EMPIRE INSURANCE COMPANY

AUDITED FINANCIAL STATEMENTS
December 31, 2012 and 2011
with Report of Independent Auditors

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION I
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STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

The management of **Empire Insurance Company** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the shareholders.

Mercado, Calderon, Jaravata & Co., Certified Public Accountants the independent auditors appointed by the stockholders has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and in its report to the stockholders has expressed its opinion on the fairness of the presentation upon completion of such examination.

ORIGINALLY SIGNED	ORIGINALLY SIGNED	ORIGINALLY SIGNED
AUGUSTO BENEDICTO L. SANTOS	**JOSE MA. G. SANTOS**	**ROMAN L. SANTOS**
Chairman of the Board	President	Treasurer

Signed this 12th day of April, 2013

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Russell Bedford

MCJ & Co.
Mercado, Calderon, Jaravata & Co.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

The Shareholders and the Board of Directors
Empire Insurance Company
2nd Floor Prudential Life Plan Bldg.
843 A. Arnaiz Street, Makati City

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

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 Empire Insurance Company as of December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained on taxes, duties and licenses fee in Note 32 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management and 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.

MERCADO, CALDERON, JARAVATA & Co.

MARCELINO A. MERCADO
Partner
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 3676574; Issued on January 7, 2013, Makati City
SEC Accreditation No. 1019-A
Issued December 9, 2011; Valid until December 9, 2014
BIR Accreditation No. 08-003338-2-2012
Issued October 23, 2012; Valid until October 23, 2015
Firm's BOA/PRC Cert. of Reg. No. 2209; Valid until December 31, 2014
Firm's SEC Accreditation No. 0208-F; Valid until December 31, 2013

April 15, 2013

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EMPIRE INSURANCE COMPANY

STATEMENTS OF FINANCIAL POSITION

	Notes		December 31, 2012		2011
ASSETS					
Cash and cash equivalents	2,4,27	P	**55,842,991**	P	58,645,825
Premiums due from ceding companies	2,3,5,27		**21,238,776**		14,401,048
Reinsurance recoverable on losses	2,3,5,27		**135,879,280**		160,560,696
Premiums receivable	2,3,5,27		**21,050,292**		21,349,091
Commission receivable	2,3,5,27		**11,741,013**		10,226,849
Premiums reserve withheld by ceding companies	2,3,5,27		**7,427,244**		3,465,642
Salvage recoverable	2,3,5,27		**1,393,972**		1,543,972
Receivables	2,3,5,27		**1,928,170**		1,123,277
Other current assets	2,6,27		**9,589,851**		9,402,180
Held-to-maturity financial assets	2,7,27		**239,804,970**		221,024,970
Available-for-sale financial assets	2,8,27,32		**169,408,138**		137,572,397
Property and equipment	2,3,9		**3,345,876**		4,693,881
Pension asset	2,17		**3,021,773**		2,514,116
Other non-current assets	2,10		**1,426,583**		893,171
Deferred tax asset, net	2,25		**865,154**		39,737
		P	**683,964,083**	P	647,456,852
LIABILITIES AND EQUITY					
Liabilities					
Claims payable	2,11,27	P	**143,785,442**	P	169,238,018
Premiums due to reinsurers	2,12,27		**56,280,852**		51,904,338
Commission payable	2,13,27		**23,352,647**		21,449,365
Reserve for unearned premiums	2,14,27		**40,535,481**		37,320,810
Premiums reserve withheld for reinsurers	2,15,27		**5,202,430**		2,726,482
Payables	2,16,27		**1,223,914**		1,202,161
Other liabilities	2,18		**16,814,416**		17,515,792
			287,195,182		301,356,966
Equity					
Share capital	2,19		**250,000,000**		175,000,000
Retained earnings	20		**72,494,815**		127,617,262
Unrealized gain on available-for-sale financial assets	2,8,27,32		**74,296,698**		43,505,236
Treasury stocks	2,20		**(22,612)**		(22,612)
			396,768,901		346,099,886
		P	**683,964,083**	P	647,456,852

WENDY FRANCISCO

See Accompanying Notes to Financial Statements.

EMPIRE INSURANCE COMPANY

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Years Ended December 31 2012	2011
Underwriting income	2,3,22	P 110,713,015	P 78,761,443
Underwriting expense	2,3,22	(81,430,439)	(51,574,972)
Net underwriting income	2,22	29,282,576	27,186,471
Other income			
Investment	2,23	15,551,606	14,444,222
Gain on sale of investment		9,401,384	-
Others	2	917,846	1,032,802
		25,870,836	15,477,024
Total underwriting and other income		55,153,412	42,663,495
General and administrative expenses	2,24	29,025,032	23,602,388
Operating income before finance income		26,128,380	19,061,107
Finance income (costs)			
Foreign exchange loss	2,3,27	(204,196)	(861,189)
Dividend income	2	8,072,763	3,557,447
		7,868,567	2,696,258
Income before bonus		33,996,947	21,757,365
Bonus	2,18	(5,099,542)	(3,263,605)
Income before tax		28,897,405	18,493,760
Provision for (benefit from) income tax	2,25	(980,148)	506,451
Net income for the year		29,877,553	P 17,987,309
Other comprehensive income			
Net gain (loss) on available-for-sale financial assets	2,8,27	30,946,193	(7,593,739)
Tax effect		(154,731)	346,259
		30,791,462	(7,247,480)
Total comprehensive income for the year		P 60,669,015	P 10,739,829
Earnings per share	2,26		
Basic and diluted		P 15.94	P 13.93
Book value per share	2,26	P 211.61	P 267.95

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STATEMENTS OF CHANGES IN EQUITY

	Year Ended December 31, 2012				
	Paid -up capital (Note 19)	**Retained earnings (Note 20)**	**Net unrealized gain on AFS financial assets (Notes 2,8,27)**	**Treasury stocks (Note 19)**	**Total**
At January 1, 2012	**P 175,000,000**	**P 127,617,262**	**P 43,505,236**	**P (22,612)**	**P 346,099,886**
Net income for the year	-	29,877,553	-	-	29,877,553
Other comprehensive income	-	-	30,791,462	-	30,791,462
Total comprehensive income for the year	-	29,877,553	30,791,462	-	60,669,015
Stock dividend declared	75,000,000	(75,000,000)	-	-	-
Cash dividends	-	(10,000,000)	-	-	(10,000,000)
At December 31, 2012	**P 250,000,000**	**P 72,494,815**	**P 74,296,698**	**P (22,612)**	**P 396,768,901**

