697,282	1,239,747,137	728,854,274	7,640,567,843
Cumulative payments to date	2,637,313,695	706,083,508	1,744,022,639	1,115,764,270	241,493,327	6,444,677,439
Total gross insurance liability in the statement of financial position	**₱ 106,042,908**	**₱ 419,829,039**	**₱ 58,674,643**	**₱ 123,982,867**	**₱487,360,947**	**₱1,195,890,404**

At Net

Accident year	**2008 and prior**	**2009**	**2010**	**2011**	**2012**	**Total**
Estimate of ultimate claim costs						
At the end of accident year	₱1,721,612,518	₱414,109,113	₱372,190,374	₱479,922,860	₱424,939,841	₱ 424,939,841
One year later	1,684,920,866	472,130,317	351,581,420	997,538,801	–	997,538,801
Two years later	1,697,677,963	485,845,050	353,518,766	–	–	353,518,766
Three years later	1,699,940,025	491,791,878	–	–	–	491,791,878
Four years later	1,698,751,810	–	–	–	–	1,698,751,810
Current estimate of cumulative claims	1,698,751,810	491,791,878	353,518,766	997,538,801	424,939,841	3,966,541,096
Cumulative payments to date	1,666,793,420	473,029,782	347,342,426	980,555,327	190,052,906	3,657,773,861
Total net insurance liability in the statement of financial position	**₱ 31,958,390**	**₱ 18,762,096**	**₱ 6,176,340**	**₱ 16,983,474**	**₱234,886,935**	**₱ 308,767,235**

20. **Equity**

Capital stock
The details of the Company's capital stock follow:

	2012	2011
Authorized - 10,000,000 shares at ₱50 par value	**₱500,000,000**	₱500,000,000
Issued and outstanding - 10,000,000 shares	**500,000,000**	500,000,000

Cash Dividends
The Company's BOD approved and ratified the declaration of cash dividends as follows:

	2012	2011
Date of approval	**March 26**	March 28
Date of declaration	**March 26**	February 28
Number of stockholders as of dividend declaration	**16**	16
Dividend per share	**₱17.50**	₱15.00
Total amount	**₱175,000,000**	₱150,000,000
Dividends paid	**₱174,892,427**	₱149,907,795
Dividends payable (Note 16)	**₱ 396,482**	₱ 288,909

Policy on dividends
The Company intends to declare annual cash dividend subject to availability of retained earnings and operational requirements and approval from the Office of the Insurance Commission.

21. **Net Earned Insurance Premiums**

Details of gross earned premiums on insurance contracts follow:

	2012	2011
Insurance contract premiums revenue:		
Direct insurance	**₱1,634,858,583**	₱1,477,397,411
Assumed reinsurance	**279,969,205**	360,446,782
Total insurance contract premiums revenue (Note 17)	**1,914,827,788**	1,837,844,193
Gross change in unearned premiums provision	**(123,450,546)**	(139,889,182)
Total gross earned premiums on insurance contracts (Note 17)	**₱1,791,377,242**	₱1,697,955,011

Details of reinsurers' share of gross earned premiums on insurance contracts follow:

	2012	2011
Reinsurers' share of insurance contract premiums revenue:		
Direct insurance	**₱ 377,907,930**	₱ 372,232,477
Assumed reinsurance	**74,885,241**	64,841,267

(Forward)

	2012	2011
Total reinsurers' share of insurance contract premiums revenue (Note 17)	**₱ 452,793,171**	₱ 437,073,744
Reinsurers' share of gross change for unearned premiums provision	**(5,390,547)**	(23,834,704)
Total reinsurers' share of gross earned premiums on insurance contracts (Note 17)	**447,402,624**	413,239,040
Net earned insurance premiums	**₱1,343,974,618**	₱1,284,715,971

22. **Investment Income** - net

This account consists of:

	2012	2011
Interest income on:		
Debt securities	**₱ 96,941,647**	₱ 91,958,699
Funds held by ceding companies	**778,224**	518,910
Cash and cash equivalents	**4,430,645**	6,030,429
Loans and receivables	**4,465,746**	3,468,951
Dividend income	**21,772,810**	36,199,236
Rental income (Notes 12, 32 and 34)	**2,201,942**	2,524,177
Loss on impairment of AFS financial assets (Note 8)	**–**	(3,667,913)
Other expenses - net	**(891,301)**	(859,420)
	₱129,699,713	₱136,173,069

23. **Net Insurance Benefits and Claims**

Gross insurance contract benefits and claims paid:

	2012	2011
Direct insurance	**₱528,075,106**	₱404,040,146
Assumed reinsurance	**97,825,783**	112,920,216
Total insurance contract benefits and claims paid (Note 17)	**₱625,900,889**	₱516,960,362

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

	2012	2011
Direct insurance	**₱107,457,954**	₱ 57,418,523
Assumed reinsurance	**38,413,572**	16,625,223
Total reinsurers' share of insurance contract benefits and claims paid (Note 17)	**₱145,871,526**	₱ 74,043,746

Gross change in insurance contract liabilities:

	2012	2011
Direct insurance	**₱ 87,525,535**	₱109,465,000
Assumed reinsurance	**52,438,834**	(9,559,599)
Change in provision for IBNR claims (Note 17)	**18,479,621**	2,762,167
Total gross change in insurance contract liabilities	**₱158,443,990**	₱102,667,568

Reinsurers' share of gross change in insurance contract liabilities:

	2012	2011
Direct insurance	**₱ 57,715,044**	₱75,638,031
Assumed reinsurance	**71,746,107**	(6,583,017)
Change in provision for IBNR (Note 17)	**22,699,851**	1,262,674
Total reinsurers' share of gross change in insurance contract liabilities	**₱152,161,002**	₱70,317,688

24. Finance Costs

This account consists of:

	2012	2011
Interest expense	**₱3,666,876**	₱3,523,140
Amortization of discount on off-market loans	**237,500**	182,617
	₱3,904,376	₱3,705,757

25. General and Administrative Expenses

This account consists of:

	2012	2011
Salaries and benefits (Notes 28 and 32)	**₱202,300,689**	₱148,402,515
Net benefit expense (Notes 27 and 28)	**34,272,710**	10,444,635
Depreciation and amortization (Notes 12 and 13)	**26,595,850**	16,761,265
Rent (Note 34)	**19,917,982**	11,895,469
Professional and other fees	**19,320,268**	20,111,191
Transportation and travel	**14,781,798**	12,452,021
Repairs and maintenance	**14,669,980**	10,373,178
Communications	**12,400,158**	11,436,799
Taxes and licenses	**9,427,847**	2,064,386
Scholarship and training	**9,175,211**	5,479,223
Entertainment, amusement and recreation	**8,611,482**	5,604,325
Light and water	**8,417,638**	7,462,631
Stationery and supplies	**7,820,070**	7,429,029
Advertising and promotions	**5,090,994**	4,972,884

(Forward)

	2012	2011
Provision for impairment losses (Notes 7 and 8)	**₱ 4,500,000**	₱ 1,706,483
Donations	**2,630,249**	1,994,700
Insurance	**2,082,264**	1,289,341
Books and periodicals	**908,701**	266,222
Others	**187,629**	246,547
	₱403,111,520	₱280,392,844

26. Other Expenses

This account consists of:

	2012	2011
Road assistance service fees	**₱17,591,438**	₱29,742,179
Losses on bank deposits	**1,275,852**	–
	₱18,867,290	₱29,742,179

Losses on bank deposits pertain to cash deposits with Export Industry Bank. Export Industry Bank is under receivership starting April 27, 2012.

