



MAA General Assurance Philippines, Inc.

Financial Statements
December 31, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.



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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of MAA General Assurance Philippines, Inc., which comprise the statements of financial position as at December 31, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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





- 2 -

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MAA General Assurance Philippines, Inc. as at December 31, 2010 and 2009, 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 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 on taxes, duties and license fees in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the Company's management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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June 1, 2009, Valid until May 31, 2012
PTR No. 2641512, January 3, 2011, Makati City

March 10, 2011



MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2010	2009
ASSETS		
Cash and Cash Equivalents (Notes 4 and 21)	₱122,426,675	₱107,895,640
Insurance Receivables - net (Notes 5 and 21)	210,093,254	180,031,665
Financial Assets (Notes 6 and 21)		
Available-for-sale financial assets	519,424,385	426,085,432
Loans and receivables	2,847,950	2,278,571
Accrued Income (Notes 7 and 21)	6,883,062	6,290,083
Reinsurance Assets (Notes 8, 11 and 21)	401,001,551	667,392,728
Deferred Acquisition Costs (Note 9)	70,313,426	58,310,675
Property and Equipment - net (Note 10)	12,936,362	11,872,789
Deferred Tax Assets - net (Note 20)	3,586,351	2,461,459
Retirement Plan Assets (Note 19)	589,191	–
Other Assets (Note 21)	9,379,877	15,743,353
	₱1,359,482,084	₱1,478,362,395
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 11 and 21)	₱733,030,514	₱983,749,940
Insurance payables (Notes 12 and 21)	72,918,055	58,235,685
Accounts payable and other liabilities (Notes 13 and 24)	101,678,095	86,608,052
Deferred reinsurance commissions (Note 9)	25,387,487	18,478,372
Retirement benefit liability (Note 19)	–	5,544,828
	933,014,151	1,152,616,877
Equity		
Capital stock (Note 14)	250,000,000	150,000,000
Contributed surplus	643,832	643,832
Contingency surplus (Notes 14 and 21)	132,123,738	182,123,738
Revaluation reserve on available-for-sale financial assets (Note 6)	27,160,347	419,967
Retained earnings (Deficit)	16,540,016	(7,442,019)
	426,467,933	325,745,518
	₱1,359,482,084	₱1,478,362,395

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2010	2009
Gross earned premiums on insurance contracts (Notes 11 and 15)	₱671,686,735	₱657,097,964
Reinsurers' share of gross earned premiums on insurance contracts (Notes 11 and 15)	(307,047,971)	(255,864,882)
Net insurance earned premiums	364,638,764	401,233,082
Commission income (Note 9)	49,631,107	45,996,977
Interest income (Note 16)	33,773,591	27,630,429
Gain on sale of available-for-sale financial assets (Note 6)	6,965,430	2,550,242
Others	8,926,212	4,697,553
Other income	99,296,340	80,875,201
Total income	463,935,104	482,108,283
Gross insurance contract benefits and claims paid (Notes 11, 17 and 21)	513,483,615	333,063,239
Reinsurers' share of gross insurance contract benefits and claims paid (Notes 11, 17 and 21)	(303,164,130)	(174,455,391)
Gross change in insurance contract liabilities (Note 17)	(287,834,165)	406,336,675
Reinsurers' share of gross change in insurance contract liabilities (Note 17)	280,755,669	(332,479,623)
Net insurance benefits and claims	203,240,989	232,464,900
Commission expense (Note 9)	139,392,382	148,529,375
Operating expenses (Notes 18, 19 and 22)	88,886,472	84,694,412
Interest expense	1,739,447	1,480,111
Other expenses	230,018,301	234,703,898
Total Benefits, Claims and Other Expenses	433,259,290	467,168,798
Income before income tax	30,675,814	14,939,485
Current	7,818,671	6,646,095
Deferred	(1,124,892)	(5,195,752)
Provision for income tax (Note 20)	6,693,779	1,450,343
NET INCOME (Note 23)	23,982,035	13,489,142
OTHER COMPREHENSIVE INCOME (Note 6)		
Changes in fair value of available-for-sale financial assets	33,705,810	6,094,213
Fair value gain transferred to profit or loss	(6,965,430)	(2,550,242)
TOTAL COMPREHENSIVE INCOME	₱50,722,415	₱17,033,113

See accompanying Notes to Financial Statements.



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

	Capital Stock (Note 14)	Contributed Surplus	Contingency Surplus (Notes 14 and 21)	Revaluation Reserve on Available-for- sale Financial Assets (Note 6)	Retained Earnings (Deficit)	Total
As of January 1, 2010	₱150,000,000	₱643,832	₱182,123,738	₱419,967	(₱7,442,019)	₱325,745,518
Subscription of additional shares	50,000,000	–	–	–	–	50,000,000
Conversion of contingency surplus	50,000,000	–	(50,000,000)	–	–	–
	250,000,000	643,832	132,123,738	419,967	(7,442,019)	375,745,518
Net income for the year	–	–	–	–	23,982,035	23,982,035
Other comprehensive income	–	–	–	26,740,380	–	26,740,380
Total recognized income for the year	–	–	–	26,740,380	23,982,035	50,722,415
As of December 31, 2010	₱250,000,000	₱643,832	₱132,123,738	₱27,160,347	₱16,540,016	₱426,467,933
As of January 1, 2009	₱150,000,000	₱643,832	₱182,123,738	(₱3,124,004)	(₱20,931,161)	₱308,712,405
Net income for the year	–	–	–	–	13,489,142	13,489,142
Other comprehensive income	–	–	–	3,543,971	–	3,543,971
Total recognized income for the year	–	–	–	3,543,971	13,489,142	17,033,113
As of December 31, 2009	₱150,000,000	₱643,832	₱182,123,738	₱419,967	(₱7,442,019)	₱325,745,518

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.**STATEMENTS OF CASH FLOWS**

	Years Ended December 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱30,675,813	₱14,939,485
Adjustments for:		
Dividend income	(2,459,210)	(1,124,312)
Depreciation and amortization (Notes 10 and 18)	3,875,694	3,509,308
Gain on sale of:		
AFS investments (Note 6)	(6,965,430)	(2,550,242)
Property and equipment (Note 10)	(210,496)	(135,999)
Interest expense	1,739,447	1,480,111
Interest income (Note 16)	(33,773,591)	(27,630,429)
Operating loss before working capital changes	(7,117,773)	(11,512,078)
Decrease (increase) in:		
Insurance receivables (Note 5)	(30,061,589)	93,702,901
Reinsurance recoverable on unpaid losses (Note 8)	280,755,669	(332,479,623)
Deferred reinsurance premiums (Note 8)	(14,364,492)	(17,908,795)
Loans and receivables (Note 6)	(569,379)	(472,503)
Deferred acquisition costs (Note 9)	(12,002,751)	2,351,476
Net plan assets	(589,191)	–
Other assets	6,363,476	(4,097,131)
Increase (decrease) in:		
Provision for unearned premiums (Notes 11 and 15)	37,114,739	23,812,861
Provision for claims reported and IBNR (Notes 11 and 17)	(287,834,165)	406,336,675
Insurance payables (Note 12)	14,682,370	(37,597,591)
Accounts payable and other liabilities (Note 13)	15,070,043	26,207,443
Deferred reinsurance commissions (Note 9)	6,909,115	(2,329,382)
Retirement benefit liability (Note 19)	(5,544,828)	1,316,828
Net cash provided by operations	2,811,244	147,331,081
Income tax paid	(7,818,671)	(6,646,095)
Net cash provided by (used in) operating activities	(5,007,427)	140,684,986
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	26,356,955	28,409,694
Dividend received	2,459,210	1,124,312
Acquisition of:		
Available-for-sale financial assets (Note 6)	(289,443,155)	(208,055,253)
Property and equipment (Note 10)	(4,957,689)	(4,262,747)
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 6)	236,633,671	43,072,523
Property and equipment (Note 10)	228,917	500,000
Net cash used in investing activities	(28,722,091)	(139,211,471)

(Forward)



	Years Ended December 31	
	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Subscription of additional shares (Note 14)	₱50,000,000	₱-
Interest paid	(1,739,447)	(1,480,111)
Net cash provided by (used in) financing activities	48,260,553	(1,480,111)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,531,035	(6,596)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	107,895,640	107,902,236
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱122,426,675	₱107,895,640

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

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

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on March 10, 2011.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted in the preparation of the Company’s financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective January 1, 2010. Except as otherwise indicated, the adoption of the new and amended Standards and Philippine Interpretations did not have a significant impact on the financial statements.