	Year Ended December 31, 2011				
	Paid-up capital (Note 19)	Retained earnings (Note 20)	Net unrealized gain on AFS financial assets (Notes 2,8,27)	Treasury stocks (Note 19)	Total
At January 1, 2011	P 125,000,000	P 164,629,953	P 50,752,716	P (22,612)	P 340,360,057
Net income for the year	-	17,987,309	-	-	17,987,309
Other comprehensive income	-	-	(7,247,480)	-	(7,247,480)
Total comprehensive income for the year	-	17,987,309	(7,247,480)	-	10,739,829
Stock dividend declared	50,000,000	(50,000,000)	-	-	-
Cash dividends	-	(5,000,000)	-	-	(5,000,000)
At December 31, 2011	P 175,000,000	P 127,617,262	P 43,505,236	P (22,612)	P 346,099,886

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STATEMENTS OF CASH FLOWS

	Notes	Years Ended December 31 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P 28,897,405	P 18,493,760
Adjustments for:			
Depreciation and amortization	2,3,9	1,847,113	1,916,505
Interest income	2,23	(15,551,606)	(14,444,222)
Dividend income	2	(8,072,763)	(3,557,447)
Foreign exchange loss	2,3,27	204,196	861,189
Operating income before working capital changes		7,324,345	3,269,785
Changes in assets and liabilities:			
(Increase) Decrease in:			
Premiums due from ceding companies	2,3,5,27	(6,837,728)	3,535,683
Reinsurance recoverable on losses	2,3,5,27	24,681,416	(113,631,839)
Premiums receivable	2,3,5,27	298,799	(14,045,420)
Commission receivable	2,3,5,27	(1,514,164)	(1,976,920)
Premiums reserve withheld by ceding companies	2,3,5,27	(3,961,602)	(909,288)
Salvage recoverable	2,3,5,27	150,000	200,000
Receivables	2,3,5,27	(804,893)	116,534
Other current assets	2,6,27	(187,671)	932,255
Pension assets	2,17	(507,657)	(906,746)
Other non-current assets	2,10	(65,213)	(208,610)
Increase (Decrease) in:			
Claims payable	2,11,27	(25,452,576)	112,729,003
Premiums due to reinsurers	2,12,27	4,376,514	12,639,434
Commission payable	2,13,27	1,903,282	2,014,756
Reserve for unearned premiums	2,14,27	3,214,671	12,932,055
Premiums reserve withheld for reinsurers	2,15,27	2,475,948	1,742,522
Payables	2,16,27	21,753	(646,548)
Other liabilities	2,18	(546,645)	5,723,147
Cash generated from operations		4,568,579	23,509,803
Income taxes paid	2	(468,199)	(2,212,741)
Interest received	2,23	938,515	304,211
Net cash provided by operating activities		5,038,895	21,601,273
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	2	14,613,091	14,140,011
Dividends received	2	8,072,763	3,557,447
Purchase of available-for-sale investments	2,8,27	(1,044,279)	(6,750,000)
Purchase of held-to-maturity investments	2,7,27	(18,780,000)	4,031,200
Purchase of property and equipment	2,3,9	(499,108)	(562,136)
Net cash provided by investing activities		2,362,467	14,416,522
Balance carried forward		7,401,362	36,017,795

EMPIRE INSURANCE COMPANY

STATEMENTS OF CASH FLOWS

	Notes		Years Ended December 31 2012		2011
NET CASH PROVIDED BY OPERATING ACTIVITIES			5,038,895	P	21,601,273
NET CASH PROVIDED BY INVESTING ACTIVITIES			2,362,467		14,416,522
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of dividends	20		(10,000,000)		(5,000,000)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,4,27		204,196		861,189
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,4,27		(2,802,834)		30,156,606
CASH AND CASH EQUIVALENTS, JANUARY 1			58,645,825		28,489,219
CASH AND CASH EQUIVALENTS, DECEMBER 31	2,4,27	P	55,842,991	P	58,645,825

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1. CORPORATE INFORMATION

Empire Insurance Company (the Company) was incorporated on December 8, 1949 to engaged in the business and operation of all kinds of insurance, reinsurance, insurance on buildings, automobiles, car and other motor vehicles, goods and merchandise, goods in transit, goods in storage, fire insurance, earthquake insurance, insurance against accidents, all other forms of undertaking to indemnify any person against loss, damage or liability arising from unknown or contingent events, except life insurance.

On May 26, 1999, the Securities and Exchange Commission approved the Company's application of extension of amended Articles of Incorporation to extend its life for another Fifty (50) years.

The registered office address of the Company is 2nd Floor Prudential Life Plan Bldg., 843 A. Arnaiz Street, Makati City.

The financial statements of the Company were authorized for issue on April 12, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies and practices of the Company are summarized below to facilitate the understanding of data presented in the financial statements.

Basis of Preparation
These financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretation, which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the Securities and Exchange Commission (SEC), including SEC pronouncements.

The financial statements have been prepared under the historical cost convention. The Company's financial statements are presented in Philippine pesos, which is the functional and presentation currency under PFRS. All values are rounded to the nearest peso except as otherwise indicated.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with the PFRS.

Changes in Accounting Policies
The following explains the significant accounting policies which have been adopted in the preparation of the financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes in accounting policies as explained below.

The following Amendments to Existing Standards effective on or after January 1, 2012 are as follows:

- PFRS 1, *First Time Adoption of international Financial Reporting Standards (Amendment)- Severe Hyperinflation and Removal of Fixed Dates for First Time Adopter.* The FRSC provided guidance on how an entity should resume presenting PFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after July 1, 2011. The amendment had no impact to the Company.

- *Disclosures- Transfer of Financial Assets (Amendments to PFRS 7, Financial Instruments Disclosures, effective for annual periods beginning on or after July 1, 2012).* Requires additional disclosure about transfers of financial assets. The amendments require disclosure of information that enables users of the financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

- PAS 12, *Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012).* The amendment 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 should be determined on the basis that its carrying value amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets are measured using revaluation model in PAS 16 always be measured on a sale basis of the asset. There has been no effect on the Company's financial position, performance or its disclosures.

- PAS 1, *Presentation of Financial Statements - Presentation of Items in Other Comprehensive Income (effective for annual periods beginning on or after January 1, 2012).* The amendments to PAS 1 change 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 has no other impact on the Company's financial position and performance.

<u>Annual Improvements of PFRS (2009-2011 Reporting Cycle)</u>
These improvements include:

- PAS 1, Presentation of Financial Statements: clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. The amendments have no impact on the Company's financial position or performance since it affects disclosures only.