27. Pension Asset

The Company has a defined benefit plan, covering substantially all of its employees, which requires contribution to be made to administered funds. The plan is administered by a local bank as trustee.

The following tables summarize the components of net benefit expense recognized in the statements of income and the funded status and amounts recognized in the statement of financial position for the plan:

Net benefit expense included under general and administrative expenses follows:

	2012	2011
Current service cost	**₱27,378,397**	₱ 9,633,933
Interest cost on benefit obligation	**8,634,502**	7,702,999
Expected return on plan assets	**(3,889,583)**	(6,892,297)
Actuarial loss recognized	**2,149,394**	–
Net benefit expense	**₱34,272,710**	₱10,444,635
Actual return on plan assets	**₱ 8,295,186**	₱ 1,928,530

The amounts of net pension asset recognized in the statements of financial position follow:

	2012	2011
Present value of benefit obligation	**₱140,683,931**	₱145,361,993
Fair value of plan assets	**111,276,242**	77,791,650
Deficit	**29,407,689**	67,570,343
Unrecognized actuarial losses	**(35,635,614)**	(68,271,038)
Pension asset	**(₱6,227,925)**	(₱700,695)

The movements in net pension asset follow:

	2012	2011
At beginning of year	**(₱ 700,695)**	₱ 854,670
Net benefit expense	**34,272,710**	10,444,635
Contribution	**(39,799,940)**	(12,000,000)
At end of year	**(₱ 6,227,925)**	(₱ 700,695)

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

	2012	2011
At beginning of year	**₱145,361,993**	₱ 94,864,518
Current service cost	**27,378,397**	7,702,999
Interest cost	**8,634,502**	9,633,933
Benefits paid	**(14,610,534)**	(22,290,597)
Actuarial losses (gains) on obligation	**(26,080,427)**	55,451,140
At end of year	**₱140,683,931**	₱145,361,993

Changes in the fair value of plan assets follow:

	2012	2011
At beginning of year	**₱ 77,791,650**	₱86,153,717
Expected return	**3,889,583**	6,892,297
Contributions by employer	**39,799,940**	12,000,000
Benefits paid	**(14,610,534)**	(22,290,597)
Actuarial gains (losses) on plan assets	**4,405,603**	(4,963,767)
At end of year	**₱111,276,242**	₱77,791,650

Rollforward of net unrecognized actuarial losses follows:

	2012	2011
At beginning of year	**₱68,271,038**	₱ 7,856,131
Amortization during the year	**(2,149,394)**	–
Actuarial losses (gains) on plan assets	**(4,405,603)**	4,963,767
Actuarial losses (gains) on obligation	**(26,080,427)**	55,451,140
At end of year	**₱35,635,614**	₱68,271,038

The Company expects to contribute ₱24,081,000 to its retirement fund in 2013.

Estimated realization profile of the plan assets follows:

	2012	2011
Less than twelve (12) months	**₱ –**	₱ –
More than twelve (12) months	**6,227,925**	700,695
	₱6,227,925	₱700,695

The distribution of the plan assets at year end follows:

	2012	2011
Assets		
Cash	**₱321**	₱514
Investments	**111,537,911**	77,829,178
Receivables	**493,108**	571,017
	₱112,031,340	₱78,400,709

	2012	2011
Liabilities		
Trust fee payable	**₱145,036**	₱102,355
Other payable	**610,062**	506,704
	755,098	609,059
	₱111,276,242	₱77,791,650

The carrying amounts disclosed above reasonably approximate fair value at year-end. The actual return on plan assets amounted to ₱8,295,186 and ₱1,928,530, in 2012 and 2011, respectively.

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

	2012	2011
Discount rate	**5.94%**	8.12%
Expected rate of return on plan assets	**5.00%**	8.00%
Rate of salary increase	**6.00%**	8.00%

Amounts for the current and previous three (3) periods are as follows:

	2012	2011	2010	2009
Defined benefit obligation	**₱140,683,931**	₱145,361,993	₱94,864,518	₱80,732,804
Plan assets	**111,276,242**	77,791,650	86,153,717	64,998,782
Deficit	**29,407,689**	67,570,343	8,710,801	15,734,022
Experience adjustments on plan liabilities	**12,173,958**	(3,057,433)	9,008,874	(935,372)
Experience adjustments on plan assets	**4,405,603**	(4,963,767)	6,932,299	3,856,666

28. **Personnel Expenses**

	2012	2011
Salaries and wages	**₱154,527,000**	₱105,470,521
Others	**47,773,689**	42,931,994
Total salaries and benefits (Note 25)	**202,300,689**	148,402,515
Net benefit expense (Notes 25 and 27)	**34,272,710**	10,444,635
	₱236,518,713	₱158,847,150

29. **Income Tax**

The Company's net deferred tax liability consists of:

	2012	2011
Deferred tax assets on:		
Deferred reinsurance commissions	**₱10,758,837**	₱11,839,700
Provision for IBNR claims	**10,518,369**	11,784,438
Allowance for impairment losses	**7,118,593**	5,768,593
Unamortized past service cost	**6,898,898**	4,182,321
MCIT	**4,428,313**	–
Accrued long-term employee benefits	**2,343,515**	2,343,515
Accrued rent expense	**235,447**	85,033
Unamortized discount of off-market loans	**109,660**	115,968
Excess of unearned premiums per books over tax basis	**–**	11,549,281
	42,411,632	47,668,849
Deferred tax liabilities on:		
Deferred acquisition costs	**83,330,566**	71,100,851
Pension asset	**1,868,377**	210,208
Excess of unearned premiums per tax basis over per books	**753,820**	–
Accrued rent income	**29,975**	82,474
	85,982,738	71,393,533
Net deferred tax liability	**(₱43,571,106)**	(₱23,724,684)

Movements in net deferred tax assets (liabilities) comprise of:

	2012	2011
At beginning of the year	**(₱23,724,684)**	₱ 1,376,156
Amounts credited to statements of income	**(19,846,422)**	(25,100,840)
At end of the year	**(₱43,571,106)**	(₱23,724,684)

Current tax regulations define expenses to be classified as entertainment, amusement and recreational (EAR) expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling of such expenses.

As of December 31, 2012, the Company's NOLCO, which is available for offset against future taxable income and liability until 2015 amounted to ₱60,496,361.

The Company did not recognize the deferred tax assets on NOLCO because management believes that the carryforward benefit will not be realized prior to expiration. Unrecognized deferred tax asset pertaining to NOLCO amounted to ₱18,148,908 as of December 31, 2012.

The reconciliation of statutory income tax rate to effective income tax rate is as follows:

	2012	2011
Statutory income tax rate	**30.00%**	30.00%
Tax effects of:		
Unrecognized NOLCO	**11.01**	–
Nondeductible expense	**0.04**	0.73
MCIT	**(2.16)**	–
Dividend income	**(3.19)**	(3.80)
Income already subjected to final tax	**(5.60)**	(4.71)
Gain on sale of securities	**(8.55)**	(4.76)
Effective income tax rate	**21.55%**	17.46%

30. **Capital Management**

The primary objective of the Company's capital management is to ensure that it complies with the IC requirements. The Company also manages its capital structures and promptly makes adjustments to it in light of changes in economic conditions and risk characteristics of the Company's activities.

The IC capital requirements are put in place to ensure sufficient solvency margins. Under existing rules and regulations of the IC, the Company must meet the following capital-based requirements: Margin of Solvency (MOS), Fixed Capitalization Requirements and Risk-Based Capital (RBC).

