



MAA General Assurance Philippines, Inc.

Financial Statements
December 31, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV&Co
ERNST & YOUNG

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, 2011 and 2010, and the statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



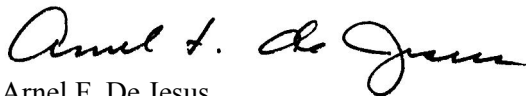
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MAA General Assurance Philippines, Inc. as at December 31, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 27 and 28 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of MAA General Assurance Philippines, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Arnel F. De Jesus

Partner

CPA Certificate No. 43285

SEC Accreditation No. 0075-AR-2 (Group A),

March 4, 2010 until March 3, 2013

Tax Identification No. 152-884-385

BIR Accreditation No. 08-001998-15-2009,

September 30, 2009, Valid until September 29, 2012

PTR No. 3174590, January 2, 2012, Makati City

March 14, 2012



MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2011	2010
ASSETS		
Cash and Cash Equivalents (Notes 4 and 22)	₱106,687,938	₱122,426,675
Short-term Investments (Notes 5 and 22)	1,300,368	–
Insurance Receivables - net (Notes 6 and 22)	238,397,161	210,093,254
Financial Assets (Notes 7 and 22)		
Available-for-sale financial assets	593,341,897	519,424,385
Loans and receivables	5,262,052	2,847,950
Accrued Income (Notes 8 and 22)	8,028,117	6,883,062
Reinsurance Assets (Notes 9, 12 and 22)	427,093,766	401,001,551
Deferred Acquisition Costs (Note 10)	82,750,639	70,313,426
Property and Equipment - net (Note 11)	14,615,963	12,936,362
Deferred Tax Assets - net (Note 21)	14,152,160	3,586,351
Retirement Benefit Assets (Note 20)	3,216,407	589,191
Other Assets (Note 22)	7,041,378	9,379,877
	₱1,501,887,846	₱1,359,482,084
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 12 and 22)	₱822,712,692	₱733,030,514
Insurance payables (Notes 13 and 22)	48,003,677	72,918,055
Accounts payable and other liabilities (Notes 14, 22 and 25)	121,919,147	101,678,095
Deferred reinsurance commissions (Note 10)	23,562,810	25,387,487
Income tax payable	4,740,661	–
	1,020,938,987	933,014,151
Equity		
Capital stock (Note 15)	300,000,000	250,000,000
Contributed surplus	643,832	643,832
Contingency surplus (Notes 15 and 22)	82,123,738	132,123,738
Revaluation reserve on available-for-sale financial assets (Note 7)	13,288,857	27,160,347
Retained earnings	84,892,432	16,540,016
	480,948,859	426,467,933
	₱1,501,887,846	₱1,359,482,084

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2011	2010
Gross earned premiums on insurance contracts (Notes 12 and 16)	₱769,698,046	₱671,686,735
Reinsurers' share of gross earned premiums on insurance contracts (Notes 12 and 16)	(335,809,627)	(307,047,971)
Net insurance earned premiums	433,888,419	364,638,764
Commission income (Note 10)	58,247,893	49,631,107
Investment and other income - net (Note 17)	86,532,591	49,665,233
Other income	144,780,484	99,296,340
Total income	578,668,903	463,935,104
Gross insurance contract benefits and claims paid (Notes 12, 18 and 22)	385,815,815	513,483,615
Reinsurers' share of gross insurance contract benefits and claims paid (Notes 12, 18 and 22)	(198,574,632)	(303,164,130)
Gross change in insurance contract liabilities (Note 18)	42,106,180	(287,834,165)
Reinsurers' share of gross change in insurance contract liabilities (Note 18)	(21,283,044)	280,755,669
Net insurance benefits and claims	208,064,319	203,240,989
Commission expense (Note 10)	170,211,701	139,392,382
Other underwriting expense (Note 19)	13,563,747	-
Operating expenses (Notes 19, 20 and 23)	101,626,307	88,886,472
Interest expense	1,780,116	1,739,447
Other expenses	287,181,871	230,018,301
Total Benefits, Claims and Other Expenses	495,246,190	433,259,290
Income before income tax	83,422,713	30,675,814
Current	27,027,319	7,818,671
Deferred	(11,957,022)	(1,124,892)
Provision for income tax (Note 21)	15,070,297	6,693,779
NET INCOME (Note 24)	68,352,416	23,982,035
OTHER COMPREHENSIVE INCOME (Note 7)		
Changes in fair value of available-for-sale financial assets	28,175,415	33,705,810
Fair value gain transferred to profit or loss	(42,046,905)	(6,965,430)
	(13,871,490)	26,740,380
TOTAL COMPREHENSIVE INCOME	₱54,480,926	₱50,722,415

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 15)	Contributed Surplus	Contingency Surplus (Notes 15 and 22)	Revaluation Reserve on Available- for-sale Financial Assets (Note 7)	Retained Earnings	Total
As of January 1, 2011	₱250,000,000	₱643,832	₱132,123,738	₱27,160,347	₱16,540,016	₱426,467,933
Conversion of contingency surplus	50,000,000	–	(50,000,000)	–	–	–
	300,000,000	643,832	82,123,738	27,160,347	16,540,016	426,467,933
Net income for the year	–	–	–	–	68,352,416	68,352,416
Other comprehensive income	–	–	–	(13,871,490)	–	(13,871,490)
Total recognized income for the year	–	–	–	(13,871,490)	68,352,416	54,480,926
As of December 31, 2011	₱300,000,000	₱643,832	₱82,123,738	₱13,288,857	₱84,892,432	₱480,948,859
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

See accompanying Notes to Financial Statements.