- PAS 16, Property Plant and Equipment: clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The Company believes that this amendment will not have an impact on its financial position or performance.

- PAS 32, Financial Instruments: Presentation: clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with PAS 12 Income Taxes. The Company believes that this amendment will not have an impact on its financial position or performance.

- PAS 34, Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities: clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The Company does not expect the amendment to have an impact on its financial position or performance.

The improvements are effective for annual periods beginning on or after 1 of January 2013.

<u>New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted</u>
A number of new or revised standards and interpretations are effective for annual periods beginning *after* January 1, 2013, and have not been applied in preparing these financial statements.

The Company will adopt the following new or revised standards, amendments to standards and interpretations in the respective effective dates:

- IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7 effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods).* The amendment requires information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The amendments need to be provided retrospectively to all comparative periods. The amendments affect disclosures only and have no impact on the Company's financial statements.

- PFRS 10, *Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2013).* PFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008). The amendment has no impact on the Company's financial position or performance.

- PFRS 11, *Joint Arrangements (effective for annual periods beginning on or after January 1, 2013).* PFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) always requires the equity method for jointly controlled entities that are now called joint proportionate consolidation. PFRS 11 supersedes PAS 31 and Philippine Interpretation SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. There has been no effect on the Company's financial position, performance, or disclosures.

- PFRS 12, *Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 1, 2013).*PFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013).* PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Company does not expect that the adoption of this standard will have significant impact on the Company's financial position or performance.

- PAS 19, *Employee Benefits (effective for annual periods beginning on or after January 1, 2013).*The amended PAS 19 includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under calculated based on the rate used to discount the defined benefit obligation. Additional new disclosures are also required under the revised standard such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan asset by nature and risk. The Company has yet to assess the impact on its financial position or performance upon adoption.

- PAS 27, *Separate Financial Statements* (*as revised in 2011) (effective for annual periods beginning on or after January 1, 2013).* As a consequence of the new PFRS 10 and 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly-controlled entities and associates in separate financial statements. This will have no effect on the financial position or performance of the Company.

- PAS 28, Investments *in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2013).* PAS 28 (2011) supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and, (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest. The adoption of the amended or revised standard is required for annual periods beginning on or after January 1, 2013. The amendment will have no impact to the financial position or performance of the Company.

- PAS 32, Financial Instruments: *Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment has introduced refinement to the meaning of "currently has legally enforceable right to set off" and also to clarify the application of the offsetting criteria to settlement system (such as central clearing house systems) that supply gross settlement mechanism that are not simultaneous. The amendment affects presentation only and the Company does not expect to have significant impact on its financial position and performance. These can be retrospectively applied for annual period, beginning on or after January 1, 2014.

- PFRS 9, *Financial Instruments (effective for annual periods beginning on or after January 1, 2015).* PFRS 9 (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before January 1, 2012. PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of Philippine Interpretation - IFRIC 9, Reassessment of Embedded Derivatives. The Company will assess the impact of PFRS 9 in its financial statements upon completion of all the phases of PFRS 9.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*. The implementation of the Philippine Interpretation is deferred until the final Review Standard is issued by IASB and after an evaluation on the requirements and guidance in the standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed. This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The interpretation will have no impact to the financial position or performance of the Company.

<u>Cash and Cash Equivalents</u>
Cash includes cash on hand and in banks. Cash equivalents are temporary placements with maturity of less than three (3) months which can be withdrawn anytime depending on the immediate cash requirement of the Company

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Investment Contracts
Insurance premiums are recognized directly as liabilities. Revenue consists of fees deducted for policy administration and surrender charges. Interest or changes in the unit prices credited to the account

balances and excess benefit claims incurred in the period are charged as expenses in the statements of comprehensive income. The Company, however, has no investment contracts.

(b) Deferred Policy Acquisition Costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalized as an intangible asset (DAC). All other costs are recognized as expense when incurred. For property and casualty insurance contracts, the DAC is amortized over the terms of the policies as premium is earned.

(c) Liability Adequacy Test

At each financial position date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Any DAC written off as a result of this test cannot subsequently be reinstated.

(d) Reinsurance Contracts Held

Contracts entered into by the Company with reinsurers under which it is compensated for losses on one or more contracts issued by the Company and meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

(e) Receivables and Payables related to Insurance Contracts and Investment Contracts

Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognized that impairment loss in the statements of comprehensive income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

Financial Assets
Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss (FVPL), receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

All financial assets are recognized on their trade date. All financial assets that are not classified at a fair value through profit or loss are initially recognized at fair value plus transaction costs.

The foregoing categories of financial instruments are more fully described below.

Financial Assets at FVPL
Financial assets are classified as at fair value through profit or loss if they are acquired for the purpose of selling in the near term or if so designated by the management. Derivatives assets, including separated embedded derivatives are also classified as at fair value through profit or loss unless they are designated as effective hedging instruments.

Initial recognition and measurement
Financial assets at fair value through profit or loss are initially recorded at fair value. Transactions costs incurred for the acquisition of the financial assets are directly expensed outright.

Subsequent measurement
Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

The Company has no investment classified under this category.

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 other financial assets held for trading, designated as AFS financial assets or securities at FVPL.

Initial recognition and measurement
Loans and receivables are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. The fair value of the loan receivable at initial recognition is normally the transaction price, meaning the amount of the loan granted.

Subsequent measurement
After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, allowances or reversals of allowances being made where necessary on remeasuring.

Impairment of Financial Assets
A loan and receivable is deemed impaired when there is objective evidence that an impairment loss on loan and receivables has been incurred. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, and through the amortization process.

Loans and receivables includes cash and cash equivalents, premiums due from ceding companies, reinsurance recoverable on losses, premiums receivable, commission receivable, premiums reserve withheld by ceding companies, salvage recoverable and other receivables in the statement of financial position.

Available-for-Sale Investments
Financial assets of the Company include available-for-sale investments. AFS investments are those non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. AFS investments include financial assets not quoted in an active market and are classified as AFS when purchased and held indefinitely, but which the Company anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. Financial assets may be designated under this category provided such are not held for trading.

Initial recognition and measurement
AFS investments are recognized initially at fair value. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business as at the date of financial position. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measure are measured at cost less any impairment losses at end of each reporting period.