The Company regularly assesses and changes its level of capital to ensure sufficient solvency margins and to adequately protect the policyholders in accordance with the regulations set by IC. The BOD, through its Executive Committee, promptly adjusts and considers strategies in order for the Company to maintain its required minimum capital.

The BOD also sees to it that the Company complies with the RBC and the MOS requirements. The Company reports its capital and compliance with IC requirements to the Executive Committee on a monthly basis and to the BOD on a quarterly basis.

The following table shows the Company's MOS and Fixed Capital requirement as of December 31, 2012 and 2011:

	2012		2011	
Requirement	**Minimum Required**	**Actual**	Minimum Required	Actual
Margin of Solvency*	**₱140,077,045**	**₱545,232,586**	₱117,423,085	₱703,031,247
Fixed Capital Requirement	**250,000,000**	**500,000,000**	500,000,000	500,000,000

*The 2012 and 2011 MOS is based on amounts estimated by the Company.

During the years 2012 and 2011, the Company fully complied with the IC-imposed Minimum Statutory Networth and Minimum Paid-up Capital, MOS and RBC requirements; however, it is subject to IC examination.

Margin of Solvency
Under the Insurance Code (the Code), a nonlife insurance company doing business in the Philippines shall maintain, at all times, an MOS equal to ₱250,000 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. Reserve for unearned premiums as of December 31, 2012 and 2011, determined in accordance with the same Code for purposes of MOS, amounted to ₱817,134,905 and ₱658,064,570. In the accompanying financial statements, the PFRS net provision for unearned premiums amounted to ₱814,622,173 and ₱696,562,174 as of December 31, 2012 and 2011, computed as provision for unearned premiums of ₱975,305,245 and ₱851,854,699 as of December 31, 2012 and 2011, reduced by deferred reinsurance premiums of ₱160,683,072 and ₱155,292,525 as of December 31, 2012 and 2011.

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 non-admitted assets. As of December 31, 2012 and 2011, the Company's MOS amounted to ₱545,232,586 and ₱703,031,247, respectively.

The estimated amounts of non-admitted 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	**₱116,455,772**	₱ 82,331,895
Deferred acquisition costs - net	**241,905,762**	197,537,168
Property and equipment - net	**56,213,516**	21,539,232
Other assets	**136,807,579**	114,069,820
	₱551,382,629	₱415,478,115

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

Fixed Capitalization Requirements
Department of Finance (DOF) Order 27-06 provide for the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On October 29, 2008, the IC issued the Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of Insurance Memorandum Circular (IMC) No. 10-2006, the scheduled increases due December 31, 2007 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2012, insurance companies should comply with the increase previously scheduled for December 31, 2011.

On June 1, 2012, the DOF issued DOF order 15-2012 imposing a new capitalization requirements for life, nonlife and reinsurance companies which will increase on a staggered basis starting for the years ended December 31, 2012 up to 2020.

As of December 31, 2012, the required statutory net worth and minimum paid up capital for the Company amounted to ₱500,000,000 and ₱250,000,000, respectively. The Company has complied with the minimum paid-up capital required by the IC.

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 nonlife insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as Networth divided by the RBC requirement. Networth shall include the company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of networth only to the extent authorized by the IC. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC Hurdle Rate requirement for a given year to the total number of insurers in the industry.

Unimpaired Capital Requirement

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

Consolidated Compliance Framework

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

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2012 and 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.

IC Circular Letter No. 26-2008 provides that in view of the compliance of insurance companies with the requirement of IMC No. 10-2006, the scheduled increase due to December 31, 2007 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2012, insurance companies should comply with the increase previously scheduled for December 31, 2011.

Subsequent to year 2012, DOF order 15-2012 states that compliance with the prescribed paid-up capital requirement may be deferred for insurers that comply with RBC hurdle rate set out in the following schedule:

Basis of RBC Ratio	Review Year	RBC Hurdle Rate
2013 Synopsis	2014	150%
2015 Synopsis	2016	150%
2017 Synopsis	2018	150%
2019 Synopsis	2020	150%

31. Financial Risk Management Objectives and Policies and Insurance Risk

The primary objective of the Company's risk management framework is to ensure the sustainable achievement of its financial performance goals and objectives.

The Company, through the quarterly BOD and the monthly Executive Committee meetings, reviews and assesses the different financial risks it is exposed to. It promptly aligns its management strategies to properly manage these risk exposures. These normally include identification of related risks and their interpretation, and setting up of appropriate limit structures to ensure the suitable quality and diversification of assets.

The main risks arising from the use of financial instruments are market risk (consisting of foreign currency risk, interest rate risk, and price risk), credit risk and liquidity risk. The Chief Financial Officer is tasked to identify, monitor, analyze, control, and report financial risks.

Fair Value Financial Assets and Liabilities

The following table sets forth the carrying values and estimated fair values of financial assets recognized as of December 31, 2012 and 2011. There is no material unrecognized financial assets as of December 31, 2012 and 2011.

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**₱ 286,502,753**	**₱ 286,502,753**	₱ 370,428,847	₱ 370,428,847
Insurance receivables - net				
Premiums receivable	**264,243,011**	**264,243,011**	199,912,278	199,912,278
Reinsurance recoverable on paid losses	**191,920,818**	**191,920,818**	91,630,380	91,630,380
Due from ceding companies	**71,566,842**	**71,566,842**	12,532,818	12,532,818
Due from brokers	**65,458,844**	**65,458,844**	54,941,669	54,941,669
	593,189,515	**593,189,515**	359,017,145	359,017,145
AFS financial assets				
Equity securities				
Listed and club shares	**326,117,485**	**326,117,485**	340,300,742	340,300,742
Unlisted	**519,738**	**519,738**	519,738	519,738
Government debt securities				
Local currency	**845,785,481**	**845,785,481**	1,080,849,923	1,080,849,923
Bonds and notes				
Local currency	**350,483,524**	**350,483,524**	158,677,405	158,677,405
Foreign currency	**47,463,775**	**47,463,775**	49,220,979	49,220,979
	1,570,370,003	**1,570,370,003**	1,580,347,808	1,580,347,808

(Forward)

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Loans and receivables - net				
Accounts receivable	**₱ 51,991,617**	**₱ 51,991,617**	₱ 51,395,716	₱ 51,395,716
Long-term notes	**48,000,000**	**67,434,780**	48,500,000	72,896,562
Mortgage loans	**13,091,224**	**15,859,715**	12,371,770	17,423,348
Car financing loans	**13,285,858**	**14,638,454**	10,155,232	11,055,030
Long-term investments	**10,000,000**	**15,973,736**	10,000,000	17,068,125
Short-term investments	**1,483,152**	**1,483,152**	1,444,975	1,444,975
	137,851,851	**167,381,454**	133,867,693	171,283,756
Accrued income				
Accrued interest income	**21,614,027**	**21,614,027**	22,164,294	22,164,294
Accrued dividends	**7,685,858**	**7,685,858**	7,685,858	7,685,858
Accrued rent	**99,916**	**99,916**	274,914	274,914
	29,399,801	**29,399,801**	30,125,066	30,125,066
Other assets				
Security deposits	**7,500,441**	**7,500,441**	14,493,375	14,493,375
Total	**₱2,624,814,364**	**₱2,654,343,967**	₱2,537,500,913	₱2,574,916,976
OTHER FINANCIAL LIABILITIES				
Insurance contract liabilities	**₱2,171,195,649**	**₱2,171,195,649**	₱1,889,301,113	₱1,889,301,113
Other insurance contract liabilities				
Due to reinsurer	**89,346,045**	**89,346,045**	71,524,302	71,524,302
Funds held for reinsurer	**78,978,020**	**78,978,020**	71,231,116	71,231,116
	168,324,065	**168,324,065**	142,755,418	142,755,418
Trade and other liabilities				
Accounts payable	**61,072,240**	**61,072,240**	47,342,725	47,342,725
Accrued expenses	**8,596,543**	**8,596,543**	8,095,163	8,095,163
Dividends payable	**396,482**	**396,482**	288,909	288,909
	70,065,265	**70,065,265**	55,726,797	55,726,797
Total	**₱2,409,584,979**	**₱2,409,584,979**	₱2,087,783,328	₱2,087,783,328