- PFRS 2, *Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions*

The Amendment clarified the scope and the accounting for group cash-settled share-based payment transactions.



- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended), *Consolidated and Separate Financial Statements*

PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*

The Amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
This Philippine Interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to PFRSs

Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

Improvements to PFRSs 2008

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction.

Improvements to PFRSs 2009

- PFRS 2, *Share-based Payment*
This Amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3.
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
This amendment clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.



- *PFRS 8, Operating Segments*
This amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- *PAS 1, Presentation of Financial Statements*
This Amendment clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- *PAS 7, Statement of Cash Flows*
This amendment states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.
- *PAS 17, Leases*
This amendment removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either ‘finance’ or ‘operating’ in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- *PAS 36, Impairment of Assets*
This amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- *PAS 38, Intangible Assets*
This Amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- *PAS 39, Financial Instruments: Recognition and Measurement*
This Amendment clarifies the following: 1) that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; 2) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken and 3) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- *Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives*
This Philippine Interpretation clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.



- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This Philippine Interpretation states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Future Changes in Accounting Policies

The Company will adopt the following amended standards and Philippine Interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the financial statements.

Effective 2011

- PAS 24 (Amended), *Related Party Disclosures*
The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*
The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010. It amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
- Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*
The amendment to the Interpretation is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
This Philippine Interpretation is effective for annual periods beginning on or after July 1, 2010. The Philippine Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.



Improvements to PFRSs 2010

Improvements to PFRSs is an omnibus of amendments to PFRSs. The following amendments have not been adopted as they will become effective either for annual periods July 1, 2010 or January 1, 2011:

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Reporting*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

The Company expects no impact from the adoption of the amendments on its financial position or performance.

Effective 2012

- Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*
The Philippine Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The adoption of this Philippine Interpretation will be accounted for retrospectively, and will result to restatement of prior period financial statements.
- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*
The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.
- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Disclosures - Transfers of Financial Assets*
The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Effective 2013

- PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as



defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Use of Estimates, Assumptions and Judgments

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

Cash and Cash Equivalents

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

Insurance Receivables

Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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



Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Day 1 profit

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

Loans and receivables

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

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

AFS investments

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

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized in profit or loss when the right to receive payment has been established. The unrealized gains and losses arising from the fair valuation of



AFS investments are reported as 'Revaluation reserve on available-for-sale financial assets' in other comprehensive income. The losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as realized gains or losses in profit or loss.

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

Other financial liabilities

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

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

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

Offsetting

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

Impairment of Financial Assets

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

Financial Assets carried at amortized cost

For financial assets carried at amortized cost (e.g., loans and receivables, HTM investments), the Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.



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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

AFS investments carried at fair value

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

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



AFS investments carried at cost

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

Derecognition of Financial Assets and Liabilities

Financial Asset

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

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

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

Financial Liability

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

Reinsurance

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

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

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



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

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

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

Deferred Acquisition Costs (DAC)

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

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

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

Property and Equipment

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

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

Subsequent costs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the items can be measured reliably. All other repairs and maintenance are charged against profit or loss as incurred.



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

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

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

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

Impairment of Nonfinancial Assets

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

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

Product Classification

Insurance Contracts

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the



policyholder. As a general guideline, the Company defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired.

Insurance Contract Liabilities

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

Provision for Unearned Premiums

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

Claims Provision and Incurred But Not Reported (IBNR) Losses

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

Liability Adequacy Test

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



Pension Cost

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, actuarial gains and losses and the effect of any curtailment or settlement.

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

The liability recognized in the statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses that shall be recognized in later periods.

The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by using risk-free interest rates of long-term government bonds that have terms to maturity approximating the terms of the related pension liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

Actuarial gains and losses is recognized in profit or loss if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Equity

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

Contributed surplus includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

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

Retained earnings (deficit) include all the accumulated earnings (losses) of the Company.

Revenue

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



Premiums Revenue

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

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

Reinsurance Commissions

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

Interest income

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

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

Dividend income

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

Benefits and Claims

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



Operating Expenses

Operating expenses are recognized as expense as they are incurred.

Leases

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

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

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

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

Foreign Exchange Transactions

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

Provisions and Contingencies

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

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



Income Tax

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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

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

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

Events after the Reporting Period

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



3. Significant Accounting Judgments and Estimates

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

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

Judgments

Operating leases

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

Financial assets not quoted in an active market

The Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis.

Estimates

Claims liabilities arising from insurance contracts

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the end of the reporting period. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each end of the reporting period, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Nonlife insurance claims provisions are not discounted for the time value of money.

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



As of December 31, 2010, the carrying values of provision for outstanding claims and IBNR amounted to ₱361,330,798 and ₱46,042,625, respectively. As of December 31, 2009, the carrying values of provision for outstanding claims and IBNR amounted to ₱658,252,977 and ₱36,954,611, respectively (see Note 11).

Fair Values of Financial Assets and Liabilities

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating 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 were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value of these financial assets and liabilities would affect the statement of other comprehensive income.

The carrying value of AFS financial assets is ₱519,424,385 and ₱426,085,432 as of December 31, 2010 and 2009, respectively (see Note 6).

Impairment of Financial Assets

The Company determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. This determination of what is significant or prolonged decline requires judgment. The Company treats 'significant' generally as 20% or more or 'prolonged' greater than 12 months. In addition, the Company evaluates other factors, including the normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, like changes in technology, and operational and financing cash flows.

The Company reviews its loans and receivables at each end of the reporting period to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

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



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

Insurance receivables, net of allowance for doubtful accounts, amounted to ₱210,093,254 and ₱180,031,665 as of December 31, 2010 and 2009, respectively (see Note 5). Loans and receivables amounted to ₱2,847,950 and ₱2,278,571 as of December 31, 2010 and 2009, respectively (see Note 6).

Estimated Useful Lives of Property and Equipment

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

As of December 31, 2010 and 2009, property and equipment amounted to ₱12,936,362 and ₱11,872,789, respectively (see Note 10).

Impairment of nonfinancial assets

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

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

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

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

As of December 31, 2010 and 2009, property and equipment amounted to ₱12,936,362 and ₱11,872,789, respectively (see Note 10).

Pension and Other Employee Benefits

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



Those assumptions are described in Note 19 and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Company believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations. Please see Note 19 for the related balances.

Recognition of Deferred Tax Assets

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

The Company recognized net deferred tax assets amounting to ₱3,586,351 and ₱2,461,459 as of December 31, 2010 and 2009 since management believes that the related tax benefits will be realized in the future (see Note 20).

4. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand and in banks	₱85,315,460	₱57,766,424
Short-term deposits	37,111,215	50,129,216
	₱122,426,675	₱107,895,640

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Company and earn interest at the rates ranging from 2.00% to 4.00% in 2010 and 2.25% to 5.00% in 2009.