Subsequent measurement
After initial recognition, changes in the fair value of AFS investments are recognized in equity, except for the foreign exchange fluctuations on AFS debt securities and the related effective interest which are taken directly to the statements of comprehensive income. These changes in fair values are recognized in equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the statements of comprehensive income.

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

In case of equity investments classified as available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income reserve account and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income reserve account is reclassified from other comprehensive income reserve account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income account to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income reserve account.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income in the profit or loss. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the profit or loss.

<u>Held-to-Maturity Investments</u>
HTM investments include non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments.

Initial recognition and measurement
Held-to-maturity investments are initially recorded at fair value plus transactions costs that are directly attributable to the acquisition or issuance of the financial asset. The fair value is usually the actual transaction price on the transaction date.

Subsequent measurement
Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

Impairment of Financial Assets
If there is objective evidence that a financial assets carried at amortized cost is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate of the financial asset.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "asset impairment" in the statement of comprehensive income. If, in a subsequent period, the amount of an impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. If a future write-off is later recovered, the recovery is recognized in profit or loss.

Financial liabilities
All financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

All financial liabilities are recognized initially at fair value of the consideration received less directly attributable costs. After initial recognition, these are subsequently measured at amortized cost using the effective interest method. When liabilities are impaired or derecognized, any gain and losses are recognized in the profit or loss.

Included in this category are the Company's claims payables, premiums due to reinsurers, commission payable, reserved for unearned premiums, premiums reserve withheld for reinsurers and other payables (except for tax liabilities).

The Company has no designated financial liability at FVPL.

Derecognition of Financial Assets and Liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized or removed from the Company's statements of financial position 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 right to receive cash flows from the asset and either (a) has transferred nor retained 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 rights 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Purchases and sales of investments are recognized or derecognized on trade date, the date on which the Company commits to purchase or sell the asset. At initial measurement, financial instruments are measured equal to their fair value including transaction costs. Transactions costs incurred at a subsequent date related to the transfer or disposal of a financial instrument are not included in the subsequent measurement of the financial instrument. Such costs are only included in the statement of comprehensive income when derecognition occurs. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial condition 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.

Other Investments
Other investments which include outstanding collateral loans, real estate acquired and the Company's contribution to the Security Fund are stated at cost. These are included in other non-current assets.

Impairment of Reinsurance Contracts
The Company assumes reinsurance risk in the normal course of business for nonlife insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognized as revenue or 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 related 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 expire or when the contract is transferred to another party.

The Company assesses at each financial position date whether there is objective evidence that a reinsurance contract is impaired. A reinsurance contract is impaired if, and only if:

- there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and
- the event has reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and allowance for impairment loss. When assets are sold or retired, their cost, accumulated depreciation and any allowance for impairment are eliminated from the accounts and any gain or loss resulting from the disposal is included in the statements of comprehensive income.

The initial cost of property and equipment comprises its purchase price, including import duties and taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to expense in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

Building	20 years
Building improvements	1-5 years
Office furniture and fixtures	1-10 years
Transportation equipment	2-5 years
Electronic Data Processing Machine	1-5 years

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

Impairment of Nonfinancial Assets
Property and equipment and other non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts.

The estimated recoverable amount is the greater of an asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss is recognized in the statements of comprehensive income.

Reversal of impairment losses recognized in prior years is recorded when that there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in the statements of comprehensive income. However, the increased carrying amount of an asset due to reversal of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

Derecognition of Nonfinancial Assets
An item of the property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on the derecognition of the assets (computed as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the assets is derecognized.

<u>Share Capital</u>
Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

When the Company purchases the Company's equity shares capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

Revenue Recognition
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:

Insurance Contracts and Investment Contracts

(a) Recognition and Measurement

Short-term Insurance Contracts
These contracts are casualty and property insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Premiums from short duration insurance contracts are recognized as revenue over the period of contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies as at the date of financial position are accounted for as Unearned Premiums and presented in the liability section of the statements of financial position. The related reinsurance premiums ceded that pertained to the unexpired periods as at the date of financial position are accounted for as Ceded Reinsurance Premiums shown as part of assets in the statements of financial position. The net changes in these accounts between financial position dates are either charged or credited to income.

Interest income is recognized as the interest accrues using the effective interest method.

Other income includes gain on sale of stocks and investment income. Gain on sale is recognized when sold. Recovery from impairment losses is recognized when collected.

Dividend income is recognized when the right to receive payment is established. Revenues from dividends received and those from other sources are recognized when declared and earned regardless of when received.

Foreign currencies denominated monetary transactions are translated into the functional currency using the prevailing exchange rates at financial position dates. Exchange gains or losses arising from foreign currency transactions are credited or charged directly to operations.

Expense Recognition
Expenses are recognized in the statements of comprehensive income when decrease in future economic benefit related to a decrease in asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the statement of comprehensive income:

- on the basis of a direct association between the costs incurred and the earning of specific items income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statements of financial position as an asset.

Comprehensive Income
The Company uses single statement of comprehensive income, in which it presents all items of income and expense recognized in the period.

Leases

Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

The Company as Lessee
Rentals payable under operating leases are charged to profit or loss on another systematic basis, which is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Employee Benefits

a. Retirement Cost
The Company operates various pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by annual actuarial calculations. The pension has both defined benefit and defined contribution plan. A defined contribution plan is a plan under which the qualified employees pay fixed contributions into trustee. The employees have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The retirement cost is determined by applying the Accrued Benefit Actuarial Cost Method taking into account the factors of investment, mortality, disability and salary projection rate. The fund is administered by a duly appointed fund trustee.

The other mentioned scheme of retirement plan falls under the defined benefit plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

b. Short-term employee benefits
Wages, salaries, paid annual leave, sick leave, bonuses, social security contribution, philhealth contribution, pag-ibig contribution and non-monetary benefits are recognized as employee benefit expense and accrued when the associated services are rendered by the employees of the Company.

c. Profit-sharing and bonus plans
The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Contingencies
Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. They are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Income Taxes
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 substantially enacted as at the date of financial position.

Deferred taxes and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting basis of assets and liabilities and their related tax base. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The carrying amount of deferred income tax assets is reviewed as at the date of financial position and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed as at the date of financial position and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

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

Earnings per Share
Basic earnings per share is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted earnings per share amounts are calculated by dividing net income by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares outstanding that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Book Value per Share
Book value per share is calculated by dividing stockholders equity by the weighted average number of ordinary shares outstanding during the year, adjusted for any subsequent stock dividends declared.