Fair values of financial assets are estimated as follows:

	Methods and Assumptions
Cash and cash equivalents, accounts receivables, insurance receivables, short-term investments (shown under loans and receivables), accrued income, security deposits and other financial liabilities	Due to the short-term nature of the instruments, the fair value approximates the carrying amount as of reporting date.
Debt securities (shown under AFS financial assets in 2012)	Fair values are based on quoted prices. For unquoted securities, fair value is determined by using the discounted cash flow methodology that uses risk free rates of similar type of securities. Interest rates used in the calculations range from 0.80% to 5.68% and from 2.45% to 8.44% in 2012 and 2011, respectively.
Equity securities (shown under AFS financial assets)	Fair values are based on quoted prices. For unquoted securities, carrying amounts (cost less allowance for impairment losses) approximate fair values due to the unpredictable nature of future cash flows and lack of suitable methods of arriving at reliable fair values.

(Forward)

	Methods and Assumptions
Mortgage and car financing loans (shown under loans and receivables)	Fair values are estimated using the discounted cash flow technique that makes use of PDS Treasury-Fixing rates. Interest used in the calculations range from 0.49% to 5.96% and from 1.66% to 6.58% in 2012 and 2011, respectively.
Long-term investments (shown under loans and receivables)	Fair values are determined using the discounted cash flow methodology that makes use of PDS Treasury-Fixing rates. Interest used in the calculations range from 4.40% to 4.40% and from 1.69% to 4.84% in 2012 and 2011, respectively.
Long-term notes (shown under loans and receivables)	Fair value is determined using the discounted cash flow methodology that makes use of PDS Treasury-Fixing rates. Interest used in the calculations are 4.14% and 1.78% to 5.35% in 2012 and 2011, respectively.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value 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 use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of December 31, 2012 and 2011:

2012

	Level 1	**Level 2**	**Level 3**	**Total**
AFS FINANCIAL ASSETS				
Equity securities				
Listed and club shares	**₱ 325,979,485**	**₱ 138,000**	**₱ –**	**₱ 326,117,485**
Unlisted	**–**	**519,738**	**–**	**519,738**
Government debt securities				
Local currency	**845,785,481**	**–**	**–**	**845,785,481**
Bonds and notes				
Local currency	**–**	**350,483,524**	**–**	**350,483,524**
Foreign currency	**–**	**47,463,775**	**–**	**47,463,775**
	₱1,171,764,966	**₱398,605,037**	**₱ –**	**₱1,570,370,003**

2011

	Level 1	Level 2	Level 3	Total
AFS FINANCIAL ASSETS				
Equity securities				
Listed and club shares	₱ 340,300,742	₱ –	₱ –	₱ 340,300,742
Unlisted	–	519,738	–	519,738
Government debt securities				
Local currency	1,080,849,923	–	–	1,080,849,923

(Forward)

2011

	Level 1	Level 2	Level 3	Total
Bonds and notes				
Local currency	₱ 7,007,447	₱151,669,958	₱ –	₱ 158,677,405
Foreign currency	49,220,979	–	–	49,220,979
	₱1,477,379,091	₱152,189,696	₱ –	₱1,629,568,787

During the reporting period ended December 31, 2012 and 2011, there were no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

Market Risk

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

Increasing market fluctuations may result in significant impact on the Company's equity, cash flows and profit. Its operating activities as well as its investing and financing activities are affected by changes in foreign exchange rates, interest rates and price risks. Market risks arise from foreign currency denominated financial instruments, AFS debt instruments, as well as from listed equity investments.

The Company manages market risk exposures by setting up limits structures and by promulgating specific investment guidelines and strategies (e.g., investing only in high grade securities and only with reputable foreign reinsurers). The Company only invests in financial institutions or corporate entities with acceptable ratings from domestic and international credit rating agencies, or are at least within the top 15 rank in case of banks. The Company also ensures that its investments shall comply with the guidelines and requirements set out by the IC.

Foreign Currency Risk

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

The Company's principal transactions are carried out in Philippine Peso (PHP) and its exposure to foreign currency risk arise primarily with respect to the Company's dealings with foreign reinsurers in its settlement of obligations and receipt of any claim reimbursements, which is denominated in US Dollars (USD).

The table below summarizes the Company's exposure to currency risk on foreign currency-denominated financial assets and their PHP equivalents as follows:

	December 31, 2012	
Financial Assets	**USD**	**PHP**
Cash and cash equivalents	**$ 402,701**	**₱16,530,876**
AFS financial assets		
Bonds and notes	**1,156,243**	**47,463,775**
Accrued interest income	**25,065**	**1,028,918**
Total	**$1,584,009**	**₱65,023,569**

	December 31, 2011	
Financial Assets	USD	PHP
Cash and cash equivalents	$ 199,831	₱ 8,760,565
AFS financial assets		
Bonds and notes	1,122,742	49,220,979
Accrued interest income	25,065	1,098,862
Total	$1,347,638	₱59,080,406

The Company used the following foreign exchange rates:

	2012	2011
USD to Peso	**₱41.05**	₱43.84

The Company has no foreign currency-denominated financial liabilities as of December 31, 2012 and 2011.

The following table demonstrates the sensitivity to reasonably possible change in foreign exchange rate, with all other variables held constant, of the Company's income before tax and the relative impact on the Company's equity as of December 31, 2012 and 2011:

2012

	Change in Exchange Rate	**Effect on Income Before Tax**	**Equity**
USD	**+1.56%**	**₱ 977,123**	**₱683,986**
	-1.56%	**(977,123)**	**(683,986)**

2011

	Change in Exchange Rate	Effect on Income Before Tax	Equity
USD	+1.95%	₱1,149,984	₱804,988
	-1.95%	(1,149,984)	(804,988)

The Company determined the reasonably possible change in foreign currency using the one (1) year volatility of the USD and PHP as this will best represent the movement in foreign exchange rate until the next reporting date.

Fair Value Interest Rate Risk
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company's floating rate investments and receivables in particular are exposed to fair value risk.

The Company manages its interest rate risk by investing in fixed rate instruments. It also manages the maturities of interest-bearing financial assets and financial liabilities.

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

2012

	Range of Interest Rates	1-3 Years	3-5 Years	Over 5 Years	Total
AFS - debt securities					
Government debt securities	**5.38% - 11.25%**	**₱ 5,212,331**	**₱140,688,581**	**₱699,884,569**	**₱ 845,785,481**
Bonds and notes	**6.50% - 9.50%**	**76,318,293**	**31,043,775**	**290,585,231**	**397,947,299**
Total		**₱81,530,624**	**₱171,732,356**	**₱990,469,800**	**₱1,243,732,780**

2011

	Range of Interest Rates	1-3 years	3-5 years	Over 5 years	Total
AFS - debt securities					
Government debt securities	5.75% - 11.25%	₱ 5,335,482	₱128,202,643	₱ 947,311,798	₱1,080,849,923
Bonds and notes	5.50% - 8.00%	121,225,176	–	86,673,208	207,898,384
Total		₱126,560,658	₱128,202,643	₱1,033,985,006	₱1,288,748,307

The analysis below is performed for reasonably possible movement of the interest rates (due to changes in fair value of AFS financial assets) with all other variables held constant, showing the impact on equity.