5. Insurance Receivables - net

This account consists of:

	2010	2009
Due from brokers and agents	₱195,148,873	₱127,954,320
Funds held by ceding companies (see Note 22)	1,857,034	47,811,484
Reinsurance recoverable on paid losses	14,618,127	5,746,950
Due from ceding companies	5,841,883	8,000,653
	217,465,917	189,513,407
Less allowance for doubtful accounts	7,372,663	9,481,742
	₱210,093,254	₱180,031,665



The following table shows aging information of insurance receivables:

December 31, 2010

	< 30 days	30 > 90 days	90 > 180 days	180 > 240 days	240 > 360 days	Total
Due from brokers and agents	₱33,396,878	₱85,551,480	₱56,002,029	₱9,023,127	₱11,175,359	₱195,148,873
Funds held by ceding companies	-	-	1,857,034	-	-	1,857,034
Reinsurance recoverable on paid losses	67,041	3,278,524	5,570,780	683,414	5,018,368	14,618,127
Due from ceding companies	205,280	480,682	1,460,174	267,481	3,428,266	5,841,883
	₱33,669,199	₱89,310,686	₱64,890,017	₱9,974,022	₱19,621,993	₱217,465,917

December 31, 2009

	< 30 days	30 > 90 days	90 > 180 days	180 > 240 days	240 > 360 days	Total
Due from brokers and agents	₱9,981,402	₱53,528,453	₱51,772,746	₱8,004,330	₱4,667,389	₱127,954,320
Funds held by ceding companies	-	-	47,811,484	-	-	47,811,484
Reinsurance recoverable on paid losses	54,887	757,771	1,240,349	1,938,296	1,755,647	5,746,950
Due from ceding companies	8,459	1,362,191	3,220,397	1,235,113	2,174,493	8,000,653
	₱10,044,748	₱55,648,415	₱104,044,976	₱11,177,739	₱8,597,529	₱189,513,407

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

December 31, 2010

	Due from brokers and agents	Funds held by ceding companies	Reinsurance recoverable on paid losses	Due from ceding companies	Total
At January 1, 2010	₱9,481,742	₱-	₱-	₱-	₱9,481,742
Impairment (reversals) during the year	(5,797,460)	-	3,170,290	518,091	(2,109,079)
At December 31, 2010	₱3,684,282	₱-	₱3,170,290	₱518,091	₱7,372,663
Individually impaired	₱1,507,480	₱-	₱2,241,849	₱42,157	₱3,791,486
Collectively impaired	2,176,802	-	928,441	475,934	3,581,177
	₱3,684,282	₱-	₱3,170,290	₱518,091	₱7,372,663

December 31, 2009

	Due from brokers and agents	Funds held by ceding companies	Reinsurance recoverable on paid losses	Due from ceding companies	Total
At January 1, 2009	₱7,425,381	₱-	₱-	₱-	₱7,425,381
Impairment during the year	2,056,361	-	-	-	2,056,361
At December 31, 2009	₱9,481,742	₱-	₱-	₱-	₱9,481,742
Individually impaired	₱2,485,354	₱-	₱-	₱-	₱2,485,354
Collectively impaired	6,996,388	-	-	-	6,996,388
	₱9,481,742	₱-	₱-	₱-	₱9,481,742



6. Financial Assets

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

	2010	2009
AFS financial assets	₱519,424,385	₱426,085,432
Loans and receivables	2,847,950	2,278,571
	₱522,272,335	₱428,364,003

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

a) AFS financial assets

	2010	2009
Quoted securities - at fair value		
Listed equity securities:		
Common shares	₱4,599,400	₱4,655,009
Preferred shares	33,401,993	10,400,000
Government debt securities:		
Local currency	404,153,478	350,999,418
Foreign currency	45,308,640	29,554,955
Private debt securities	30,340,874	30,456,050
Non-quoted securities - at cost		
Unlisted equity securities:		
Common shares	1,620,000	20,000
Total AFS financial assets recognized in the statements of financial position	₱519,424,385	₱426,085,432

	2010	2009
Quoted securities - at cost or amortized cost		
Listed equity securities		
Common shares	₱708,960	₱707,760
Preferred shares	30,000,026	10,000,000
Government debt securities		
Local currency	383,788,300	354,636,622
Foreign currency	45,805,878	29,845,033
Private debt securities	30,340,874	30,456,050
Non-quoted securities - at cost		
Unlisted equity securities:		
Common shares	1,620,000	20,000
Total AFS financial assets at cost or amortized cost	₱492,264,038	₱425,665,465

As of December 31, 2010 and 2009, the unrealized gains in respect of AFS financial assets recorded in equity amounted to ₱27,160,347 and ₱419,967, respectively.



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

	2010	2009
At January 1	₱426,085,432	₱256,542,870
Additions	289,443,155	208,055,253
Disposals/maturities	(236,663,671)	(43,072,523)
Amortization of bond discount (premium)	6,823,659	(1,534,381)
Fair value gains credited to other comprehensive income	33,705,810	6,094,213
At December 31	₱519,394,385	₱426,085,432

b) *Loans and receivables*

This account consists of the following:

	2010	2009
Intercompany accounts receivable (see Notes 21 and 22)	₱1,841,901	₱1,768,926
Accounts receivable (see Note 21)	87,064	54,764
Miscellaneous receivables (see Note 21)	918,985	454,881
	₱2,847,950	₱2,278,571

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

As of December 31, 2010 and 2009, the Company's outstanding loans and receivables are all due within one year.

7. Accrued Income

Accrued income consists of interest receivable amounting to ₱6,883,062 and ₱6,290,083 as of December 31, 2010 and 2009, respectively, which pertains mainly to interest accrued arising from cash and cash equivalents, AFS debt securities and contributions to the security fund.

8. Reinsurance Assets

This account consists of the following:

	2010	2009
Reinsurance recoverable on unpaid losses (see Note 11)	₱267,155,713	₱547,911,382
Deferred reinsurance premiums (see Note 11)	133,845,838	119,481,346
	₱401,001,551	₱667,392,728



9. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs

The rollforward analysis of this account follows:

	2010	2009
At January 1	P58,310,675	P60,662,150
Costs deferred during the year	151,395,133	146,177,900
Amortization during the year	(139,392,382)	(148,529,375)
At December 31	P70,313,426	P58,310,675

Deferred Reinsurance Commissions

The rollforward analysis of this account follows:

	2010	2009
At January 1	P18,478,372	P20,807,754
Income deferred during the year	56,540,222	43,667,595
Amortization during the year	(49,631,107)	(45,996,977)
At December 31	P25,387,487	P18,478,372

10. Property and Equipment

The rollforward analysis of this account follows:

December 31, 2010

	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2010	P12,381,893	P5,590,310	P43,190,206	P4,136,868	P3,250,000	P68,549,277
Additions	1,639,013	896,239	1,919,369	503,068	-	4,957,689
Disposals	(700,000)	-	(22,551)	(62,840)	-	(785,391)
At December 31, 2010	13,320,906	6,486,549	45,087,024	4,577,096	3,250,000	72,721,575
Accumulated depreciation and amortization						
At January 1, 2010	6,060,007	5,209,892	40,991,854	3,724,110	690,625	56,676,488
Depreciation and amortization	2,053,982	323,498	1,036,888	298,826	162,500	3,875,694
Disposal	(699,999)	-	(4,134)	(62,836)	-	(766,969)
At December 31, 2010	7,413,990	5,533,390	42,024,608	3,960,100	853,125	59,785,213
Net book value as of December 31, 2010	P5,906,916	P953,159	P3,062,416	P616,996	P2,396,875	P12,936,362



December 31, 2009

	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2009	₱9,975,259	₱5,490,140	₱42,290,732	₱4,120,399	₱3,250,000	₱65,126,530
Additions	3,246,634	100,170	899,474	16,469	–	4,262,747
Disposals	(840,000)	–	–	–	–	(840,000)
At December 31, 2009	12,381,893	5,590,310	43,190,206	4,136,868	3,250,000	68,549,277
Accumulated depreciation and amortization						
At January 1, 2009	4,760,096	4,902,923	40,035,771	3,416,264	528,125	53,643,179
Depreciation and amortization	1,775,910	306,969	956,083	307,846	162,500	3,509,308
Disposal	(475,999)	–	–	–	–	(475,999)
At December 31, 2009	6,060,007	5,209,892	40,991,854	3,724,110	690,625	56,676,488
Net book value as of December 31, 2009	₱6,321,886	₱380,418	₱2,198,352	₱412,758	₱2,559,375	₱11,872,789

Depreciation and amortization expense charged against operations amounted to ₱3,875,694 and ₱3,509,308 in 2010 and 2009, respectively (see Note 18).