Subsequent Events
Post year-end events that provide additional information about the Company's position at financial position date (adjusting events) are reflected in the financial statements. Post year end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments
In the process of applying the Company's accounting policies, management has made judgments, apart from those involving estimations that have the most significant effect on the amounts recognized in the financial statements:

Revenue Recognition
The Company's revenue recognition policies require use of estimates and assumptions that may affect the reported amounts of revenue and receivables.

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the revenues and expenses of the Company.

Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The Ultimate Liability Arising from Claims made under Insurance Contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

Estimated Allowance for Impairment Losses on Receivables
The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivable and on an evaluation of the current status of the account. However, as of December 31, 2012, no allowance for impairment losses was provided for, as the accounts were deemed fully collectible.

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 the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

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 and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

Financial Assets and Liabilities
The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. foreign exchange rates, interest rate), the amount of changes in fair value would differ if the Company utilized different value methodology. Any changes in fair value of these financial assets and liabilities would affect directly the statements of comprehensive income and statements of changes in equity. Fair values of financial assets and liabilities are disclosed in Note 27.

Asset Impairment
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 the 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell. The fair value less costs to sell 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, 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, the Company is required to make estimates and assumptions that can materially affect the financial statements.

No indications of impairment were noted on property and equipment as of December 31, 2012 and 2011.

Deferred Income Tax Assets
The Company reviews the carrying amounts of deferred income tax assets at each financial position date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit to allow all or part of the deferred income tax assets to be utilized.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2012	2011
Cash in banks	**P 49,541,187**	P 33,572,551
Short-term financial assets	**6,139,670**	24,926,670
Cash on hand	**162,134**	146,604
	P 55,842,991	P 58,645,825

Cash in bank earns interest at floating rates based on daily bank deposit rates. Short-term financial assets are made for varying periods between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

5. REINSURANCE

The Company utilizes reinsurance agreements to minimize its exposure to large losses in all aspects of its insurance business. Reinsurance permits recovery of a portion of losses from reinsurers, although, it does not discharge the primary liability of the Company as direct insurer of the risk reinsured.

6. OTHER CURRENT ASSETS

This account consists of:

	2012	2011
Prepaid investment expenses	**P 3,495,088**	P 4,271,916
Accrued investment income	**2,656,114**	2,606,494
Documentary stamps tax receivable	**2,608,313**	1,835,384
Notes receivable	**442,657**	422,102
Prepaid expenses	**117,862**	142,668
Fire service tax receivable	**269,817**	123,616
	P 9,589,851	P 9,402,180

7. HELD-TO-MATURITY FINANCIAL ASSETS

This account consists of:

	2012	2011
Treasury bills	**P 40,000,000**	P 40,000,000
Treasury bonds	**172,701,970**	153,921,970
Treasury notes	**27,103,000**	27,103,000
	P 239,804,970	P 221,024,970

Held-to-maturity investments of the Company carry effective interest rates as follows:

	2012	2011
Less than one year	**4.30-8.125**	7.750-8.125
More than year	**6.375-9.1**	6.375-9.1

The movement in held-to-maturity investments is summarized as follows:

	2012	2011
At January 1	**P 221,024,970**	P 225,056,170
Additions	**239,804,970**	6,603,000
Maturities	**(221,024,970)**	(10,634,200)
At December 31	**P 239,804,970**	P 221,024,970

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale investments which consist of listed/unlisted equity shares which are measured at *fair market value* and *at cost* are as follows:

a) Available-for-sale-investments which consist of listed equity shares which are measured at fair market value are as follows:

2012	No. of Shares	Investment at Market Value	Investment at Cost	Net unrealized gain (loss)
Equity shares				
Nat'l Reinsurance Corporation	7,999,000	P 13,598,300	P 13,684,987	(86,254)
Paper Industrial Corporation	787	157	3,820	(3,644)
PLDT & Co.	6,784	72,589	66,700	5,859
Bank of the Phils. Island	994,476	94,475,220	20,224,710	73,879,257
Petron Perpetual-Preferred	50,000	5,400,000	5,000,000	398,000
San Miguel Corp. Preferred	411,800	30,885,000	30,885,000	-
San Miguel Purefoods Preferred	8,000	8,128,000	8,024,000	103,480
		P 152,559,266	P 77,889,217	P 74,296,698

2011	No. of Shares	Investment at Market Value	Investment at Cost	Net unrealized gain (loss)
Equity shares				
Nat'l Reinsurance Corporation	7,999,000	P 14,878,140	P 13,684,988	P 1,187,187
Paper Industrial Corporation	787	157	3,820	(3,644)
PLDT & Co.	6,784	72,589	66,700	5,859
Bank of the Phils. Island	1,144,142	63,156,639	23,268,915	39,688,285
Petron Perpetual-Preferred	50,000	5,600,000	5,000,000	597,000
San Miguel Corp. Preferred	404,000	31,916,000	29,975,247	1,931,049
San Miguel Purefoods Preferred	5,000	5,100,000	5,000,000	99,500
		P 120,723,525	P 76,999,670	P 43,505,236

b) Available-for-sale-investments which consist of proprietary share and unquoted equity shares measured at cost.

	2012	2011
Proprietary shares		
Wack-wack Golf Club	**P 15,000,000**	P 15,000,000
Sta. Elena Club	**1,750,000**	1,750,000
Makati Sports Club	**35,000**	35,000
Unquoted equity shares		
Acoje Mining	**28,425**	28,425
Nuclear Insurance Pool, Inc.	**10,000**	10,000
Phil. Machinery Mgmnt. Services	**20,000**	20,000
PDCP	**5,447**	5,447
	P 16,848,872	P 16,848,872

The movement in this account is summarized as follows:

	2012	2011
At January 1	**P 137,572,397**	P 98,131,136
Additions	**33,909,000**	6,750,000
Disposition	**(32,864,721)**	-
Fair value changes	**30,791,462**	32,691,261
	P 169,408,138	P 137,572,397

9. PROPERTY AND EQUIPMENT

Movements in the property and equipment account in 2012 follow:

	Building and Building Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Electronic Data Processing Machine	Total
Cost					
Beginning balances	P 16,102,289	P 2,648,597	P 4,759,389	P 641,269	P 24,151,544
Additions	-	11,918	331,779	155,411	499,108
Total	16,102,289	2,660,515	5,091,168	796,680	24,650,652
Accum. Depreciation					
Beginning balances	14,459,710	2,295,438	2,254,327	448,188	19,457,663
Depreciation and amortization	730,035	112,124	906,232	98,722	1,847,113
Total	15,189,745	2,407,562	3,160,559	546,910	21,304,776
Net Book Value	P 912,544	P 252,953	P 1,930,609	P 249,770	P 3,345,876