2012

	Change in interest rate	Impact on Equity
USD rate	**+4.92%**	**₱ 5,586,003**
	-4.92%	**(5,586,003)**
PHP rate	**+5.43%**	**₱92,146,804**
	-5.43%	**(92,146,804)**

2011

	Change in interest rate	Impact on Equity
USD rate	+5.11%	₱ 3,086,594
	-5.11%	(3,086,594)
PHP rate	+6.65%	₱81,465,060
	-6.65%	(81,465,060)

Equity Price Risk
Equity price risk is the risk that future cash flows will fluctuate because of changes in market prices of individual stocks and the changes in the level of Philippine Stock Exchange index (PSEi).

The Company's equity price risk exposure relates to quoted equity shares classified as AFS financial assets.

The table below shows the equity impact of reasonably possible change of PSEi as of December 31, 2012 and 2011.

	Percentage increase (decrease) in equity prices	Effect on Equity
2012	**+23.80%**	**₱75,599,084**
	-23.80%	**(75,599,084)**
2011	+23.70%	₱82,283,510
	-23.70%	(82,283,510)

The equity impact is arrived at using the reasonably possible change of PSEi and the specific adjusted beta of each stock the Company holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

Credit Risk

Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to meet its contractual obligations. The Company is exposed to credit risk on its cash and cash equivalents, insurance receivables, AFS financial assets, loans and receivables, accrued income and security deposits.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to an annual review.

Guidelines on the level of credit risk are discussed and approved during weekly meetings of the Management Committee and/or monthly meetings of the Executive Committee.

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

With regard to loans and receivables, the Company transacts only with recognized, accredited and creditworthy borrowers and counterparties. The Company's Credit and Collection Unit (CCU) manages credit exposure by ensuring that borrowers and counterparties undergo credit verification procedures and by setting standard business terms that are required to be met by all counterparties. CCU also monitors the loans and receivables on a regular basis to determine the Company's appropriate exposure to impairment losses.

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

Maximum Credit Exposure

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and items such as future commitments. The maximum exposure is shown net of impairment losses, before deducting collaterals.

	2012	2011
Cash and cash equivalents (excluding cash on hand)	**₱285,406,703**	₱369,411,167
Insurance receivables - net:		
Premiums receivable	**264,243,011**	199,912,278

(Forward)

	2012	2011
Reinsurance recoverable on paid losses	**₱ 191,920,818**	₱ 91,630,380
Due from ceding companies	**71,566,842**	12,532,818
Due from brokers	**65,458,844**	54,941,669
AFS financial assets:		
Government debt securities		
Local currency	**845,785,481**	1,080,849,923
Bonds and notes		
Local currency	**350,483,524**	158,677,405
Foreign currency	**47,463,775**	49,220,979
Loans and receivables:		
Accounts receivable	**51,991,617**	51,395,716
Long-term notes	**48,000,000**	48,500,000
Car financing loans	**13,285,858**	10,155,232
Mortgage loans	**13,091,224**	12,371,770
Long-term investments	**10,000,000**	10,000,000
Short-term investments	**1,483,152**	1,444,975
Accrued income:		
Accrued interest income	**21,614,027**	22,164,294
Accrued dividends	**7,685,858**	7,685,858
Accrued rent	**99,916**	274,914
Security deposits	**7,500,441**	14,493,375
Total Credit Risk Exposure	**₱2,297,081,091**	₱2,195,662,753

Credit Quality of Financial Assets
The tables below provide information of the credit quality of the Company's financial assets that are neither past due nor impaired.

a) *AFS financial assets and cash and cash equivalents*
The tables below provide information on the credit quality of AFS financial assets, and cash and cash equivalents that are neither past due nor impaired as of December 31, 2012 and 2011 using the Philippine Rating Services Corporation (PhilRatings) credit ratings of the counterparties. PRS Aaa is the highest possible rating while PRS C is the lowest possible rating.

2012

	PRS Aaa	PRS Ba	PRS B	Not Rated	Total
Cash and cash equivalents					
Cash in banks	₱ –	₱ –	₱ –	₱113,760,047	₱ 113,760,047
Short-term deposits	–	–	–	171,646,656	171,646,656
AFS financial assets					
Government securities					
Local currency	–	845,785,481*	–	–	845,785,481
Bonds and notes					
Local currency	261,056,259	–	–	89,427,265	350,483,524
Foreign currency	38,401,659	–	–	9,062,116	47,463,775
Total Credit Risk Exposure	₱299,457,918	₱845,785,481	₱ –	₱383,896,084	₱1,529,139,483

* The credit ratings are the equivalent to Moody's specific issue credit rating for the same debt securities as of December 31, 2012.

2011

	PRS Aaa	PRS Ba	PRS B	Not Rated	Total
Cash and cash equivalents					
Cash in banks	₱ –	₱ –	₱ –	₱155,313,793	₱ 155,313,793
Short-term deposits	–	–	–	214,097,374	214,097,374
AFS financial assets					
Government securities					
Local currency	–	1,080,849,923*	–	–	1,080,849,923
Bonds and notes					
Local currency	29,609,529	–	–	129,067,876	158,677,405
Foreign currency	40,275,093	–	–	8,945,886	49,220,979
Total Credit Risk Exposure	₱69,884,622	₱1,080,849,923	₱ –	₱507,424,929	₱1,658,159,474

* The credit ratings are the equivalent to Moody's specific issue credit rating for the same debt securities as of December 31, 2011.

The Company uses a credit rating concept based on the obligors' capacity to pay, as follows:

PRS Aaa - This rating has a smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is secured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

PRS Ba - This rating is judged to have speculative elements. The issuer's capability to pay for such issues cannot be considered as well as assured. Often, the protection of interest and principal payments may be very moderate and thereby not well safeguarded during good and bad times over the future.

PRS B - This rating generally lacks characteristics of a desirable investment. Assurance of interest and principal payments or maintenance of other terms of contract over any long period of time may be small.

Bonds and notes that fall under the 'Not Rated column' includes long-term debt securities issued by local and multinational corporations belonging to the top fifty (50) corporations in the Philippines in terms of resources and profitability.

The Company's cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability.

b) *Loans and receivable*
The following table provides information on the credit quality of loans and receivables that are neither past due nor impaired as of December 31, 2012 and 2011.