11. Insurance Contract Liabilities and Reinsurance Assets

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

	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 8)	Net 2010	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 8)	Net 2009
Provision for claims reported and loss adjustment expenses	₱361,330,798	₱238,103,003	₱123,227,795	₱658,252,977	₱522,072,796	₱136,180,181
Provision for IBNR losses	46,042,625	29,052,710	16,989,915	36,954,611	25,838,586	11,116,025
Total claims reported and IBNR	407,373,423	267,155,713	140,217,710	695,207,588	547,911,382	147,296,206
Provision for unearned premiums	325,657,091	133,845,838	191,811,253	288,542,352	119,481,346	169,061,006
Total insurance contract liabilities	₱733,030,514	₱401,001,551	₱332,028,963	₱983,749,940	₱667,392,728	₱316,357,212

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

	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 8)	Net 2010	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 8)	Net 2009
At January 1	₱695,207,588	₱547,911,382	₱147,296,206	₱288,870,913	₱215,431,759	₱73,439,154
Claims incurred during the year	216,561,436	19,194,337	197,367,099	709,061,911	483,704,026	225,357,885
Claims paid during the year - net of salvage and subrogation (see Note 17)	(513,483,615)	(303,164,130)	(210,319,485)	(333,063,239)	(174,455,391)	(158,607,848)
Increase in IBNR	9,088,014	3,214,124	5,873,890	30,338,003	23,230,988	7,107,015
At December 31	₱407,373,423	₱267,155,713	₱140,217,710	₱695,207,588	₱547,911,382	₱147,296,206



Provision for unearned premiums may be analyzed as follows:

	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 8)	Net 2010	Insurance Contract Liabilities	Reinsurers' share of liabilities (see Note 8)	Net 2009
At January 1	₱288,542,352	₱119,481,346	₱169,061,006	₱264,729,491	₱101,572,551	₱163,156,940
New policies written during the year (see Note 15)	708,801,474	321,412,463	387,389,011	680,910,825	273,773,677	407,137,148
Premiums earned during the year (see Note 15)	(671,686,735)	(307,047,971)	(364,638,764)	(657,097,964)	(255,864,882)	(401,233,082)
At December 31	₱325,657,091	₱133,845,838	₱191,811,253	₱288,542,352	₱119,481,346	₱169,061,006

12. Insurance Payables

This account consists of:

	2010	2009
Due to reinsurers and ceding companies (see Note 21)	₱47,727,230	₱36,774,290
Funds held for reinsurers (see Note 21)	25,190,825	21,461,395
	₱72,918,055	₱58,235,685

The rollforward analysis of insurance payables follows:

	Due to reinsurers and ceding companies	Funds held for reinsurers	Total
At January 1, 2009	₱78,285,241	₱17,548,035	₱95,833,276
Arising during the year	124,039,958	21,461,393	145,501,351
Utilized	(165,550,909)	(17,548,033)	(183,098,942)
At December 31, 2009	36,774,290	21,461,395	58,235,685
Arising during the year	11,508,332	3,729,430	15,237,762
Utilized	(555,391)	–	(555,391)
At December 31, 2010	₱47,727,230	₱25,190,825	₱72,918,055

13. Accounts Payable and Other Liabilities

This account consists of:

	2010	2009
Commission payable	₱40,551,810	₱17,290,115
Accounts payable	26,830,989	44,177,433
Output value added tax (VAT)	21,170,957	13,106,090
Withholding taxes payable	5,675,659	2,505,727
Documentary stamp tax	3,323,333	6,213,156
Others	4,125,350	3,315,531
	₱101,678,098	₱86,608,052



14. Capital Stock

The Company's capital stock consists of:

	2010		2009	
	Shares	Amount	Shares	Amount
Authorized: Common stock				
₱1,000 par value	300,000	₱300,000,000	300,000	₱300,000,000
Issued and outstanding:				
At beginning of year	150,000	₱150,000,000	150,000	₱150,000,000
Issuances during the year	50,000	50,000,000	-	-
Conversion of contingency surplus	50,000	50,000,000	-	-
At end of the year	250,000	₱250,000,000	150,000	₱150,000,000

As mandated per DOF 27-06, the minimum paid-up capital for 2009 of companies with 40% or less foreign equity is ₱200,000,000. To comply with this requirement, the Company's major shareholders infused additional capital of ₱50,000,000 last January 15, 2010.

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

15. Net Insurance Earned Premiums

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

	2010	2009
Gross premiums on insurance contracts:		
Direct insurance	₱534,799,702	₱388,056,576
Assumed reinsurance	174,001,772	292,854,249
Total gross premiums on insurance contracts (see Note 11)	708,801,474	680,910,825
Gross change in provision for unearned premiums (see Note 11)	(37,114,739)	(23,812,861)
Total gross earned premiums on insurance contracts	671,686,735	657,097,964
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	170,929,418	133,164,295
Assumed reinsurance	150,483,045	140,609,382
Total reinsurers' share of gross premiums on insurance contracts (see Note 11)	321,412,463	273,773,677
Reinsurers' share of gross change in provision for unearned premiums (see Note 1)	(14,364,492)	(17,908,795)
Total reinsurers' share of gross earned premiums on insurance contracts	307,047,971	255,864,882
Total net insurance earned premiums	₱364,638,764	₱401,233,082



16. Interest Income

This account consists of:

	2010	2009
Interest income on:		
AFS financial assets	₱30,516,965	₱22,673,167
Cash and cash equivalents	2,531,420	4,177,375
Treaty reinsurance	700,859	777,813
Security fund	24,347	2,074
	₱33,773,591	₱27,630,429

17. Net Insurance Benefits and Claims

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

	2010	2009
Insurance contract benefits and claims paid:		
Direct insurance	₱416,264,855	₱232,547,356
Assumed reinsurance	97,218,760	100,515,883
Total insurance contract benefits and claims paid (see Note 11)	₱513,483,615	₱333,063,239

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

	2010	2009
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	₱283,938,819	₱170,375,345
Assumed reinsurance	19,225,311	4,080,046
Total reinsurers' share of insurance contract benefits and claims paid (see Note 11)	₱303,164,130	₱174,455,391

Gross change in insurance contract liabilities:

	2010	2009
Change in provision for claims reported (see Note 11):		
Direct insurance	(₱312,280,089)	₱326,745,964
Assumed reinsurance	15,357,910	49,252,708
Change in provision for IBNR	9,088,014	30,338,003
Total gross change in insurance contract liabilities	(₱287,834,165)	₱406,336,675



Reinsurers' share of gross change in insurance contract liabilities:

	2010	2009
Reinsurers' share of gross change in insurance contract liabilities (see Note 11):		
Direct insurance	(₱283,969,793)	₱309,248,635
Reinsurers' share of change in provision for IBNR	3,214,124	23,230,988
Total reinsurers' share of gross change in insurance contract liabilities	(₱280,755,669)	₱332,479,623

18. Operating Expenses

This account consists of:

	2010	2009
Salaries and employee benefits (see Note 19)	₱39,790,880	₱36,579,675
Rent	7,657,297	7,493,755
Communication, light and water	5,538,259	6,370,385
Advertising and promotion	5,444,420	4,037,687
Outside services	4,653,526	3,539,734
Depreciation and amortization (see Note 10)	3,875,694	3,509,308
Repairs and maintenance	3,681,331	3,001,173
Entertainment, amusement and recreation	3,276,249	2,536,213
Printing and office supplies	3,067,410	2,803,449
Insurance	3,011,321	2,582,759
Taxes and licenses	1,846,915	2,838,141
Transportation and travel	1,760,169	1,737,119
Agency fees	791,577	705,548
Data processing fees	765,303	1,031,492
Bank service fees	378,801	175,984
Survey fees	322,528	379,519
Director's fees	189,556	601,000
Donations and contributions	137,438	103,686
Provision for (recovery of) allowance for doubtful accounts (see Note 5)	(2,109,079)	2,056,361
Miscellaneous	4,806,877	2,611,424
	₱88,886,472	₱84,694,412



19. Retirement Plan

The Company has a funded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

Pension Expense

	2010	2009
Current service cost	₱1,557,355	₱1,078,043
Interest cost	714,464	328,043
Net actuarial loss (gain) recognized during the year	15,410	(89,258)
Total pension expense	₱2,287,229	₱1,316,828
Actual return on plan assets	₱344,586	₱-

Retirement Benefit Liability (Asset)

	2010	2009
Plan assets	₱8,765,834	₱-
Benefit obligation	9,938,270	6,554,720
	(1,172,436)	(6,554,720)
Unrecognized net actuarial loss	1,761,627	1,009,892
Benefit asset (liability)	₱589,191	(₱5,544,828)

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

	2010	2009
Opening defined benefit obligation	₱6,554,720	₱1,896,200
Current service cost	1,557,355	1,078,043
Interest cost	714,464	328,043
Actuarial loss on obligation	1,111,731	3,252,434
At end of year	₱9,938,270	₱6,554,720

Changes in fair value of plan assets are as follows:

	2010	2009
Opening fair value of plan assets	₱-	₱-
Contributions	8,421,248	-
Actuarial gain	344,586	-
At end of year	₱8,765,834	₱-



Changes in unrecognized net actuarial losses (gains) are as follows:

	2010	2009
At beginning of year	₱1,009,892	(₱2,331,800)
Actuarial loss on obligation	1,111,731	3,252,434
Actuarial gain on plan assets	(344,586)	-
Actuarial loss (gain) recognized	(15,410)	89,258
At end of year	₱1,761,627	₱1,009,892

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

	2010	2009
Discount rate	7.93%	10.90%
Salary rate increase	5.00%	5.00%

Amounts for the current and previous years are as follows:

	2010	2009	2008	2007
Plan assets	₱8,765,834	₱-	₱-	₱-
Defined benefit obligation	9,938,270	6,554,720	1,896,200	4,040,900
Deficit	(1,172,436)	(6,554,720)	(1,896,200)	(4,040,900)
	2010	2009	2008	2007
Experience adjustments:				
Gain (loss) on plan liabilities	₱706,970	(₱484,427)	(₱183,200)	₱1,004,700
Gain on plan assets	344,586	-	-	-

The Company does not plan to contribute to the retirement fund in 2011.

Staff costs and other employee related costs:

	2010	2009
Salaries and wages	₱26,813,432	₱25,229,275
Net benefit expense	2,287,229	1,316,828
Others	10,678,219	10,033,572
	₱39,778,880	₱36,579,675



20. Income Tax

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

	2010	2009
Deferred tax assets on:		
Excess of provision for unearned premiums per books over per tax basis	₱14,734,157	₱7,614,164
Deferred reinsurance commissions	7,616,246	5,543,512
Incurred but not reported losses	5,096,975	3,334,808
Allowance for doubtful accounts	2,211,799	2,844,523
Unrealized foreign exchange loss	1,270,031	339,457
Accrued retirement	-	1,663,448
Excess MCIT	-	1,563,323
NOLCO	-	1,427,762
Total deferred tax assets	30,929,208	24,330,997
Deferred tax liabilities on:		
Deferred acquisition costs	21,094,028	17,493,203
Excess of deferred reinsurance premiums per books over tax basis	6,072,071	4,376,335
Pension asset	176,758	-
Total deferred tax liabilities	27,342,857	21,869,538
Net deferred tax assets	₱3,586,351	₱2,461,459

As of December 31, 2010, the temporary differences for which no deferred tax assets have been set up because the Company believes that there will be no future taxable profit against which the benefit from these can be utilized consist of excess MCIT and unamortized pension cost amounting to ₱1,391,213 and ₱6,177,504, respectively.

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

	2010	2009
Tax at statutory income tax rate	₱9,202,744	₱4,481,846
Add (deduct) tax effects of:		
Change in unrecognized deferred tax assets	3,811,797	-
Interest income subjected to final tax	(3,493,371)	(2,373,169)
Gain on sale of investments in government securities	(2,089,629)	(765,073)
Dividend income	(737,763)	(337,294)
Nondeductible expenses	-	444,033
Effective income tax	₱6,693,778	₱1,450,343



As of December 31, 2010, the excess of the MCIT over the normal tax which can be claimed as a deduction against future income tax due, are as follows:

<u>Year Incurred</u>	<u>MCIT</u>	<u>Expiry Date</u>
2008	₱31,889	December 31, 2011
2009	964,101	December 31, 2012
2010	395,223	December 31, 2013
	<u>₱1,391,213</u>	

The 2007 MCIT amounting to ₱567,333 expired in 2010.

In 2010, NOLCO amounting to ₱4,759,207 from 2009 was fully utilized.

21. Management of Capital, Insurance and Financial Risks

Governance Framework

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

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

The Company has yet to outline its own risk management manual with the appointment of the Chief Operating Officer as the chairman of the committee and the Compliance Department as the designated personnel in charge with this program. Meantime, the Company is on the regular identification, evaluation and review of the risk factors of every department through semi-annual submission of the risk scorecards to its parent company in Kuala Lumpur, Malaysia.

Regulatory Framework

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

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

As mandated by the IC, most of the additional capital infusions are invested in government securities.



Capital Management Framework

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators as imposed under Department of Finance Order (DO) 27-06 and the amount computed under the Risk Based Capital (RBC) Model.

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

Margin of Solvency (MOS)

Under the Insurance Code, a nonlife insurance company doing business in the Philippines shall maintain, at all times, an MOS equal to ₱500,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The MOS shall be the excess of the value of its admitted assets (as defined under the same Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums, and reinsurance reserves. Provision for unearned premiums as of December 31, 2010, determined in accordance with the same Code for purposes of MOS, amounted to ₱162,937,631. In the accompanying financial statements, the net Provision for unearned premiums amounted to ₱191,811,253 computed as Provision for unearned premiums of ₱325,657,091 less deferred reinsurance premiums of ₱133,845,838 (see Note 11).

The estimated amounts of nonadmitted assets as of December 31, 2010 and 2009, as defined under the Code, which are included in the accompanying statements of financial position follow:

	2010	2009
Premiums in course of collection (direct)	₱94,010,755	₱57,755,767
Intercompany accounts receivable	1,841,901	1,768,926
Accounts receivables	87,064	54,764
Property and equipment - net	7,477,072	7,115,062
Miscellaneous receivables	918,985	454,881
Other assets	9,309,163	15,672,636
	₱113,644,940	₱82,822,036

As of December 31, 2010 and 2009, the Company's MOS, based on its estimate, amounted to ₱69,076,516 and ₱31,948,617, respectively, for which the Company is in excess by ₱28,362,802 and is deficient by ₱6,051,045 of the required MOS of ₱40,713,714 and ₱37,999,662, respectively. The deficiency in 2009 is a result of the implementation of the minimum paid-up capital requirement of ₱200,000,000 for the year which was subsequently covered up in full with the additional ₱50 million capital infusion made by shareholders on January 15, 2010 (see Note 14). The final amount of the MOS can only be determined after the accounts of the Company have been examined by the IC, particularly with respect to the determination of admitted and nonadmitted assets.