Movements in the property and equipment account in 2011 follow:

	Building and Building Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Electronic Data Processing Machine	Total
Cost					
Beginning balances	P 16,102,289	P 2,327,027	P 6,176,661	P 400,703	P 25,006,680
Additions	-	321,570	-	240,566	562,136
Adjustment	-	-	(1,417,272)	-	(1,417,272)
Total	16,102,289	2,648,597	4,759,389	641,269	24,151,544
Accum. Depreciation					
Beginning balances	13,679,368	2,219,250	2,719,721	340,091	18,958,430
Depreciation and amortization	780,342	76,188	951,878	108,097	1,916,505
Adjustment	-	-	(1,417,272)	-	(1,417,272)
Total	14,459,710	2,295,438	2,254,327	448,188	19,457,663
Net Book Value	P 1,642,579	P 353,159	P 2,505,062	P 193,081	P 4,693,881

10. OTHER NONCURRENT ASSETS

This account consists of:

	2012	2011
Real estate acquired	**P 279,974**	P 279,974
Accounts receivable-BIR	**468,198**	276,479
Deferred charges-MCIT	**371,512**	-
Deposits	**131,302**	131,302
Taxes fund	**94,514**	137,740
Verification fund	**63,181**	40,324
Security fund	**17,902**	17,902
Mortgage and collateral loan	**-**	9,450
	P 1,426,583	P 893,171

11. CLAIMS PAYABLES

This account comprises of the total amount of losses and claims due and payable to policyholders and other claimants. Also included in this account are losses and claims due and payable to reinsurers under treaty and facultative agreements.

The Company's claims payable amounts to P143,785,442 and P169,238,018 for the years 2012 and 2011, respectively.

12. PREMIUM DUE TO REINSURERS

This represents all the reinsurance premium payable by the Company to all its treaty and facultative reinsurers.

The Company's premiums due to reinsurers amounts to P56,280,852 and P51,904,338 for the years 2012 and 2011, respectively.

13. COMMISSION PAYABLE

Commission's payable pertains to amount payable to agents, brokers and general agents for business underwritten by them or to ceding companies upon business accepted from them.

The Company's commission payable amounts to P23,352,647 and P21,449,365 for the years 2012 and 2011, respectively.

14. RESERVED FOR UNEARNED PREMIUM

The Company adopts the 24^{th} method of recognizing premiums revenue and accounting for the portion of premiums written relating to the unexpired periods of the policies and unearned premiums.

A comparison of reserve for unearned premiums computed using this method and the statutory rate follows:

	2012	2011
Reserve using 24th method	**P 40,535,481**	P 37,320,810
Reserve using statutory rate 40%	**20,890,070**	28,206,008
	P 19,645,411	P 9,114,802

15. PREMIUM RESERVE WITHHELD FOR REINSURERS

Included in this amount is the portion of the reinsurance premiums ceded to insurers, which was withheld by the Company in accordance with treaty agreement and / or laws, rules and regulations.

The Company's premiums reserve withheld for reinsurers amounts to P5,202,430 and P2,726,482 for the years 2012 and 2011, respectively.

16. PAYABLES

Obligations of the Company arising from non-insurance and non-reinsurance transactions are lodged in this account.

The Company's payables amounts to P1,223,914 and P1,202,161 for the years 2012 and 2011, respectively.

17. RETIREMENT BENEFIT OBLIGATION

The Company has a retirement plan covering all its qualified employees. The plan is contributory and the retirement cost is determined by applying the Accrued Benefit Actuarial Cost Method taking into account the factors of investment, mortality, disability and salary projection rate. The fund is administered by a duly appointed fund trustee.

The above mentioned retirements plan falls under the defined benefit plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Movement in the present value of defined benefit obligation is summarized as follows:

	2012	2011
Present value of obligation, January 1	**P 9,819,289**	P 8,846,662
Current service cost	**880,482**	326,821
Interest cost	**569,519**	645,806
Benefits paid	**-**	-
Actuarial (gain) loss	**97,526**	-
Present value of obligation, December 31	**P 11,366,816**	P 9,819,289

The movement in pension assets is summarized as follows:

	2012	2011
Fair value of pension assets, January 1	**P 19,943,736**	P 18,639,006
Expected return on pension assets	**1,396,062**	1,304,730
Contributions	**-**	-
Benefits paid	**-**	-
Actuarial gain (loss)	**(996,462)**	-
Fair value of pension assets, December 31	**P 20,343,336**	P 19,943,736

(Asset) / Liability recognized in the statements of financial position is as follows:

	2011	2011
Present value of obligation	**P 11,366,816**	P 9,819,289
Fair value of pension assets	**20,343,336**	19,943,736
Unfunded obligation	**(8,976,520)**	(10,124,447)
Unrecognized actuarial gains and losses	**5,954,747**	7,610,331
Retirement benefit obligation (asset)	**P (3,021,773)**	P (2,514,116)

Expenses recognized in the statements of comprehensive income:

	2012	2011
Current service cost	**P 880,482**	P 326,821
Interest cost	**569,519**	645,806
Actuarial (gain) loss	**(561,596)**	(574,643)
Expected return on pension assets	**(1,396,062)**	(1,304,730)
Retirement expense	**P (507,657)**	P (906,746)

Movement in net liability (assets) is summarized below:

	2012	2011
Beginning net liability	**P (2,514,116)**	P (1,607,370)
Expense recognized	**(507,657)**	(906,746)
Contributions paid	**-**	-
Closing net liability (asset)	**P (3,021,773)**	P (2,514,116)

The principal assumptions used in determining pensions for the Company were as follows:

	2012	2011
Discount rate	**5.20%**	7.30%
Expected rate of return on plan assets	**3.00%**	7.00%
Salary increase rate	**6.00%**	6.00%

The expected return on pension assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as of the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Assumptions regarding future mortality and disability experience are based on published statistic generally used for local actuarial valuation purposes.