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

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱83,422,713	₱30,675,813
Adjustments for:		
Dividend income (Note 17)	(5,896,816)	(2,459,210)
Depreciation and amortization (Notes 11 and 19)	4,174,076	3,875,694
Gain on sale of:		
AFS investments (Notes 7 and 17)	(41,903,025)	(6,965,430)
Property and equipment (Note 17)	(1,003,408)	(210,496)
Impairment loss (Notes 7 and 17)	143,880	-
Interest expense	1,780,116	1,739,447
Interest income (Note 17)	(32,300,092)	(33,773,591)
Operating income (loss) before working capital changes	8,417,444	(7,117,773)
Decrease (increase) in:		
Insurance receivables	(28,303,907)	(30,061,589)
Short-term investments	(1,300,368)	-
Reinsurance recoverable on unpaid losses	(21,283,044)	280,755,669
Deferred reinsurance premiums	(4,809,171)	(14,364,492)
Loans and receivables	(2,414,102)	(569,379)
Deferred acquisition costs	(12,437,213)	(12,002,751)
Net plan assets	(2,627,216)	(589,191)
Other assets	2,338,499	6,363,476
Increase (decrease) in:		
Provision for unearned premiums	47,575,997	37,114,739
Provision for claims reported and IBNR	42,106,181	(287,834,165)
Insurance payables	(24,914,378)	14,682,370
Accounts payable and other liabilities	20,241,053	15,070,043
Deferred reinsurance commissions	(1,824,677)	6,909,115
Retirement benefit liability	-	(5,544,828)
Net cash provided by operations	20,765,098	2,811,244
Income tax paid	(20,895,446)	(7,818,671)
Net cash used in operating activities	(130,348)	(5,007,427)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	33,088,399	26,356,955
Dividend received	5,896,816	2,459,210
Acquisition of:		
Available-for-sale financial assets (Note 7)	(921,948,585)	(289,443,155)
Property and equipment (Note 11)	(6,249,059)	(4,957,689)
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 7)	873,985,366	236,633,671
Property and equipment (Note 11)	1,398,790	228,917
Net cash used in investing activities	(13,828,273)	(28,722,091)

(Forward)



	Years Ended December 31	
	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Subscription of additional shares (Note 15)	₱-	₱50,000,000
Interest paid	(1,780,116)	(1,739,447)
Net cash provided by (used in) financing activities	(1,780,116)	48,260,553
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,738,737)	14,531,035
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	122,426,675	107,895,640
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱106,687,938	₱122,426,675

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

The accompanying financial statements were authorized for issue by the BOD on March 14, 2012.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) interpretations which became effective beginning January 1, 2011. Except as otherwise stated, the adoption of these new and amended standards and Philippine Interpretations did not have any impact on the financial statements.

- Philippine Accounting Standard (PAS) 24 (Amendment), *Related Party Disclosures*
PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the



amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

- PAS 32 (Amendment), *Financial Instruments: Presentation - Classification of Rights Issues*
The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, 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 removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
This 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 PFRS (issued 2010)

The omnibus amendments to PFRSs issued in May 2010 were issued primarily with a view to removing inconsistencies and clarifying wordings. The amendments are effective for annual periods beginning January 1, 2011. Except as otherwise stated, the adoption of the following amendments resulted in changes to accounting policies but did not have impact on the financial position or performance of the Company.

- PFRS 3, *Business Combinations*
This Amendment clarifies that the Amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32 and PAS 39 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

It also limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS.

The amendment also requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business



combination, these are recognized as post-combination expenses. It further specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of non-controlling interest and measured at their market-based measure; if unvested - they are measured at market-based value as if granted at acquisition date, and allocated between non-controlling interest and post-combination expense.

- PFRS 7, *Financial Instruments: Disclosures*
The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- PAS 1, *Presentation of Financial Statements*
This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
- PAS 27, *Consolidated and Separate Financial Statements*
This amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier.
- PAS 34, *Interim Financial Reporting*
This amendment provides guidance to illustrate how to apply disclosure principles in PAS 34 and add disclosure requirements around:
 - a) The circumstances likely to affect fair values of financial instruments and their classification;
 - b) Transfers of financial instruments between different levels of the fair value hierarchy;
 - c) Changes in classification of financial assets; and
 - d) Changes in contingent liabilities and assets.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Future Changes in Accounting Policies

The Company will adopt the following new and amended standards and Philippine Interpretations enumerated below when these become effective. Except as otherwise stated, 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 2012

- PAS 12 (Amendment), *Income Taxes - Deferred Tax: Recovery of Underlying Assets*
This amendment is effective for annual periods beginning on or after January 1, 2012. It clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on



the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

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

Effective 2013

- PAS 1 (Amendment), *Financial Statement Presentation, Presentation of Items of Other Comprehensive Income*
This amendment is effective for annual periods beginning on or after July 1, 2012. It changed the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and will have no impact on the Company's financial position or performance.
- PAS 19 (Amendments), *Employee Benefits*
The amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The Company is currently assessing the impact of the amendment to PAS 19.
- PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.
- PFRS 7 (Amendments), *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information.



This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendments are to be applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- **PFRS 10, *Consolidated Financial Statements***
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.
- **PFRS 11, *Joint Arrangements***
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.
- **PFRS 12, *Disclosure of Interests with Other Entities***
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.
- **PFRS 13, *Fair Value Measurement***
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the Company's financial position and performance.



Effective 2014

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

These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Company is currently assessing the impact of the amendments to PAS 32.

Effective 2015

- 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. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a more comprehensive picture.

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

This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. 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 reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Use of Estimates, Assumptions and Judgments

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



Cash and Cash Equivalents

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

Short-term Investments

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

Insurance Receivables

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

Determination of fair value

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

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



Day 1 profit

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

Loans and receivables

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

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

AFS investments

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

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

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

Other financial liabilities

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



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

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

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:

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

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

Equity

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

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

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

Retained earnings include all the accumulated earnings of the Company.



Revenue

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

Premiums Revenue

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

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

Reinsurance 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.

Expenses

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

Leases

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

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

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

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

Foreign Exchange Transactions

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

Provisions and Contingencies

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



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

Income Tax

Current tax

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

Deferred tax

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

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

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

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

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

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

Events after the Reporting Period

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



3. Significant Accounting Judgments and Estimates

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

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

Judgments

Operating leases

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

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, 2011, the carrying values of provision for outstanding claims and IBNR amounted to ₱346,481,883 and ₱102,997,720, respectively. 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 (see Note 12).

Fair Values of Financial Assets and Liabilities

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

The carrying value of AFS financial assets is ₱593,341,897 and ₱519,424,385 as of December 31, 2011 and 2010, respectively (see Note 7).