Fixed Capitalization Requirements

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

Based on the scheduled increases under DO 27-06, the required statutory net worth and minimum paid-up capital for the Company amounted to ₱500,000,000 and ₱250,000,000, respectively, as of December 31, 2010 and ₱400,000,000 and ₱200,000,000, respectively as of December 31, 2009.

On October 29, 2008, the IC issued Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with requirements of IMC No. 10-2006, the scheduled increases due December 31, 2007 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007. Based on this Circular Letter, the required statutory net worth and minimum paid-up capital for the Company amounted to ₱500,000,000 and ₱250,000,000, respectively, as of December 31, 2010 and ₱400,000,000 and ₱200,000,000, respectively, as of December 31, 2009.

As of December 31, 2010, the Company has complied with the minimum paid-up capital requirement while the Company's statutory net worth based on its computation amounted to ₱319,076,516.

Unimpaired capital requirement

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

Risk-based Capital Requirements

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

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

The following table shows how the RBC ratio as of December 31, 2010 and 2009 was determined by the Company:

	2010	2009
Net worth	₱319,076,516	₱309,495,426
RBC requirement	223,013,941	325,221,616
RBC Ratio	143%	95%



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

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

Consolidated Compliance Framework

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

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rate is 250%. For the review year 2011 which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%. For the review year 2010, which shall be based on the 2009 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle rate is 200%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

Based on IC Circular Letter No. 26-2008 and DO 27-06, the next level of capital requirement for the Company subsequent to December 31, 2010 will be ₱600,000,000 for statutory net worth and ₱300,000,000 for minimum paid-up capital.

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

Insurance Risk

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

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

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

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



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

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

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

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

December 31, 2010

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Marine	₱123,036,405	₱109,271,273	₱ 13,765,132
Motor	122,402,960	34,336,857	88,066,103
Fire	84,776,581	₱71,920,933	₱12,855,648
Engineering	34,595,262	30,755,537	3,839,725
General Accounts	21,742,356	14,118,957	7,623,399
Personal Accident	15,694,604	3,883,122	11,811,481
Bonds	5,125,255	2,869,034	2,256,222
Total	₱407,373,423	₱267,155,713	₱140,217,710

December 31, 2009

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	₱302,594,728	₱279,599,112	₱22,995,616
Motor	190,778,368	99,620,668	91,157,700
Marine	132,938,399	121,891,341	11,047,058
Engineering	40,916,739	36,492,910	4,423,829
General Accounts	14,468,669	6,380,323	8,088,346
Personal Accident	9,619,895	1,860,046	7,759,849
Bonds	3,890,790	2,066,982	1,823,808
Total	₱695,207,588	₱547,911,382	₱147,296,206



Terms and Conditions

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

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

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

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

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example once off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions include variation in interest rate, delays in settlement and changes in foreign currency rates.

Sensitivities

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

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

December 31, 2010

	Change in assumptions	Increase/(decrease) on gross liabilities	Increase/(decrease) on net liabilities	Increase/(decrease) on profit before tax	Increase/(decrease) on equity
Average claim cost	+15%	₱61,106,013	₱40,073,357	(₱40,073,357)	(₱28,051,350)
Average number of claims	+10%	40,737,342	26,715,571	(26,715,571)	(18,700,900)
Average claim settlement period	Reduced from 2 months to 1 month	28,516,140	18,700,900	(18,700,900)	(13,090,630)



December 31, 2009

	Change in assumptions	Increase/(decrease) on gross liabilities	Increase/(decrease) on net liabilities	Increase/(decrease) on profit before tax	Increase/(decrease) on equity
Average claim cost	+15%	₱104,281,138	₱82,186,707	(₱82,186,707)	(₱57,530,695)
Average number of claims	+10%	69,520,759	54,791,138	(54,791,138)	(38,353,797)
Average claim settlement period	Reduced from 2 months to 1 month	48,664,531	38,353,797	(38,353,797)	(26,947,658)



Claims Development Table

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

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

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

Accident year	Prior years	2004	2005	2006	2007	2008	2009	2010	Total
Estimate of ultimate claims costs:									
At the end of accident year	₱247,064,230	₱200,893,231	₱221,143,622	₱203,233,292	₱176,540,244	₱354,020,024	₱703,455,884	₱351,768,139	₱351,768,139
One year later	280,735,320	243,524,364	228,127,026	242,876,952	210,016,821	350,711,481	617,311,664	–	617,311,664
Two years later	286,430,690	243,692,311	249,290,190	242,908,209	209,733,446	349,210,333	–	–	349,210,333
Three years later	286,855,626	243,692,311	249,297,669	243,951,003	209,649,710	–	–	–	209,649,710
Four years later	286,883,531	243,692,311	250,051,455	203,801,487	–	–	–	–	203,801,487
Five years later	286,883,531	243,844,640	250,320,833	–	–	–	–	–	250,320,833
Six years later	288,136,686	244,005,563	–	–	–	–	–	–	244,005,563
Seven years later	288,335,951	–	–	–	–	–	–	–	207,072,477
Eight years later	81,378,485	–	–	–	–	–	–	–	80,819,526
Nine years later	558,959	–	–	–	–	–	–	–	558,959
Current estimate of cumulative claims	288,450,962	244,005,563	250,320,833	203,801,487	209,649,710	349,210,333	617,311,664	351,768,139	2,514,518,691
Cumulative payments to date	(258,450,962)	(244,005,563)	(250,320,833)	(191,610,619)	(207,986,599)	(340,659,306)	(553,557,826)	(137,711,037)	(2,184,302,745)
Total net insurance liabilities included in the statement of financial position	₱30,000,000	₱–	₱–	₱12,190,868	₱1,663,111	₱8,551,027	₱63,753,838	₱214,057,102	₱330,215,946



Accident year	Prior years	2004	2005	2006	2007	2008	2009	2010	Total
Estimate of ultimate claims costs:									
At the end of accident year	₱161,145,509	₱99,672,402	₱174,725,047	₱134,133,973	₱125,625,286	₱116,148,062	₱212,252,765	₱154,584,623	₱154,584,623
One year later	184,409,758	139,003,958	183,330,768	174,339,641	130,533,162	100,305,430	280,268,882	-	280,268,882
Two years later	185,168,364	161,516,416	184,261,160	174,539,493	130,456,897	100,047,676	-	-	100,047,676
Three years later	209,691,172	161,516,416	184,273,144	174,957,885	130,364,269	-	-	-	130,364,269
Four years later	210,747,643	161,516,416	184,372,296	175,044,463	-	-	-	-	175,044,463
Five years later	210,747,643	161,651,565	184,402,354	-	-	-	-	-	184,402,354
Six years later	210,747,643	161,789,349	-	-	-	-	-	-	161,789,349
Seven years later	210,862,985	-	-	-	-	-	-	-	157,568,971
Eight years later	53,334,181	-	-	-	-	-	-	-	52,891,126
Nine years later	443,055	-	-	-	-	-	-	-	443,055
Current estimate of cumulative claims	210,903,152	161,789,349	184,402,354	175,044,463	130,364,269	100,047,676	280,268,882	154,584,623	1,397,404,767
Cumulative payments to date	(210,578,282)	(161,789,349)	(184,402,354)	(174,659,742)	(130,225,933)	(97,326,499)	(254,805,188)	(68,930,537)	(1,282,717,885)
Total net insurance liabilities included in the statement of financial position	₱324,870	₱-	₱-	₱384,721	₱138,337	₱2,721,176	₱25,463,694	₱85,654,086	₱114,686,882