Experience adjustments as of December 31, 2012 and 2011 follows:

	2012	2011
Experience adjustments on plan liabilities	**P (213,766)**	P -
Experience adjustments on pension assets	**-**	-

Actual return on plan assets:

	2012	2011
Expected return on plan assets	**P 1,396,062**	P 1,304,730
Actuarial gain (loss)	**(996,462)**	-
Actual return on pension assets	**P 399,600**	P1,304,730

18. OTHER LIABILITIES

This account consists of:

	2012	2011
Due to BIR	**P 2,488,548**	P 7,211,826
Credits to client	**5,500,957**	4,089,433
Bonus payable	**5,099,542**	3,263,605
Deposits	**1,581,868**	1,550,970
Fire service tax payable	**414,767**	496,669
Documentary stamps payable	**1,245,441**	449,328
Unearned bond discount	**436,506**	427,186
Dividends payable	**15,458**	-
Others	**31,329**	26,775
	P 16,814,416	P 17,515,792

19. SHARE CAPITAL

This account consists of:

	2012	2011
Par value - P100 per share	**1,750,000 shares**	1,250,000 shares
	P 175,000,000	P 125,000,000
Stock dividend	**75,000,000**	50,000,000
	P 250,000,000	P 175,000,000

The Company has one hundred twenty four (124) shareholders owning 100 or more shares of the Company's share capital as at financial position date.

Stock Dividends

On November 9, 2012, the Board of Directors and stockholders approved the declaration of stock dividend amounting to 75,000,000 to stockholders of record as of September 27, 2012.

On November 15, 2011, the Board of Directors and stockholders, at a special meeting approved the declaration of stock dividend amounting to P50,000,000 payable to stockholders of record as of October 24, 2011.

Treasury Stocks

The Company's future earnings are restricted from the payment of dividends to the extent of P22,612 representing the cost of 43 treasury shares.

20. RETAINED EARNINGS

Declaration of Stock Dividend
In a meeting held on September 27, 2012, the Board of Directors approved the proposed increase in the paid-up capital stock of the Company by way of stock dividend amounting to P75,000,000. The increase in paid-up capital stock was approved by the Board of Directors and accordingly ratified by the stockholders on November 9, 2012.

In a meeting held on October 24, 2011, the Board of Directors approved the proposed increase in the paid-up capital stock of the Company by way of stock dividend amounting to P50,000,000. The increase in paid-up capital stock was approved by the Board of Directors and accordingly ratified by the stockholders on November 15, 2011.

Declaration of Cash Dividend
On June 25, 2012 the Company declared cash dividend of P5,000,000 distributable to stockholders of record as of June 25, 2012, payable on July, 15, 2012. The said cash dividend be derived from retained earnings as of December 31, 2011.

On November 9, 2012 the Company declared cash dividend of P5,000,000 to stockholders of record as of November 9, 2012, payable on December 15, 2012 and that the cash dividend be derived from the retained earnings as of December 31, 2011.

On May 30, 2011, the Board of Directors declared cash dividends of Five Million Pesos (P5,000,000) to stockholders of record as of May 30, 2011, payable on or before June 15, 2011. The said cash dividend was derived from Retained Earnings as of December 31, 2010

21. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

Details of key management compensation and directors' remuneration follow:

	2012	2011
Key management compensation		
Salaries and other short-term benefits	**P 3,257,243**	P 3,185,610
Directors' renumeration	**1,423,160**	1,565,670
	P 4,680,403	P 4,751,280

As of December 31, 2012 and 2011, there were no sale and purchase of insurance and investment contracts, receivables, payables and loans to key management personnel.

22. UNDERWRITING INCOME AND EXPENSES

This account consists of:

	2012	2011
UNDERWRITING INCOME		
Direct premiums-net	**P 104,521,373**	P 101,607,323
Add: Premiums assumed	**42,349,030**	120,367,009
Gross premiums	**146,870,403**	221,974,332
Less: Premiums ceded	**54,109,749**	151,459,312
Net premiums retained	**92,760,654**	70,515,020
Less: Premiums reserve for the year	**40,535,481**	37,320,810
Gross premium on net retained	**52,225,173**	33,194,210
Add: Premiums released from reserve	**37,320,810**	24,388,754
Premiums earned	**89,545,983**	57,582,964
Commissions earned	**21,167,032**	21,178,479
Total underwriting income	**110,713,015**	78,761,443
UNDERWRITING EXPENSES		
Agents' commission and expenses	**38,918,861**	33,990,468
Claims, losses paid and adjustment expenses	**24,347,638**	17,584,504
Insurance expense	**18,163,940**	-
Total underwriting expenses	**81,430,439**	51,574,972
	P 29,282,576	P 27,186,471

23. INVESTMENT INCOME

This account consists of:

	2012	2011
Income from investments in securities	**P 14,613,091**	P 14,140,011
Income from savings and time deposits	**938,515**	304,211
	P 15,551,606	P 14,444,222

24. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	2012	2011
Salaries and wages	**P 11,884,526**	P 10,643,068
Depreciation and amortization	**1,847,113**	1,916,505
Officers' and employees benefits	**1,705,251**	854,347
Communication and postage	**1,016,578**	904,925
Professional fees	**1,251,239**	844,643
Light and water	**971,616**	850,463
Directors' fees and allowances	**522,500**	461,000
Printing, stationary and supplies	**487,709**	617,298
Representation and entertainment	**463,924**	313,659
Repairs and maintenance	**414,338**	218,238
Rental expenses	**403,388**	206,860
Transportation and travel	**358,300**	347,836
Taxes and licenses	**346,629**	559,137
Interest	**132,553**	80,686
Insurance	**78,927**	55,723
Donations and contributions	**11,000**	26,000
Miscellaneous expenses	**7,129,441**	4,702,000
	P 29,025,032	P 23,602,388

As at December 31, 2012 and 2011, miscellaneous expenses mainly represent advertising promotions, bank service charges, association and pool dues, security services, provident fund contribution, agency expense and janitorial services.

25. PROVISION FOR (BENEFIT FROM) INCOME TAX

This account consists of:

	2012	2011
Current		
Corporate income tax	**P (1,177,246)**	P 405,984
Deferred	**197,098**	100,467
	P (980,148)	P 506,451

The reconciliation between the corporate income tax and income tax after applying the statutory tax rate on income tax follows:

	2012	2011
Statutory income tax	**P 8,669,222**	P 5,548,128
Income tax effect on:		
Tax exempt income	**(4,383,927)**	(4,242,003)
Income subject to lower tax rates	**(3,101,970)**	(91,263)
Income not subject to tax	**(2,421,829)**	(1,067,235)
Temporary differences	**61,258**	258,357
	P (1,177,246)	P 405,984

Under Republic Act No. 9337 – Income tax amendments, the corporate income tax rate applicable from January 1 to October 31, 2005 of 32% in 2005 was increased to 35% effective November 1, 2005, decreasing to 30% effective on January 1, 2009. Because of the change in the corporate income tax rate, the allowable deduction for interest expense in Section 34(B)(1) is reduced by 42% (from 38%) of interest income subject to final tax and 33% (from 42%) upon the effectivity of the 30% corporate tax rate on January 1, 2009.