2012

	Neither Past Due nor Impaired			**Past Due or**	
	Grade A	**Grade B**	**Grade C**	**Impaired**	**Total**
Insurance receivables					
Due from ceding companies	**₱ –**	**₱ –**	**₱ 60,142,821**	**₱14,549,087**	**₱ 74,691,908**
Premiums receivable	**–**	**–**	**180,486,761**	**91,973,110**	**272,459,871**
Due from brokers	**–**	**–**	**41,959,793**	**24,482,663**	**66,442,456**
Reinsurance recoverable on paid losses	**–**	**–**	**183,533,185**	**12,145,428**	**195,678,613**
Long-term notes	**–**	**10,000,000**	**–**	**–**	**10,000,000**
Mortgage loans	**13,091,224**	**–**	**–**	**–**	**13,091,224**
Car financing loans	**13,285,858**	**–**	**–**	**–**	**13,285,858**
Long-term investments	**–**	**48,000,000**	**–**	**–**	**48,000,000**

(Forward)

2012

	Neither Past Due nor Impaired			Past Due or	
	Grade A	**Grade B**	**Grade C**	**Impaired**	**Total**
Short-term investments	**₱ –**	**₱ 1,483,152**	**₱ –**	**₱ –**	**₱ 1,483,152**
Accounts receivable	**240,102**	**33,375,690**	**–**	**26,021,137**	**59,636,929**
Accrued income					
Accrued interest income	**–**	**21,614,027**	**–**	**–**	**21,614,027**
Accrued dividends	**–**	**7,685,858**	**–**	**–**	**7,685,858**
Accrued rent	**–**	**–**	**99,916**	**–**	**99,916**
Security deposits	**–**	**–**	**7,500,441**	**–**	**7,500,441**
	₱26,617,184	**₱122,158,727**	**₱473,722,917**	**₱169,171,425**	**₱791,670,253**

2011

	Neither Past Due nor Impaired			Past Due or	
	Grade A	Grade B	Grade C	Impaired	Total
Insurance receivables					
Due from ceding companies	₱ –	₱ –	₱ 7,717,838	₱ 8,389,836	₱ 16,107,674
Premiums receivable	–	–	144,072,255	64,056,883	208,129,138
Due from brokers	–	–	37,650,269	18,275,012	55,925,281
Reinsurance recoverable on paid losses	–	–	79,958,141	14,980,244	94,938,385
Long-term notes	–	48,500,000	–	–	48,500,000
Mortgage loans	12,371,770	–	–	–	12,371,770
Car financing loans	10,155,232	–	–	–	10,155,232
Long-term investments	–	10,000,000	–	–	10,000,000
Short-term investments	–	1,444,975	–	–	1,444,975
Accounts receivable	–	–	42,657,681	11,883,347	54,541,028
Accrued income					
Accrued interest income	–	22,164,294	–	–	22,164,294
Accrued dividends	–	7,685,858	–	–	7,685,858
Accrued rent	–	–	274,914	–	274,914
Security deposits	–	–	14,493,375	–	14,493,375
	₱22,527,002	₱89,795,127	₱326,824,473	₱117,585,322	₱556,731,924

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

Grade A - This rating class is given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations.

Grade B - This rating class is given to borrowers and counterparties who possess above average capacity to meet its obligations. These counterparties are somewhat susceptible to adverse changes in business and economic conditions.

Grade C - This rating class is given to borrowers and counterparties who possess average capacity to meet its obligations. These borrowers and counterparties are more likely to have a significant deterioration of its capacity during adverse business and economic conditions relative to Classes A and B.

The above credit ratings are determined by considering the borrower and counterparty's credit payment history and financial condition with strong consideration given to cash flows, working capital and net worth.

The age analysis of past due but not impaired loans and receivables as of December 31, 2012 and 2011 follows:

2012

	Past Due but not Impaired		**Past Due and**	
	≤ 90 days	**91-180 days**	**Impaired**	**Total**
Accounts receivable	**₱ 5,855,162**	**₱12,520,663**	**₱ 7,645,312**	**₱ 26,021,137**
Insurance receivables				
Premium receivables	**69,777,195**	**13,979,055**	**8,216,860**	**91,973,110**
Due from brokers	**22,577,673**	**921,378**	**983,612**	**24,482,663**
Reinsurance recoverable on paid losses	**6,878,321**	**1,509,312**	**3,757,795**	**12,145,428**
Due from ceding companies	**5,555,842**	**5,868,179**	**3,125,066**	**14,549,087**
Total	**₱110,644,193**	**₱34,798,587**	**₱23,728,645**	**₱169,171,425**

2011

	Past Due but not Impaired		Past Due and	
	≤ 90 days	91-180 days	Impaired	Total
Accounts receivable	₱ 5,112,595	₱ 3,625,440	₱ 3,145,312	₱ 11,883,347
Insurance receivables				
Premium receivables	45,403,121	10,436,902	8,216,860	64,056,883
Due from brokers	12,397,471	4,893,929	983,612	18,275,012
Reinsurance recoverable on paid losses	11,672,239	–	3,308,005	14,980,244
Due from ceding companies	4,814,980	–	3,574,856	8,389,836
Total	₱79,400,406	₱18,956,271	₱19,228,645	₱117,585,322

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

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its contractual obligations and commitments. The major liquidity risk confronting the Company is the daily cash calls on its available cash resources with respect to claims arising from insurance contracts.

The Company monitors its cash position on a daily basis by preparing cash report wherein the disbursements and collections are monitored. This report also helps the Company in determining periods where it has excess cash or cash shortfall.

On September 27, 2012, the BOD authorized and approved the establishment and renewal of the Company's credit line facilities with the Bank of the Philippine Islands (BPI) as follows:

- Establishment of Resolving Promissory Notes Line amounting ₱10,000,000;
- Renewal of Bills Purchase Line amounting ₱25,000,000;
- Renewal of Corporate Guarantee Line amounting ₱7,000,000; and
- Establishment of Pre-Settlement Risk Line (PSRL) amounting US$100,000.

The table below shows the maturity profile of the financial instruments of the Company as of December 31, 2012 and 2011 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

2012

	On Demand	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Cash and cash equivalents	**₱ 286,502,753**	**₱ –**	**₱ –**	**₱ –**	**₱ 286,502,753**
Insurance receivables - net					
Premiums receivable	**272,459,871**	–	–	–	**272,459,871**
Reinsurance recoverable on paid losses	**195,678,613**	–	–	–	**195,678,613**
Due from ceding companies	**74,691,908**	–	–	–	**74,691,908**
Due from brokers	**66,442,456**	–	–	–	**66,442,456**
AFS financial assets					
Equity securities					
Listed and club shares	**326,117,485**	–	–	–	**326,117,485**
Unlisted	**519,738**	–	–	–	**519,738**
Government and debt securities					
Local currency	–	**5,212,331**	**140,688,581**	**699,884,569**	**845,785,481**
Bonds and notes					
Local currency	–	**59,898,293**	–	**290,585,231**	**350,483,524**
Foreign currency	–	**16,420,000**	–	**31,043,775**	**47,463,775**
Loans and receivables - net					
Accounts receivable	**240,102**	–	**10,000,000**	–	**10,240,102**
Long-term notes	–	–	**48,000,000**	–	**48,000,000**
Mortgage loans	**42,069,637**	**17,327,190**	–	–	**59,396,827**
Car financing loans	**138,425**	**1,300,480**	**1,510,597**	**10,141,722**	**13,091,224**
Long-term investments	**416,577**	**4,265,366**	**6,543,049**	**2,060,866**	**13,285,858**
Short-term investments	**1,483,152**	–	–	–	**1,483,152**
Accrued income					
Accrued interest income	**21,614,027**	–	–	–	**21,614,027**
Accrued dividends	**7,685,858**	–	–	–	**7,685,858**
Accrued rent	**99,916**	–	–	–	**99,916**
Other assets					
Security deposits	**7,500,441**	–	–	–	**7,500,441**
Financial assets	**₱1,303,660,959**	**₱104,423,660**	**₱206,742,227**	**₱1,033,716,163**	**₱2,648,543,009**
Insurance contract liabilities	**₱2,171,195,649**	**₱ –**	**₱ –**	**₱ –**	**₱2,171,195,649**
Other insurance contract liabilities					
Due to reinsurer	**89,346,045**	–	–	–	**89,346,045**
Funds held for reinsurers	**78,978,020**	–	–	–	**78,978,020**
Trade and other liabilities					
Accounts payable	**61,072,240**	–	–	–	**61,072,240**
Accrued expenses	**8,596,543**	–	–	–	**8,596,543**
Dividends payable	**396,482**	–	–	–	**396,482**
Other Financial liabilities	**₱2,409,584,979**	**₱ –**	**₱ –**	**₱ –**	**₱2,409,584,979**