Impairment of Financial Assets

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

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

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

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

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



Insurance receivables, net of allowance for doubtful accounts, amounted to ₱238,397,161 and ₱210,093,254 as of December 31, 2011 and 2010, respectively (see Note 6). Loans and receivables amounted to ₱5,262,052 and ₱2,847,950 as of December 31, 2011 and 2010, respectively (see Note 7).

As of December 31, 2011, the Company has recognized impairment loss amounting to ₱143,880 on its AFS financial assets (see Note 7).

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, 2011 and 2010, property and equipment amounted to ₱14,615,963 and ₱12,936,362, respectively (see Note 11).

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, 2011 and 2010, property and equipment amounted to ₱14,615,963 and ₱12,936,362, respectively (see Note 11).

Pension and Other Employee Benefits

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

Those assumptions are described in Note 20 and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Company believes that the assumptions are reasonable and appropriate, significant differences in actual experience or



significant changes in assumptions materially affect retirement obligations. Please see Note 20 for the related balances.

Recognition of Deferred Tax Assets

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

The Company recognized net deferred tax assets amounting to ₱14,152,160 and ₱3,586,351 as of December 31, 2011 and 2010 since management believes that the related tax benefits will be realized in the future (see Note 21).

4. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash on hand and in banks	₱53,332,395	₱85,315,460
Short-term deposits	53,355,543	37,111,215
	₱106,687,938	₱122,426,675

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are money market placements maturing three (3) months or less from the date of acquisition, but with varying periods depending on the immediate cash requirements of the Company and earn interest at the rates ranging from 0.88% to 4.69% in 2011 and 2.00% to 4.00% in 2010.

5. Short-term Investments

Short-term investments amounted to ₱1,300,368 as of December 31, 2011.

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

6. Insurance Receivables - Net

This account consists of:

	2011	2010
Due from brokers and agents	₱219,782,306	₱195,148,873
Due from ceding companies	5,941,926	5,841,883
Funds held by ceding companies (see Note 23)	1,508,065	1,857,034
Reinsurance recoverable on paid losses	20,567,047	14,618,127
	247,799,344	217,465,917
Less allowance for doubtful accounts	9,402,183	7,372,663
	₱238,397,161	₱210,093,254



The following table shows aging information of insurance receivables:

December 31, 2011

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

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
Due from ceding companies	205,280	480,682	1,460,174	267,481	3,428,266	5,841,883
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
	₱33,669,199	₱89,310,686	₱64,890,017	₱9,974,022	₱19,621,993	₱217,465,917

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

December 31, 2011

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

December 31, 2010

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



7. Financial Assets

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

	2011	2010
AFS financial assets	₱593,341,897	₱519,424,385
Loans and receivables	5,262,052	2,847,950
	₱598,603,949	₱522,272,335

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

a) AFS financial assets

	2011	2010
Quoted securities - at fair value		
Listed equity securities:		
Common shares	₱549,080	₱4,599,400
Preferred shares	83,956,523	33,401,993
Government debt securities:		
Local currency	429,149,500	404,153,478
Foreign currency	45,770,167	45,308,640
Private debt securities	31,496,627	30,340,874
Non-quoted securities - at fair value		
Unlisted equity securities:		
Common shares	2,420,000	1,620,000
Total AFS financial assets recognized in the statements of financial position	₱593,341,897	₱519,424,385

	2011	2010
Quoted securities - at cost or amortized cost		
Listed equity securities		
Common shares - net of allowance for impairment loss of ₱143,880 in 2011.	₱549,080	₱708,960
Preferred shares	80,016,026	30,000,026
Government debt securities		
Local currency	421,943,216	383,788,300
Foreign currency	45,705,688	45,805,878
Private debt securities	30,219,030	30,340,874
Non-quoted securities - at cost		
Unlisted equity securities:		
Common shares	1,620,000	1,620,000
Total AFS financial assets at cost or amortized cost	₱580,053,040	₱492,264,038

As of December 31, 2011 and 2010, the unrealized gains in respect of AFS financial assets recorded in equity amounted to ₱13,288,857 and ₱27,160,347, respectively.



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

	2011	2010
At January 1	₱519,424,385	₱426,085,432
Additions	921,948,585	289,443,155
Disposals/maturities	(873,985,366)	(236,663,671)
Amortization of bond discount (premium)	(2,077,242)	6,853,659
Impairment loss	(143,880)	-
Fair value gains credited to other comprehensive income	28,175,415	33,705,810
At December 31	₱593,341,897	₱519,424,385

b) *Loans and receivables*

This account consists of the following:

	2011	2010
Intercompany accounts receivable (see Notes 22 and 23)	₱2,056,186	₱1,841,901
Accounts receivable (see Note 22)	140,237	87,064
Miscellaneous receivables (see Note 22)	3,065,629	918,985
	₱5,262,052	₱2,847,950

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, 2011 and 2010, the Company's outstanding loans and receivables are all due within one year.

8. **Accrued Income**

Accrued income consists of interest receivable amounting to ₱8,028,117 and ₱6,883,062 as of December 31, 2011 and 2010, respectively, which pertains mainly to interest accrued arising from cash and cash equivalents, AFS debt securities and contributions to the security fund.

9. **Reinsurance Assets**

This account consists of the following:

	2011	2010
Reinsurance recoverable on unpaid losses (see Note 12)	₱288,438,757	₱267,155,713
Deferred reinsurance premiums (see Note 12)	138,655,009	133,845,838
	₱427,093,766	₱401,001,551



10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs

The rollforward analysis of this account follows:

	2011	2010
At January 1	₱70,313,426	₱58,310,675
Costs deferred during the year	182,648,914	151,395,133
Amortization during the year	(170,211,701)	(139,392,382)
At December 31	₱82,750,639	₱70,313,426

Deferred Reinsurance Commissions

The rollforward analysis of this account follows:

	2011	2010
At January 1	₱25,387,487	₱18,478,372
Income deferred during the year	56,423,216	56,540,222
Amortization during the year	(58,247,893)	(49,631,107)
At December 31	₱23,562,810	₱25,387,487

11. Property and Equipment - Net

The rollforward analysis of this account follows:

December 31, 2011

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

December 31, 2010

	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2010	₱12,381,893	₱5,590,310	₱43,190,206	₱4,136,868	₱3,250,000	₱68,549,277
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

Forward)



	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
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	₱5,906,916	₱953,159	₱3,062,416	₱616,996	₱2,396,875	₱12,936,362

Depreciation and amortization expense charged against operations amounted to ₱4,174,076 and ₱3,875,694 in 2011 and 2010, respectively (see Note 19).