Financial Instruments

The following table sets forth the carrying values and estimated fair values of financial assets recognized as of December 31, 2010 and 2009:

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents	₱122,426,675	₱122,426,675	₱107,895,640	₱107,895,640
Insurance receivables:				
Due from brokers and agents	191,464,591	191,464,592	118,472,578	118,472,578
Funds held by ceding companies	1,857,034	1,857,034	47,811,484	47,811,484
Reinsurance recoverable on paid losses	11,447,837	11,447,837	5,746,950	5,746,950
Due from ceding companies	5,323,792	5,323,792	8,000,653	8,000,653
Total Insurance receivables	210,093,255	210,093,255	180,031,665	180,031,665
Loans and receivables:				
Intercompany receivable	1,841,901	1,841,901	1,768,926	1,768,926
Accounts receivable	87,064	87,064	54,764	54,764
Miscellaneous receivables	918,985	918,985	454,881	454,881
Total Loans and receivables	2,847,950	2,847,950	2,278,571	2,278,571
Accrued income	6,883,062	6,883,062	6,290,083	6,290,083
Total Loans and receivables	342,250,942	342,250,942	296,495,959	296,495,959
AFS financial assets (see Note 6)	519,424,385	519,424,385	426,085,432	426,085,432
Total financial assets	₱861,675,327	₱861,675,327	₱722,581,391	₱722,581,391
Financial Liabilities				
Other financial liabilities				
Insurance payables:				
Due to ceding companies	₱47,727,230	₱47,727,230	₱36,774,290	₱36,774,290
Funds held for reinsurers	25,190,825	25,190,825	21,461,395	21,461,395
Accounts payable	26,830,989	26,830,989	44,177,433	44,177,433
Commission payable	40,551,810	40,551,810	17,290,115	17,290,115
Total other financial liabilities	₱140,300,854	₱140,300,854	₱119,703,233	₱119,703,233

Due to short-term nature of cash and cash equivalents, insurance receivables, loans and receivables, accrued income, insurance payables, accounts payable and commission payable, their carrying values reasonably approximate fair values at end of the reporting period.

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

Fair value hierarchy

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

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which uses inputs which have a significant effect on the recorded fair value that are not based on observable market data



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

	2010			Total
	Level 1	Level 2	Level 3	
AFS Financial Assets				
Listed equity securities				
Common shares	₱4,599,400	₱-	₱-	₱4,599,400
Preferred shares	33,401,993	-	-	33,401,993
Government debt securities				
Local currency	404,153,478	-	-	404,153,478
Foreign currency	45,308,640	-	-	45,308,640
Total AFS financial assets	₱487,463,511	₱-	₱-	₱487,463,511

	2009			Total
	Level 1	Level 2	Level 3	
AFS Financial Assets				
Listed equity securities				
Common shares	₱4,655,009	₱-	₱-	₱4,655,009
Preferred shares	10,400,000	-	-	10,400,000
Government debt securities				
Local currency	350,999,418	-	-	350,999,418
Foreign currency	29,554,955	-	-	29,554,955
Total AFS financial assets	₱395,609,382	₱-	₱-	₱395,609,382

As of December 31, 2010 and 2009, the Company classifies AFS financial assets under Level 1 of the fair value hierarchy. During the reporting period ended December 31, 2010 and 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial Risk

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Credit risk

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

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

Regular review of company policies is being conducted to ensure proper monitoring of direct and reinsurance receivables versus payables. The Company reserves the right to offset where counterparties are both debtors and creditors; cancel policies which are beyond the credit-term or those with lesser probability of being collected and terminate contract which the management



believes to be non-productive. Commissions and claims are likewise being used as leverage to collect from counterparty. In the event of a major loss, the Company is backed up by reinsurers with strong financial standing. Reinsurers and agents portfolio are periodically being rated with A+ being the highest and B- the lowest.

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

The following table provides information regarding the credit risk exposure of the Company as of December 31, 2010 and 2009:

	2010	2009
Cash and cash equivalents	₱122,331,675	₱107,750,640
Insurance receivables:		
Due from brokers and agents	191,464,591	118,472,578
Funds held by ceding companies	1,857,034	47,811,484
Reinsurance recoverable on paid losses	11,447,837	5,746,950
Due from ceding companies	5,323,792	8,000,653
Financial assets:		
AFS		
Equity securities	39,621,393	15,075,009
Debt securities	479,802,992	411,010,423
Loans and receivables		
Intercompany receivable	1,841,901	1,768,926
Accounts receivable	87,064	54,764
Miscellaneous receivables	918,985	454,881
Accrued income	6,883,062	6,290,083
Total	₱861,580,327	₱722,436,391

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

December 31, 2010

	Neither past due nor impaired			Past due or impaired	Total
	High	Medium	Low		
Cash and cash equivalents	₱122,331,675	₱-	₱-	₱-	₱122,331,675
Insurance receivables					
Due from brokers and agents	111,401,663	5,925,620	1,185,124	76,200,515	194,712,922
Funds held by ceding company	1,857,034	-	-	-	1,857,034
Reinsurance recoverable on paid losses	3,345,566	-	-	11,272,561	14,618,127
Due from ceding companies	685,962	-	-	5,155,921	5,841,883
Financial assets:					
AFS financial assets:					
Equity securities	39,621,393	-	-	-	39,621,393
Debt securities	479,802,992	-	-	-	479,802,992
Loans and receivables:					
Intercompany receivable	1,841,901	-	-	-	1,841,901
Accounts receivable	87,064	-	-	-	87,064
Miscellaneous receivables	918,985	-	-	-	918,985
Accrued income	6,883,062	-	-	-	6,883,062
Total	₱768,777,297	₱5,925,620	₱1,185,124	₱92,628,997	₱868,517,038



December 31, 2009

	Neither past due nor impaired			Past due or impaired	Total
	High	Medium	Low		
Cash and cash equivalents	₱107,750,640	₱-	₱-	₱-	₱107,750,640
Insurance receivables					
Due from brokers and agents	59,699,263	3,175,493	635,099	64,444,465	127,954,320
Funds held by ceding company	47,811,484	-	-	-	47,811,484
Reinsurance recoverable on paid losses	812,658	-	-	4,934,292	5,746,950
Due from ceding companies	1,370,650	-	-	6,630,003	8,000,653
Financial assets:					
AFS financial assets:					
Equity securities	15,075,009	-	-	-	15,075,009
Debt securities	411,010,423	-	-	-	411,010,423
Loans and receivables:					
Intercompany receivable	1,768,926	-	-	-	1,768,926
Accounts receivable	54,764	-	-	-	54,764
Miscellaneous receivables	454,881	-	-	-	454,881
Accrued income	6,290,083	-	-	-	6,290,083
Total	₱652,098,781	₱3,175,493	₱635,099	₱76,008,760	₱731,918,133

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

The above assets were classified by the Company as High grade, Medium grade, Low grade or Past due. High grade pertains to assets of the Company that are highly convertible to cash based on the Company's experience and those that are classified by the Insurance Commission as readily admitted assets. Although the Medium and Low grade falls also on the same category, the agreed credit term is not a guarantee that all accounts will be collected as specified. Based on Company's experience, approximately 5% of those within the 90-day credit term will be collected between 180-210 days, thus classified under Medium grade. Low grade represents the 1% of the within 90-day credit term that may be collected beyond 210 days. Past due are those that are beyond the 90-day credit term which however are still highly collectible as these are corporate accounts wherein the Company has reciprocity of business.