2011

	On Demand	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Cash and cash equivalents	₱ 370,428,847	₱ –	₱ –	₱ –	₱ 370,428,847
Insurance receivables - net					
Premiums receivable	208,129,138	–	–	–	208,129,138
Reinsurance recoverable on paid losses	94,938,385	–	–	–	94,938,385
Due from brokers	55,925,281	–	–	–	55,925,281
Due from ceding companies	16,107,674	–	–	–	16,107,674
AFS financial assets					
Equity securities					
Listed and club shares	340,300,742	–	–	–	340,300,742
Unlisted	519,738	–	–	–	519,738
Government and debt securities					
Local currency	–	5,335,482	128,202,643	947,311,798	1,080,849,923
Bonds and notes					
Local currency	–	102,988,210	–	55,689,195	158,677,405
Foreign currency	–	18,236,967	–	30,984,012	49,220,979
Loans and receivables - net					
Accounts receivable	54,541,028	–	–	–	54,541,028
Long-term notes	500,000	1,000,000	47,000,000	–	48,500,000

(Forward)

2011

	On Demand	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Car financing loans	₱ 727,217	₱ 1,541,696	₱ 5,332,542	₱ 2,553,777	₱ 10,155,232
Mortgage loans	163,343	166,773	2,039,566	10,002,088	12,371,770
Long-term investments	–	–	–	10,000,000	10,000,000
Short-term investments	1,444,975	–	–	–	1,444,975
Accrued income					
Accrued interest income	22,164,294	–	–	–	22,164,294
Accrued dividends	7,685,858	–	–	–	7,685,858
Accrued rent	274,914	–	–	–	274,914
Other assets					
Security deposits	14,493,375	–	–	–	14,493,375
Financial assets	₱1,188,344,809	₱129,269,128	₱182,574,751	₱1,056,540,870	₱2,556,729,558
Insurance contract liabilities	₱1,889,301,113	₱ –	₱ –	₱ –	₱1,889,301,113
Other insurance contract liabilities					
Due to reinsurer	71,524,302	–	–	–	71,524,302
Funds held for reinsurers	71,231,116	–	–	–	71,231,116
Trade and other liabilities					
Accounts payable	47,342,725	–	–	–	47,342,725
Accrued expenses	8,095,163	–	–	–	8,095,163
Dividends payable	288,909	–	–	–	288,909
Other Financial liabilities	₱2,087,783,328	₱ –	₱ –	₱ –	₱2,087,783,328

The Company has no existing interest-bearing financial obligation as of December 31, 2012 and 2011.

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

2012

	Gross Claims Liabilities	**Reinsurers' Share of Claims Liabilities**	**Net Claims Liabilities**
Motorcar	**₱ 216,326,404**	**₱ 37,539,290**	**₱178,787,114**
Fire	**809,261,073**	**735,441,099**	**73,819,974**
Accident	**24,333,222**	**1,581,798**	**22,751,424**
Surety	**66,345,331**	**45,578,511**	**20,766,820**
Casualty	**13,693,059**	**7,302,750**	**6,390,309**
Marine	**43,769,896**	**38,091,022**	**5,678,874**
Engineering	**16,541,419**	**15,968,699**	**572,720**
Aviation	**5,620,000**	**5,620,000**	**–**
	₱1,195,890,404	**₱887,123,169**	**₱308,767,235**

<u>2011</u>

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Motorcar	₱ 212,625,433	₱ 32,649,336	₱179,976,097
Fire	657,884,880	596,557,938	61,326,942
Accident	31,396,969	2,939,252	28,457,717
Surety	64,584,444	45,581,735	19,002,709
Casualty	15,182,725	7,754,688	7,428,037
Marine	31,381,982	25,649,762	5,732,220
Engineering	21,589,981	21,029,456	560,525
Aviation	2,800,000	2,800,000	–
	₱1,037,446,414	₱734,962,167	₱302,484,247

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 and types of risks insured.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategies, strict claims review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims. The Company also enforces a policy of actively managing and promptly pursuing 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. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's premiums retained.

The majority of reinsurance business ceded is placed on a surplus basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

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 the reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of the total reinsurance assets at the reporting date.

32. **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; and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Affiliates are related entities of the company by virtue of common ownership and representation to management where significant influence is apparent.

Significant related party transactions are summarized below:

a. Key management personnel of the Company include all supervisors, managers and executives. The summary of compensation of key management personnel is as follows:

	2012	2011
Salaries and other short-term employee benefits	**₱93,585,770**	₱106,557,584
Post-employment benefits	**5,250,844**	20,288,535
	₱98,836,614	₱126,846,119

b. The Company enters into reinsurance transactions with its affiliate, Mapfre Re Compania de Reaseguros, S.A. (Mapfre Re). The total amount of reinsurance premiums ceded, related commissions and net outstanding liability to Mapfre Re for 2012 and 2011 follows:

	2012	2011
Reinsurance premiums ceded	**₱195,396,648**	₱179,670,567
Commission income	**48,696,383**	45,761,811
Net outstanding liability	**45,747,667**	86,769,584

c. Transactions with MAIC Insurance Agency (MIA), a subsidiary, in the ordinary course of business, for 2012 and 2011 are as follows:

	2012	2011
Premium revenue	**₱24,489,388**	₱97,828,456
Commission expense	**5,468,143**	25,354,288
Accounts receivable	**3,548,038**	4,912,693
Premiums receivable	**279**	895,986
Commission payable	**22**	166,259

The Company also leases a portion of its office premises to MIA. Rental income amounted to ₱64,447 and ₱386,682 in 2012 and 2011, respectively. Accounts receivable from MIA was for payment of salaries to MIA employees that was advanced by the Company

d. The Company has no transactions with the retirement benefit plan other than the contributions and payments of retirement. Total contributions and paid benefits for the year-ended December 31, 2012 and 2011 follow (Note 27):

	2012	2011
Contributions	**₱39,799,940**	₱12,000,000
Benefits paid	**(14,610,534)**	(22,290,597)

The following summarizes the category, terms and conditions and outstanding balance of related party financial assets (liabilities) as of year-end:

December 31, 2012

	Amount/volume	Outstanding Balance	Allowance for Impairment	Terms	Conditions
Entities with joint control					
Mapfre Re Compania de Reaseguros, S.A. (Mapfre Re)					
Reinsurance premiums ceded	**₱195,396,648**	**₱195,396,648**	**₱** –	Current, unsecured	Net of RI Recoverable, outward commission, premium reserve withheld
Inward commissions	**48,696,383**	**48,696,383**	–	Current, unsecured	Offset against Reinsurance premium ceded
Other insurance contract liability	**45,747,667**	**45,747,667**	–	Current, unsecured	Foreign currency denominated payment
Subsidiaries					
MAIC Insurance Agency (MIA)					
Premiums	**24,489,338**	**279**	–	Current, unsecured	Cash payment
Outward commissions	**(5,468,143)**	**(22)**	–	Current, unsecured	Cash payment
Trade receivables	**27,643,670**	**3,548,038**	**1,147,534**	Current, unsecured	Cash payment
Lease contract	**64,447**	**64,447**	–	Current, no guarantees and security deposit	Cash payment
	₱336,570,010	**₱293,453,440**	**₱1,147,534**		