12. Insurance Contract Liabilities and Reinsurance Assets

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

	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2011	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2010
Provision for claims reported and loss adjustment expenses	₱346,481,883	₱241,173,815	₱105,308,068	₱361,330,798	₱238,103,003	₱123,227,795
Provision for IBNR losses	102,997,720	47,264,942	55,732,778	46,042,625	29,052,710	16,989,915
Total claims reported and IBNR	449,479,603	288,438,757	161,040,846	407,373,423	267,155,713	140,217,710
Provision for unearned premiums	373,233,089	138,655,009	234,578,080	325,657,091	133,845,838	191,811,253
Total insurance contract liabilities	₱822,712,692	₱427,093,766	₱395,618,926	₱733,030,514	₱401,001,551	₱332,028,963

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

	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2011	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2010
At January 1	₱407,373,423	₱267,155,713	₱140,217,710	₱695,207,588	₱547,911,382	₱147,296,206
Claims incurred during the year	370,966,900	201,645,444	169,321,456	216,561,436	19,194,337	197,367,099
Claims paid during the year - net of salvage and subrogation (see Note 18)	(385,815,815)	(198,574,632)	(187,241,183)	(513,483,615)	(303,164,130)	(210,319,485)
Increase in IBNR	56,955,095	18,212,232	38,742,863	9,088,014	3,214,124	5,873,890
At December 31	₱449,479,603	₱288,438,757	₱161,040,846	₱407,373,423	₱267,155,713	₱140,217,710

Provision for unearned premiums may be analyzed as follows:

	Insurance contract liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2011	Insurance Contract Liabilities	Reinsurers' share of liabilities (see Note 9)	Net 2010
At January 1	₱325,657,091	₱133,845,838	₱191,811,253	₱288,542,352	₱119,481,346	₱169,061,006
New policies written during the year (see Note 16)	817,274,044	340,618,798	476,655,246	708,801,474	321,412,463	387,389,011
Premiums earned during the year (see Note 16)	(769,698,046)	(335,809,627)	(433,888,419)	(671,686,735)	(307,047,971)	(364,638,764)
At December 31	₱373,233,089	₱138,655,009	₱234,578,080	₱325,657,091	₱133,845,838	₱191,811,253



13. Insurance Payables

This account consists of:

	2011	2010
Due to reinsurers and ceding companies (see Note 22)	₱15,824,397	₱47,727,230
Funds held for reinsurers (see Note 22)	32,179,280	25,190,825
	₱48,003,677	₱72,918,055

The rollforward analysis of insurance payables follows:

	Due to reinsurers and ceding companies	Funds held for reinsurers	Total
At January 1, 2010	₱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	47,727,231	25,190,825	72,918,056
Arising during the year	31,926,796	6,988,455	38,915,251
Utilized	(63,829,630)	-	(63,829,630)
At December 31, 2011	₱15,824,397	₱32,179,280	₱48,003,677

14. Accounts Payable and Other Liabilities

This account consists of:

	2011	2010
Commission payable	₱37,286,889	₱40,551,810
Value added tax payable (VAT)	36,694,690	21,170,957
Accounts payable	19,207,927	26,830,989
Withholding taxes payable	14,352,825	5,675,659
DST payable	6,393,754	3,323,333
Others	7,983,062	4,125,347
	₱121,919,147	₱101,678,095

15. Capital Stock

The Company's capital stock consists of:

	2011		2010	
	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	250,000	250,000,000	150,000	₱150,000,000
Issuances during the year	-	-	50,000	50,000,000
Conversion of contingency surplus	50,000	50,000,000	50,000	50,000,000
At end of the year	300,000	₱300,000,000	250,000	₱250,000,000



As mandated per Department of Finance Order (DO) 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.

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

16. Net Insurance Earned Premiums

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

	2011	2010
Gross premiums on insurance contracts:		
Direct insurance	₱644,148,035	₱534,799,702
Assumed reinsurance	173,126,009	174,001,772
Total gross premiums on insurance contracts (see Note 12)	817,274,044	708,801,474
Gross change in provision for unearned premiums	(47,575,998)	(37,114,739)
Total gross earned premiums on insurance contracts (see Note 12)	769,698,046	671,686,735
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	185,009,651	170,929,418
Assumed reinsurance	155,609,147	150,483,045
Total reinsurers' share of gross premiums on insurance contracts (see Note 12)	340,618,798	321,412,463
Reinsurers' share of gross change in provision for unearned premiums	(4,809,171)	(14,364,492)
Total reinsurers' share of gross earned premiums on insurance contracts (see Note 12)	335,809,627	307,047,971
Total net insurance earned premiums (see Note 12)	₱433,888,419	₱364,638,764



17. Investment Income - Net

This account consists of:

	2011	2010
Interest income on:		
AFS financial assets	₱27,808,440	₱30,516,965
Cash and cash equivalents	4,255,469	2,531,420
Treaty reinsurance	234,259	700,859
Security fund	1,924	24,347
Dividend income	5,896,816	2,459,210
Gain on sale of available-for-sale financial assets (Note 7)	41,903,025	6,965,430
Gain on sale of property and equipment (Note 11)	1,003,408	210,496
Impairment loss (Note 7)	(143,880)	-
Foreign exchange gain - net	314,687	827,764
Others	5,258,443	5,428,742
	₱86,532,591	₱49,665,233

18. Net Insurance Benefits and Claims

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

	2011	2010
Insurance contract benefits and claims paid:		
Direct insurance	₱290,893,497	₱416,264,855
Assumed reinsurance	94,922,318	97,218,760
Total insurance contract benefits and claims paid (see Note 12)	₱385,815,815	₱513,483,615

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

	2011	2010
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	₱139,125,948	₱283,938,819
Assumed reinsurance	59,448,684	19,225,311
Total reinsurers' share of insurance contract benefits and claims paid (see Note 12)	₱198,574,632	₱303,164,130