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

December 31, 2010

	Age analysis of financial assets past-due but not impaired				Total past due but not impaired	Past-due and impaired	Total
	< 30 days	31 to 60 days	61 to 90 days	> 90 days			
Insurance receivables							
Due from brokers and agents	₱19,178,868	₱20,925,587	₱15,897,573	₱16,514,205	₱72,516,233	₱3,684,282	₱76,200,515
Reinsurance recoverable on paid losses	922,534	1,855,202	2,793,045	2,531,490	8,102,271	3,170,290	11,272,561
Due from ceding companies	1,091,701	275,106	93,367	3,177,656	4,637,830	518,091	5,155,921
Total	₱21,193,103	₱23,055,895	₱18,783,985	₱22,223,351	₱85,256,334	₱7,372,663	₱92,628,997

December 31, 2009

	Age analysis of financial assets past-due but not impaired				Total past due but not impaired	Past-due and impaired	Total
	< 30 days	31 to 60 days	61 to 90 days	> 90 days			
Insurance receivables							
Due from brokers and agents	₱20,172,310	₱7,720,090	₱23,880,346	₱3,189,977	₱54,962,723	₱9,481,742	₱64,444,465
Reinsurance recoverable on paid losses	833,540	379,560	27,249	3,693,943	4,934,292	-	4,934,292
Due from ceding companies	130,851	960,706	2,128,838	3,409,608	6,630,003	-	6,630,003
Total	₱21,136,701	₱9,060,356	₱26,036,433	₱10,293,528	₱66,527,018	₱9,481,742	₱76,008,760



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

Liquidity risk

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

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

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

Maturity profiles

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

December 31, 2010	Within a year	2-3 years	4-5 years	Over 5 years	Total
Cash and cash equivalents	₱122,426,675	₱-	₱-	₱-	₱122,426,675
Insurance receivables	210,093,254	-	-	-	210,093,254
AFS securities	9,181,033	68,192,529	40,484,345	361,945,085	479,802,992
Loans and receivables	2,847,950	-	-	-	2,847,950
Accrued income	6,883,062	-	-	-	6,883,062
Total financial assets	₱351,431,974	₱68,192,529	₱40,484,345	₱361,945,085	₱822,053,933
Insurance payables	₱72,918,055	₱-	₱-	₱-	₱72,918,055
Accounts payable	26,830,989	-	-	-	26,830,989
Commission payable	40,551,810	-	-	-	40,551,810
Total other financial liabilities	₱140,300,854	₱-	₱-	₱-	₱140,300,854

December 31, 2009	Within a year	2-3 years	4-5 years	Over 5 years	Total
Cash and cash equivalents	₱107,895,640	₱-	₱-	₱-	₱107,895,640
Insurance receivables	180,031,665	-	-	-	180,031,665
AFS securities	18,199,540	47,172,272	45,690,063	299,948,548	411,010,423
Loans and receivables	2,278,571	-	-	-	2,278,571
Accrued income	6,290,083	-	-	-	6,290,083
Total financial assets	₱314,695,499	₱47,172,272	₱45,690,063	₱299,948,548	₱707,506,382
Insurance payables	₱58,235,685	₱-	₱-	₱-	₱58,235,685
Accounts payable	44,177,433	-	-	-	44,177,433
Commission payable	17,290,115	-	-	-	17,290,115
Total other financial liabilities	₱119,703,233	₱-	₱-	₱-	₱119,703,233

Market risk

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



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

Currency risk

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

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

	2010		2009	
	US\$	₱	US\$	₱
Financial assets:				
Cash and cash equivalents	\$645,021	₱28,277,712	\$126,263	₱5,833,372
Government securities	1,033,500	45,308,640	639,718	29,554,955
	\$1,678,521	₱73,586,352	\$765,981	₱35,388,327

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities).

December 31, 2010

	Change in variables	Impact on profit before tax
USD	+2.36 %	₱1,736,638
USD	-2.36 %	(1,736,638)

December 31, 2009

	Change in variables	Impact on profit before tax
USD	+3%	₱1,061,650
USD	-3%	(1,061,650)

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

Interest rate risk

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

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



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

	Interest Rates	Maturity				Total
		Within a year	2-3 years	4-5 years	Over 5 years	
AFS debt securities						
2010	0.875%-7.000%	₱9,181,033	₱68,192,529	₱40,484,345	₱361,945,085	₱479,802,992
2009	5.825%-9.100%	18,199,540	47,172,272	45,690,063	299,948,548	411,010,423

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

December 31, 2010

	Change in variables	Impact on equity
Peso	+150 basis points	(₱7,193,527)
Peso	-150 basis points	8,038,942

December 31, 2009

	Change in variables	Impact on equity
Peso	+200 basis points	(₱10,985,269)
Peso	-200 basis points	12,752,756

Price risk

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

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

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, limits on investment in each sector and market, and careful and planned use of derivative instruments.

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

December 31, 2010

Market Index	Change in Variable	Impact on equity
PSEi 2010	+8.00%	₱2,946,353
PSEi 2010	-8.00%	(2,946,353)

December 31, 2009

Market Index	Change in Variable	Impact on equity
PSEi 2009	+7.35%	₱288,772
PSEi 2009	-7.35%	(288,772)



22. Related Party Transactions

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

	2010	2009
Acceptances:		
Funds held by ceding companies	₱568,950	₱47,348,744
Cessions:		
Due to reinsurers and ceding companies	3,323,663	3,479,593
Funds held for reinsurers	25,190,825	21,461,395

Other transactions include non-interest bearing cash advances to MAA Corporate and Compliance, Philippines, Inc., an affiliated company, for other expenses, rental, management and other service fees. The Company has outstanding receivable of ₱1,841,901 and ₱1,768,926 as of December 31, 2010 and 2009, respectively which are included in Accounts receivable under the Loans and receivables account in the statement of financial position.

Compensation of key management personnel by benefit type follows:

	2010	2009
Short-term employee benefits	₱10,103,449	₱13,763,726
Post-employment benefits	-	217,000
	₱10,103,449	₱13,980,726

There are no agreements between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

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

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

	2010	2009
PFRS net income	₱23,982,035	₱13,489,142
Adjustments for:		
Difference in change in provision for unearned premiums - net	18,080,858	2,866,930
Deferred acquisition costs - net	(5,093,636)	22,094
Change in IBNR	5,873,890	7,107,015
Tax effects of PFRS adjustments	(5,658,334)	(2,998,812)
Statutory net income	₱37,184,813	₱20,486,369

24. Contingencies

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



25. Note to Statements of Cash Flows

The principal noncash transaction of the Company in 2010 pertains to the conversion of contingency surplus to capital stock amounting to ₱50,000,000.

26. Supplementary Information Required Under Revenue Regulations 15-2010

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

- a. The Company is a VAT-registered company with VAT output tax declaration of ₱47,576,704 for the year based on the amount reflected in the Premium Income account of ₱396,472,531.

The Company has exempt sales amounting to ₱35,099,236 pursuant to the provisions of RA 7227, RR2-2005, BIR Ruling ITAD-45-00.

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

Balance at January 1	₱907,879
Current year's purchases/payments :	
Goods other than for resale	14,834,615
Services paid lodged under operating expenses	7,149,293
	22,891,787
<u>Input VAT applied against Output VAT</u>	(21,624,439)
<u>Balance at December 31</u>	₱1,267,348

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

Transaction	Amount	DST
Policies of insurance upon property	₱287,852,788	₱35,981,598
Motor	199,290,581	24,911,323
Issuance of shares of stock	100,002,000	500,010
Accident and Health	47,656,335	119,141
Licenses of Insurance Agents		1,552

- d. Other taxes paid are:

Tax	Amount
Premium tax	₱2,382,400
Fire service tax	2,110,345
Local government tax	1,328,249



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

Local:

Mayor’s Permit	₱1,116,804
Real Estate Taxes	13,581
Professional Tax Receipt	199,076
Total	₱1,329,461

National:

BIR Annual Registration	15,892
Percentage Taxes	₱501,562
Total	₱517,454

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

Creditable withholding taxes	₱4,895,282
Tax on compensation and benefits	741,231
Final withholding taxes	39,147
Total	₱5,675,660