December 31, 2011

	Amount/volume	Outstanding Balance	Allowance for Impairment	Terms	Conditions
Entities with joint control					
Mapfre Re Compania de Reaseguros, S.A. (Mapfre Re)					
Reinsurance premiums ceded	₱179,670,567	₱179,670,567	₱ –	Current, unsecured	Net of RI Recoverable, outward commission, premium reserve withheld
Inward commissions	45,761,811	45,761,811	–	Current, unsecured	Offset against Reinsurance premium ceded
Other insurance contract liability	86,769,584	86,769,584	–	Current, unsecured	Foreign currency denominated payment
Subsidiaries					
MIA					
Premiums	97,828,456	895,986	–	Current, unsecured	Cash payment
Outward commissions	(25,354,288)	(166,259)	–	Current, unsecured	Cash payment
Trade receivables	81,736,592	4,912,693	1,147,534	Current, unsecured	Cash payment
Lease contract	386,682	386,682	–	Current, no guarantees and security deposit	Cash payment
	₱466,799,404	₱318,231,064	₱1,147,534		

33. **Reconciliation of Net Income Under PFRS to Statutory Net Income**

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

	2012	2011
Net income under PFRS	**₱160,842,926**	₱236,158,563
Add (deduct):		
Difference in change in provision for unearned premiums - net	**(41,010,337)**	(55,624,771)
Deferred acquisition costs - net	**(44,368,593)**	(30,887,989)
Provision for IBNR	**(4,220,230)**	1,499,493
Tax effects of PFRS differences	**26,879,748**	25,503,980
Statutory net income	**₱ 98,123,514**	₱176,649,276

34. **Lease Commitments**

The Company as Lessee

The Company has entered into noncancelable operating lease agreements for its several branch offices with terms of one (1) to five (5) years. The lease agreements include escalation clauses that allow a reasonable increase in rates. The leases are payable on a monthly basis and are renewable under certain terms and conditions.

Future minimum rentals payable under noncancelable operating leases as of December 31, 2012 and 2011 follow:

	2012	2011
Within one (1) year	**₱18,992,049**	₱11,953,512
After one (1) year but not more than five (5) years	**46,083,387**	8,523,957
	₱65,075,436	₱20,477,469

Rent expense included in the statements of income for the years ended December 31, 2012 and 2011 amounted to ₱19,917,982 and ₱11,895,469, respectively (Note 25).

The Company as Lessor

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

Future minimum rentals receivable under noncancelable operating leases as of December 31, 2012 and 2011 follow:

	2012	2011
Within one (1) year	**₱890,623**	₱2,699,175
After one (1) year but not more than five (5) years	–	1,763,904
	₱890,623	₱4,463,079

Rental income included in the statements of income for the years ended December 31, 2012 and 2011 amounted to ₱2,201,942 and ₱2,524,177, respectively (Note 22).

35. **Contingencies**

The Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. Provisions have been recognized in the financial statements to cover liabilities that may arise as a result of adverse decisions that may be rendered by the courts. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the Company's position with regard to the outcome of these claims.

36. **Approval of the Financial Statements**

The accompanying financial statements were approved and authorized for issue by the BOD on January 31, 2013.

37. **Disclosures Required Under Revenue Regulations 19-2011**

The Company reported the following schedules and information on taxable income and deductions in 2012:

a. Sales/Receipts/Fees
The Company's sales of services for the year ended December 31, 2012 amounted to ₱1,302,964,281.

b. Cost of Sales/Services
Details of cost of services follow:

Direct Charges - salaries, wages and benefits	₱ 115,842,639
Direct Charges - others	1,053,717,541
	₱1,169,560,180

c. Non-operating and Taxable Other Income
Details consist of the following in 2012:

Commission income	₱83,329,111
Rental income	2,376,940
Interest income not subjected to final tax	2,023,435
Others	282,049
	₱88,011,535

d. Itemized Deductions
The Company has the following itemized deductions in 2012:

Salaries and allowances	₱89,178,161
Depreciation	26,595,850
Communication, light and water	20,817,796
Amortization of pension trust contribution	19,772,312
Rental	19,416,602
Professional fees	19,320,268

(Forward)

Transportation and travel	₱ 14,781,798
Repairs and maintenance	14,669,980
SSS, GSIS, Philhealth and other contributions	11,067,185
Taxes and licenses	9,427,847
Representation and entertainment	8,611,482
Office supplies	7,820,070
Scholarship and training	5,455,289
Advertising	5,090,994
Interest	3,172,522
Charitable contributions	2,630,249
Insurance	2,082,264
Books and periodicals	908,701
Directors' fees	905,000
Miscellaneous	187,627
	₱281,911,997

e. Taxes and Licenses
This amount consists of the following in 2012:

Penalties and assessment	₱8,000,000
Real estate taxes	668,422
License and permit fees	539,881
Others	194,237
Documentary stamp taxes	25,307
	₱9,427,847

38. **Disclosures Required Under Revenue Regulations 15-2010**

The Company reported and/or paid the following types of taxes in 2012:

Value added tax
The Company's premiums written on direct business are subject to output VAT while its purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12%.

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns follows:

	Net Sales/ Receipts	Output VAT
Taxable sales		
Sales of services	₱1,205,541,696	₱144,665,004
Commissions	83,329,111	9,999,493
Leasing income	2,201,942	264,233
Others	4,675,410	561,049
	₱1,295,748,159	₱155,489,779

The Company has premiums generated to entities that are registered in Philippine Economic Zone Authority (PEZA, SBMA, etc.) which is subject to zero-rated and/or exempt output VAT amounting ₱22,791,704 in 2012.

b. Details of Input VAT follow:

Balance at January 1, 2012		₱ 25,652,578
Current year's purchases/payments for:		
Services lodged under cost of service	₱57,290,084	
Goods other than for resale or manufacture	30,374,163	
Capital goods subject to amortization	3,314,045	
Capital goods not subject to amortization	100,500	91,078,792
		116,731,370
Claims for tax credit		(83,700,275)
Balance at December 31, 2012		₱ 33,031,095

c. Information on the Company's importations
The Company does not undertake importation activities.

d. Documentary Stamps Tax

Insurance premiums	₱185,693,929
Debt instruments	35,478
Agents' IC Certificate of Authority (CA) fees	500
	₱185,729,907

e. Fringe Benefits Tax
The Company paid fringe benefits tax amounting ₱2,502,093 in 2012.

f. Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the caption 'Taxes and Licenses' account under the 'General and Administrative Expenses' section in the Company's statement of income:

Details consist of the following:

Penalties and assessment	₱8,000,000
Real estate taxes	668,422
License and permit fees	539,881
Others	194,237
Documentary stamp taxes	25,307
	₱9,427,847

The Company has no other taxes, local and national, including real estate taxes, license and permit fees lodged under cost of service account. The Company has also no excise tax lodged under cost service account.

g. Withholding Taxes

Details of withholding taxes follow:

Expanded withholding taxes	₱ 73,144,083
Withholding taxes on compensation and benefits	40,272,243
Final withholding taxes	13,621,865
	₱127,038,191

h. Tax assessments and Cases

The Company is under preliminary tax audit for taxable year 2010. The Company has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.