Gross change in insurance contract liabilities:

	2011	2010
Change in provision for claims reported (see Note 12):		
Direct insurance	₱63,514,016	(₱312,280,089)
Assumed reinsurance	(78,362,931)	15,357,910
Change in provision for IBNR	56,955,095	9,088,014
Total gross change in insurance contract liabilities	₱42,106,180	(₱287,834,165)



Reinsurers' share of gross change in insurance contract liabilities:

	2011	2010
Reinsurers' share of gross change in insurance contract liabilities (see Note 12):		
Direct insurance	₱3,070,812	(₱283,969,793)
Reinsurers' share of change in provision for IBNR	18,212,232	3,214,124
Total reinsurers' share of gross change in insurance contract liabilities	₱21,283,044	(₱280,755,669)

19. Operating Expenses and Other Underwriting Expense

This account consists of:

	2011	2010
Salaries and employee benefits (see Note 20)	₱44,727,051	₱39,790,880
Rent	7,548,422	7,657,297
Taxes and licenses	6,992,795	1,846,915
Communication, light and water	5,402,606	5,538,259
Outside services	5,005,072	4,653,526
Advertising and promotion	4,942,585	5,444,420
Depreciation and amortization (see Note 11)	4,174,076	3,875,694
Repairs and maintenance	3,857,322	3,681,331
Entertainment, amusement and recreation	3,511,062	3,276,249
Printing and office supplies	3,271,627	3,067,410
Transportation and travel	2,783,611	1,760,169
Provision for (recovery of) allowance for doubtful accounts (see Note 6)	2,029,520	(2,109,079)
Agency fees	1,292,729	791,577
Data processing fees	855,374	765,303
Bank service fees	566,469	378,801
Insurance	554,701	3,011,321
Director's fees	541,000	189,556
Survey fees	521,711	322,528
Donations and contributions	209,309	137,438
Miscellaneous	2,839,265	4,806,877
	₱101,626,307	₱88,886,472

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

20. Retirement Plan

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



Pension Expense

	2011	2010
Current service cost	₱1,635,839	₱1,557,355
Interest cost	788,105	714,464
Expected return on plan assets	(609,053)	-
Net actuarial loss recognized during the year	30,712	15,410
Effect of changes in the asset limit	250,384	-
Total pension expense	₱2,095,987	₱2,287,229
Actual return on plan assets	₱1,404,320	₱344,586

Retirement Benefit Asset

	2011	2010
Plan assets	₱14,785,857	₱8,765,834
Benefit obligation	(11,994,323)	(9,938,270)
Surplus (deficit)	2,791,534	(1,172,436)
Unrecognized net actuarial loss	675,257	1,761,627
Amount not recognized as asset due to "limit"	(250,384)	-
Benefit asset	₱3,216,407	₱589,191

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

	2011	2010
Opening defined benefit obligation	₱9,938,270	₱6,554,720
Current service cost	1,635,839	1,557,355
Interest cost	788,105	714,464
Actuarial loss (gain) on obligation	(260,391)	1,111,731
Benefits paid	(107,500)	-
At end of year	₱11,994,323	₱9,938,270

Changes in fair value of plan assets are as follows:

	2011	2010
Opening fair value of plan assets	₱8,765,834	₱-
Contributions	4,723,203	8,421,248
Expected return on plan assets	609,053	-
Actuarial gain	795,267	344,586
Benefits paid	(107,500)	-
At end of year	₱14,785,857	₱8,765,834

Changes in unrecognized net actuarial losses are as follows:

	2011	2010
At beginning of year	₱1,761,627	₱1,009,892
Actuarial loss (gain) on obligation during the year	(260,391)	1,111,731
Actuarial gain on plan assets during the year	(795,267)	(344,586)
Actuarial loss recognized	(30,712)	(15,410)
At end of year	₱675,257	₱1,761,627



Asset Ceiling/Limit Test:

	2011	2010
Unrecognized actuarial losses	₱675,257	₱-
Present value of reductions in future contributions	2,541,150	-
Asset Ceiling/Limit	₱3,216,407	₱-

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

	2011	2010
Discount rate	7.05%	7.93%
Expected salary rate increase	5.00%	5.00%
Expected rate of return on plan assets	4.50%	5.50%

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

	2011	2010	2009	2008	2007
Plan assets	₱14,785,857	₱8,765,834	₱-	₱-	₱-
Defined benefit obligation	(11,994,323)	(9,938,270)	(6,554,720)	(1,896,200)	(4,040,900)
Surplus (Deficit)	₱2,791,534	(₱1,172,436)	(₱6,554,720)	(₱1,896,200)	(₱4,040,900)

	2011	2010	2009	2008	2007
Experience adjustments:					
Gain (loss) on plan liabilities	₱295,483	₱706,970	(₱484,427)	(₱183,200)	₱1,004,700
Gain on plan assets	795,267	344,586	-	-	-

The Company's estimated contribution to the plan for next accounting period is ₱2,500,000.

Staff costs and other employee related costs:

	2011	2010
Salaries and wages	₱38,123,215	₱33,175,330
Net benefit expense	2,095,987	2,287,229
Others	4,507,849	4,328,321
	₱44,727,051	₱39,790,880

21. Income Tax

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

	2011	2010
Deferred tax assets on:		
Excess of provision for unearned premiums per books over per tax basis	₱17,979,414	₱14,734,157
Deferred reinsurance commissions	7,068,843	7,616,246
Incurred but not reported losses	16,719,833	5,096,975
Allowance for doubtful accounts	2,820,655	2,211,799
Unrealized foreign exchange loss	319,497	1,270,031
Accrued expenses	1,693,734	-
Total deferred tax assets	46,601,976	30,929,208

(Forward)



	2011	2010
Deferred tax liabilities on:		
Deferred acquisition costs	₱24,825,192	₱21,094,028
Excess of deferred reinsurance premiums per books over tax basis	6,659,702	6,072,071
Pension asset	964,922	176,758
Total deferred tax liabilities	32,449,816	27,342,857
Net deferred tax assets	₱14,152,160	₱3,586,351

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

	2011	2010
Unamortized past service cost	₱8,269,742	₱6,177,504
MCIT	-	1,391,213

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

	2011	2010
Tax at statutory income tax rate	₱25,026,813	₱9,202,744
Add (deduct) tax effects of:		
Change in unrecognized deferred tax assets	(763,542)	3,811,798
Interest income subjected to final tax	(9,619,172)	(3,493,371)
Final tax paid	14,722,986	
Gain on sale of investments in government securities	(12,570,907)	(2,089,629)
Dividend income	(1,769,045)	(737,763)
Nondeductible expenses	43,164	-
Effective income tax	₱15,070,297	₱6,693,779

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

22. 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, 2011, determined in accordance with the same Code for purposes of MOS, amounted to ₱196,845,705. In the accompanying financial statements, the net Provision for unearned premiums amounted to ₱234,578,080 computed as Provision for unearned premiums of ₱373,233,089 less deferred reinsurance premiums of ₱138,655,009 (see Note 12).

The estimated amounts of nonadmitted assets as of December 31, 2011 and 2010, as defined under the Code, which are included in the accompanying statements of financial position follow:

	2011	2010
Premiums in course of collection (direct)	₱92,326,138	₱94,010,755
Intercompany accounts receivable	2,056,186	1,841,901
Accounts receivables	140,237	87,064
Property and equipment - net	7,827,245	7,477,071
Miscellaneous receivables	3,065,629	918,985
Other assets	6,970,663	9,309,163
	₱112,386,098	₱113,644,939



As of December 31, 2011 and 2010, the Company's MOS, based on its estimate, amounted to ₱71,796,109 and ₱69,076,516, respectively, for which the Company is in excess by ₱33,057,207 and ₱28,362,802, respectively. The final amount of the MOS can only be determined after the accounts of the Company have been examined by the IC, particularly with respect to the determination of admitted and nonadmitted assets.

Fixed Capitalization Requirements

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

Based on the scheduled increases under DO 27-06, the required statutory net worth and minimum paid-up capital for the Company amounted to ₱600,000,000 and ₱300,000,000, respectively, as of December 31, 2010.

On October 29, 2008, the IC issued Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with requirements of IMC No. 10-2006, the scheduled increases due December 31, 2007 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007. Based on this Circular Letter, the required statutory net worth and minimum paid-up capital for the Company amounted to ₱600,000,000 and ₱300,000,000, respectively, as of December 31, 2011 and ₱500,000,000 and ₱250,000,000, respectively, as of December 31, 2010.

As of December 31, 2011, the Company has complied with the minimum paid-up capital requirement while the Company's statutory net worth based on its computation amounted to ₱371,796,109.

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, 2011 and 2010 was determined by the Company:

	2011	2010
Net worth	₱371,796,109	₱319,076,516
RBC requirement	257,628,611	223,013,941
RBC Ratio	144%	143%

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

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

Consolidated Compliance Framework

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

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

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

Insurance Risk

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

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

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



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

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

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

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

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

December 31, 2011

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

Terms and Conditions

The major classes of general insurance written by the Company include 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, 2011

	Change in assumptions	Increase (decrease) on gross liabilities	Increase (decrease) on net liabilities	Increase (decrease) on profit before tax	Increase (decrease) on equity
Average claim cost	+15%	₱67,421,940	₱43,265,814	(₱43,265,814)	(₱30,286,070)
Average number of claims	+10%	44,947,960	28,843,876	(28,843,876)	(20,190,713)
Average claim settlement period	Reduced from 2 months to 1 month	31,463,572	20,190,713	(20,190,713)	(14,133,499)

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)



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	2001 and prior years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims costs:												
At the end of accident year	₱192,507	₱68,089,945	₱178,781,778	₱200,893,231	₱221,143,622	₱203,233,292	₱176,540,244	₱354,020,024	₱703,455,884	₱351,768,139	₱290,055,315	₱290,055,315
One year later	558,959	80,408,529	199,767,832	243,524,364	228,127,026	242,876,952	210,016,821	350,711,481	617,311,664	295,380,180	–	295,380,180
Two years later	558,959	80,587,279	205,284,452	243,692,311	249,290,190	242,908,209	209,733,446	349,210,333	644,380,617	–	–	644,380,617
Three years later	558,959	80,595,725	205,700,942	243,692,311	249,297,669	243,951,003	209,649,710	346,043,817	–	–	–	346,043,817
Four years later	558,959	80,623,630	205,700,942	243,692,311	250,051,455	203,801,487	216,716,586	–	–	–	–	216,716,586
Five years later	558,959	80,623,630	205,700,942	243,844,640	250,320,833	199,876,937	–	–	–	–	–	199,876,937
Six years later	558,959	80,623,630	206,914,097	244,005,563	250,352,010	–	–	–	–	–	–	250,352,010
Seven years later	558,959	80,704,515	207,072,477	244,139,631	–	–	–	–	–	–	–	244,139,631
Eight years later	558,959	80,819,526	207,915,321	–	–	–	–	–	–	–	–	207,915,321
Nine years later	558,959	80,826,569	–	–	–	–	–	–	–	–	–	80,826,569
Ten years later	558,959	–	–	–	–	–	–	–	–	–	–	558,959
Current estimate of cumulative claims	558,959	80,826,569	207,915,321	244,139,631	250,352,010	199,876,937	216,716,586	346,043,817	644,380,617	295,380,180	290,055,315	2,776,245,942
Cumulative payments to date	(558,959)	(80,826,569)	(177,915,321)	(244,139,631)	(250,352,010)	(197,125,487)	(216,716,586)	(341,824,202)	(611,863,893)	(250,475,325)	(74,232,014)	(2,446,029,997)
Total net insurance liabilities included in the statement of financial position	₱–	₱–	₱30,000,000	₱–	₱–	₱2,751,450	₱–	₱4,219,615	₱32,516,724	₱44,904,855	₱215,823,301	₱330,215,945



Accident year	2001 and prior years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims costs:												
At the end of accident year	₱192,507	₱45,912,805	₱115,040,197	₱99,672,402	₱174,725,047	₱134,133,973	₱125,625,286	₱116,148,062	₱212,252,765	₱154,584,623	₱163,791,499	₱163,791,499
One year later	443,055	49,797,105	134,169,598	139,003,958	183,330,768	174,339,641	130,533,162	100,305,430	280,268,882	125,266,766	–	125,266,766
Two years later	443,055	50,415,511	134,309,798	161,516,416	184,261,160	174,539,493	130,456,897	100,047,676	285,109,844	–	–	285,109,844
Three years later	443,055	51,767,052	157,481,065	161,516,416	184,273,144	174,957,885	130,364,269	98,975,740	–	–	–	98,975,740
Four years later	443,055	52,823,523	157,481,065	161,516,416	184,372,296	175,044,463	130,615,539	–	–	–	–	130,615,539
Five years later	443,055	52,823,523	157,481,065	161,651,565	184,402,354	176,078,021	–	–	–	–	–	176,078,021
Six years later	443,055	52,823,523	157,515,967	161,789,349	184,433,531	–	–	–	–	–	–	184,433,531
Seven years later	443,055	52,850,959	157,568,971	161,923,417	–	–	–	–	–	–	–	161,923,417
Eight years later	443,055	52,891,126	157,704,088	–	–	–	–	–	–	–	–	157,704,088
Nine years later	443,055	52,898,169	–	–	–	–	–	–	–	–	–	52,898,169
Ten years later	443,055	–	–	–	–	–	–	–	–	–	–	443,055
Current estimate of cumulative claims	443,055	52,898,169	157,704,088	161,923,417	184,433,531	176,078,021	130,615,539	98,975,740	285,109,844	125,266,766	163,791,499	1,537,239,669
Cumulative payments to date	(443,055)	(52,898,169)	(157,379,218)	(161,923,417)	(184,433,531)	(174,835,492)	(130,615,539)	(98,187,692)	(278,290,821)	(116,767,550)	(66,778,303)	(1,422,552,787)
Total net insurance liabilities included in the statement of financial position	₱–	₱–	₱324,870	₱–	₱–	₱1,242,529	₱–	₱788,048	₱6,819,023	₱8,499,216	₱97,013,196	₱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, 2011 and 2010:

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents	₱106,687,938	₱106,687,938	₱122,426,675	₱122,426,675
Short-term investments	1,300,368	1,300,368	-	-
Insurance receivables:				
Due from brokers and agents	215,822,058	215,822,058	191,464,591	191,464,591
Due from ceding companies	5,032,621	5,032,621	5,323,792	5,323,792
Funds held by ceding companies	1,508,065	1,508,065	1,857,034	1,857,034
Reinsurance recoverable on paid losses	16,034,417	16,034,417	11,447,837	11,447,837
Total Insurance receivables	238,397,161	238,397,161	210,093,254	210,093,254
Loans and receivables:				
Intercompany receivable	2,056,186	2,056,186	1,841,901	1,841,901
Accounts receivable	140,237	140,237	87,064	87,064
Miscellaneous receivables	3,065,629	3,065,629	918,985	918,985
Loans and receivables	5,262,052	5,262,052	2,847,950	2,847,950
Accrued income	8,028,117	8,028,117	6,883,062	6,883,062
Total Loans and receivables	359,675,636	359,675,636	342,250,941	342,250,941
AFS financial assets (see Note 7)	593,341,897	593,341,897	519,424,385	519,424,385
Total financial assets	₱953,017,533	₱953,017,533	₱861,675,326	₱861,675,326
Financial Liabilities				
Other financial liabilities				
Insurance payables:				
Due to ceding companies	₱15,824,397	₱15,824,397	₱47,727,230	₱47,727,230
Funds held for reinsurers	32,179,280	32,179,280	25,190,825	25,190,825
Accounts payable	19,207,927	19,207,927	26,830,989	26,830,989
Commission payable	37,286,889	37,286,889	40,551,810	40,551,810
Total other financial liabilities	₱104,498,493	₱104,498,493	₱140,300,854	₱140,300,854

Due to short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, accrued income, insurance payables, accounts payable and commission payable, their carrying values reasonably approximate fair values 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:

	2011			Total
	Level 1	Level 2	Level 3	
AFS Financial Assets				
Listed equity securities				
Common shares	₱549,080	₱-	₱-	₱549,080
Preferred shares	83,956,523	-	-	83,956,523
Government debt securities				
Local currency	429,149,500	-	-	429,149,500
Foreign currency	45,770,167	-	-	45,770,167
Private debt securities	31,496,627	-	-	31,496,627
Total AFS financial assets	₱590,921,897	₱-	₱-	₱590,921,897

	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
Private debt securities	30,340,874	-	-	30,340,874
Total AFS financial assets	₱517,804,385	₱-	₱-	₱517,804,385

As of December 31, 2011 and 2010, the Company classifies AFS financial assets under Level 1 of the fair value hierarchy. During the reporting period ended December 31, 2011 and 2010, 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, 2011 and 2010:

	2011	2010
Cash and cash equivalents	₱106,592,938	₱122,331,675
Short-term investments	1,300,368	-
Insurance receivables:		
Due from brokers and agents	215,822,058	191,464,591
Due from ceding companies	5,032,621	5,323,792
Funds held by ceding companies	1,508,065	1,857,034
Reinsurance recoverable on paid losses	16,034,417	11,447,837
Financial assets:		
AFS		
Equity securities	86,925,603	39,621,393
Debt securities	506,416,294	479,802,992
Loans and receivables		
Intercompany receivable	2,056,186	1,841,901
Accounts receivable	140,237	87,064
Miscellaneous receivables	3,065,629	918,985
Accrued income	8,028,117	6,883,062
Total	₱952,922,533	₱861,580,326

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, 2011

	Neither past due nor impaired			Past due or impaired	Total
	High	Medium	Low		
Cash and cash equivalents	₱106,592,938	₱-	₱-	₱-	₱106,592,938
Short-term investments	1,300,368				1,300,368
Insurance receivables:					
Due from brokers and agents	126,613,934	12,661,394	1,406,821	79,100,157	219,782,306
Due from ceding companies	468,498	-	-	5,473,428	5,941,926
Funds held by ceding company	1,508,065	-	-	-	1,508,065
Reinsurance recoverable on paid losses	15,681,997	-	-	4,885,050	20,567,047
Financial assets:					
AFS financial assets:					
Equity securities	86,376,523	-	-	692,960	87,069,483
Debt securities	506,416,294	-	-	-	506,416,294
Loans and receivables:					
Intercompany receivable	2,056,186	-	-	-	2,056,186
Accounts receivable	140,237	-	-	-	140,237
Miscellaneous receivables	3,065,629	-	-	-	3,065,629
Accrued income	8,028,117	-	-	-	8,028,117
Total	₱858,248,786	₱12,661,394	₱1,406,821	₱90,151,595	₱962,468,596



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	111,837,614	5,925,620	1,185,124	76,200,515	195,148,873
Due from ceding companies	685,962	-	-	5,155,921	5,841,883
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
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	₱769,213,248	₱5,925,620	₱1,185,124	₱92,628,997	₱868,952,989

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, 2011

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

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
Due from ceding companies	1,091,701	275,106	93,367	3,177,656	4,637,830	518,091	5,155,921
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
Total	₱21,193,103	₱23,055,895	₱18,783,985	₱22,223,351	₱85,256,334	₱7,372,663	₱92,628,997



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

December 31, 2010	Within a year	2-3 years	4-5 years	Over 5 years	No Term	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	39,621,393	519,424,385
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	39,621,393	₱861,675,326
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



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.

	2011		2010	
	US\$	₱	US\$	₱
Financial assets:				
Cash and cash equivalents	\$221,462	₱9,708,890	\$645,021	₱28,277,712
Government securities	1,044,028	45,770,167	1,033,500	45,308,640
	\$1,265,490	₱55,479,057	\$1,678,521	₱73,586,352

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, 2011

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

December 31, 2010

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

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						
2011	0.875%-8.1381%	₱36,664,726	₱78,929,124	₱26,415,206	₱364,407,238	₱506,416,294
2010	0.875%-7.000%	9,181,033	68,192,529	40,484,345	361,945,085	479,802,992

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, 2011

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

December 31, 2010

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

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, 2011

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

December 31, 2010

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

23. Related Party Transactions

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

	2011	2010
Acceptances:		
Funds held by ceding companies	₱—	₱568,950
Cessions:		
Due to reinsurers and ceding companies	—	3,323,663
Funds held for reinsurers	—	25,190,825

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 ₱2,056,186 and ₱1,841,901 as of December 31, 2011 and 2010, 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:

	2011	2010
Short-term employee benefits	₱14,356,164	₱10,103,449

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.



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

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

	2011	2010
PFRS net income	₱68,352,416	₱23,982,035
Adjustments for:		
Difference in change in provision for unearned premiums - net	8,858,753	18,080,858
Deferred acquisition costs - net	(14,261,890)	(5,093,636)
Change in IBNR	38,742,863	5,873,890
Tax effects of PFRS adjustments	(10,001,918)	(5,658,334)
Statutory net income	₱91,690,224	₱37,184,813

25. 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.

26. Note to Statements of Cash Flows

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

27. Supplementary Information Required Under Revenue Regulations 19-2011

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

- a. The summary of the Company's sales/receipts/fees in 2011 amounted to ₱442,747,171.
- b. The summary of the Company's non-operating and taxable other income in 2011 are as follows:

	Regular tax rate
Commission income	₱56,423,216
Realized forex gain	1,379,679
Gain sale of fixed assets	1,003,408
Interest income not subjected to final tax	236,183
Others	5,258,443
Total non-operating and taxable other income	₱64,300,929



- c. The summary of the Company's cost of sales or services in 2011 are as follows:

Cost of Services

	Regular tax rate
Direct charges - Salaries, wages and benefits	₱28,439,589
Direct charges - Others	358,980,905
Total cost of services	₱387,420,494

- d. The itemized deductions of the Company in 2011 are as follows:

	Regular tax rate
Salaries and allowances	₱15,004,250
Rental	7,548,422
Professional fees	3,454,530
Director's fees	541,000
Janitorial and messengerial services	823,187
Other outside services	1,249,066
Advertising	2,735,841
Repairs and maintenance	3,857,322
Office supplies	3,271,627
Interest	1,780,116
SSS, GSIS, Philhealth, HDMF and Other Contributions	1,818,190
Insurance	554,701
Transportation and travel	2,783,611
Communication, light and water	5,402,606
Taxes and licenses	1,347,013
Depreciation	4,174,076
Charitable contributions	209,309
Foreign exchange loss	4,233,437
Other underwriting expense	13,563,747
Bank service fees	566,469
Miscellaneous	3,694,639
Total itemized deductions	₱78,613,159

- e. The taxes and licenses paid by the Company in 2011 are as follows:

Professional Tax Receipt	₱809,650
Mayor's Permit	126,671
Percentage Taxes	118,467
BIR Annual Registration	60,614
Real Estate Taxes	15,591
Total	₱1,130,993



28. 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 ₱44,892,790 for the year based on the amount reflected in the Premium Income account of ₱374,106,585.

The Company has exempt sales amounting to ₱61,033,375 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	₱1,267,348
Current year's purchases/payments :	
Goods other than for resale	10,986,991
Services paid lodged under operating expenses	12,241,249
	<u>24,495,588</u>
Input VAT applied against Output VAT	(19,134,593)
Balance at December 31	<u>₱5,360,995</u>

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

Transaction	Amount	DST
Policies of insurance upon property	₱337,537,258	₱42,192,157
Motor	241,650,205	30,206,276
Issuance of shares of stock	50,000,000	250,000
Accident and Health	64,960,573	162,401
Licenses of Insurance Agents		1,500
Lease contracts		10,773
Intercompany receivable		11,172

- d. Other taxes paid are:

Tax	Amount
Premium tax	₱4,157,323
Fire service tax	2,290,888

- 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	₱126,671
Real Estate Taxes	15,591
Professional Tax Receipt	809,650
Total	<u>₱951,912</u>



National:

Tax assessments	₱5,861,802
BIR Annual Registration	60,614
Percentage Taxes	118,467
<u>Total</u>	<u>₱6,040,883</u>

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

Creditable withholding taxes	₱14,944,212
Tax on compensation and benefits	5,181,514
Final withholding taxes	555,721
<u>Total</u>	<u>₱20,681,447</u>

As of December 31, 2011, the Company has no tax assessments.