Revenue Regulation No. 10-2002 defines expenses to be classified as entertainment, amusement and recreation (EAR) expenses and sets a limit for the amount that is deductible for tax purposes, at 1% of net revenues for sellers of services.

26. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

The computation of basic/diluted earnings per share is computed as follows:

	2012	2011
Net income	**P 29,887,553**	P 17,987,310
Divided by oustanding shares	**1,875,000**	1,291,667
	P 15.94	P 13.93

There were no potential dilutive shares in 2012 and 2011.

The computation of book value per share is computed as follows:

	2012	2011
Equity	**P 396,768,901**	P 346,099,886
Divided by oustanding shares	**1,875,000**	1,291,667
	P 211.61	P 267.95

27. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

The Company issues contracts that transfer insurance risk. This section summarizes these risks and the way the Company manages them.

Insurance Risk
The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Property Insurance Contracts Risk

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events and their consequences. For certain contracts, the Company has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies.

Casualty Insurance Risk
Claims on casualty contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted.

Reinsurance Risk
In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

The effect of reinsurance on premium income follows:

	2012	2011
Direct premium income	**P 104,521,373**	P 101,607,322
Reinsurance assumed	**42,349,030**	120,367,008
Reinsurance ceded	**(54,109,749)**	(151,459,310)
	P 92,760,654	P 70,515,020

Financial Risks
The significant risks related to financial instruments are credit risk, liquidity risk and market risk (currency and interest rate). The following sections described how the Company manages each of the risks.

Credit Risk
Credit risk is the risk that a party to a financial instrument will cause a financial loss to the Company by failing to honor its obligation to the Company. Credit risks are primarily associated with invested assets and reinsurance counter parties. The Company mitigates credit risk through detailed credit and underwriting policies and comprehensive due diligence and credit analyses.

The Company's maximum credit exposure related to financial instruments is summarized in the following table.

	2012	2011
	(in Thousands)	
Cash and cash equivalents	**P 55,681**	P 58,499
Premiums due from ceding companies	**21,239**	14,401
Reinsurance recoverable on losses	**135,879**	160,561
Premiums receivable	**21,050**	21,349
Commissions receivable	**11,741**	10,227
Premiums reserve withheld by ceding companies	**7,427**	3,466
Receivables	**1,928**	1,123
Salvage recoverable	**1,394**	1,544
Held-to-maturity financial assets	**239,805**	221,025
Available-for-sale financial assets	**169,408**	137,572
	P 665,552	P 629,767

The Company has assessed the credit quality of the following financial assets:

- The credit risk for cash in bank is considered negligible, since the counterparties are reputable entities with high quality external credit ratings. The credit quality of this financial asset is therefore considered to be high grade. For the determination of credit risk, cash included in the analysis above do not include cash on hand amounting to P162,134 and P146,604 for the year 2012 and 2011 respectively.

- The Company's premiums and other receivables are actively monitored to avoid significant concentrations of credit risk.

As of December 31, 2012 and 2011, the aging analysis of the Company's receivables is as follows:

	Neither Past Due Nor Impaired			Past Due But	2012
	Class A	Class B	Class C	Not Impaired	**Total**
Cash and cash equivalents	P 55,680,857	-	-	-	P **55,680,857**
Premiums					
Receivable	12,649,348	2,514,875	4,884,236	1,001,833	**21,050,292**
Due from ceding companies	7,194,664	491,976	13,552,136	-	**21,238,776**
Reserve withheld by ceding companies	-	7,427,244	-	-	**7,427,244**
Reinsurance recoverable on losses	1,732,413	-	134,146,867	-	**135,879,280**
Commission receivable	1,356,047	76,236	10,308,730	-	**11,741,013**
Salvage recoverable	-	-	-	1,393,972	**1,393,972**
Receivables	35,557	63,217	1,829,396	-	**1,928,170**
Financial assets					
Held-to-maturity	-	-	239,804,970	-	**239,804,970**
Available-for-sale	169,408,138	-	-	-	**169,408,138**
	P 248,057,024	P 10,573,548	P 404,526,335	P 2,395,805	P **665,552,712**

	Neither Past Due Nor Impaired				
	Class A	Class B	Class C	Past Due But Not Impaired	2011 Total
Cash and cash equivalents	P 58,499,221	P -	P -	P -	P 58,499,221
Premiums					
Receivable	9,293,512	11,187,187	-	868,392	21,349,091
Due from ceding companies	1,288,693	5,461,241	-	7,651,114	14,401,048
Reserve withheld by ceding companies	-	3,465,642	-	-	3,465,642
Reinsurance recoverable on losses	675,183	97,286,267	56,426,728	6,172,518	160,560,696
Commission receivable	5,156,000	2,601,285	2,469,564	-	10,226,849
Salvage recoverable	-	-	-	1,543,972	1,543,972
Receivables	675,128	448,149	-	-	1,123,277
Financial assets					
Held-to-maturity	-	-	221,024,970	-	221,024,970
Available-for-sale	137,572,397	-	-	-	137,572,397
	P 213,160,134	P 120,449,771	P 279,921,262	P 16,235,996	P 629,767,163

Credit Quality - In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its borrowers. Financial factors being considered comprised of the financial standing of the borrower while the non-financial aspects include but not limited to the assessment of the borrowers nature of business, industry background, payment habit and both present and potential business dealings with the Company.

Class A “High Grade” are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B “Moderate Grade” refer to accounts of satisfactory financial capability and credit standing but with some elements of risk where certain measure of control is necessary in order to mitigate risk of default.

Class C “Low Grade” refer to accounts which are collected on their due dates provided that the Company made a persistent effort to collect them.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to fund all cash outflow commitments as they fall due. The Company generally maintains a conservative liquidity position that exceeds all the liabilities payable on demand. The Company invests in various types of assets with a view of matching them with its liabilities of various durations. To strengthen its liquidity further, the Company actively manages and monitors its capital and assets levels, diversification and credit quality of its investments and cash forecasts and actual amounts against established targets. The Company also maintains liquidity contingency plans for the management of liquidity in the event of a liquidity crisis.

The table below summarizes the maturity profile of the Companies financial liabilities as of December 31, 2012 and 2011.

	Current				Non-current		2012
		Within 6 months		6 to 12 months		1 to 5 years		**Total**
Payables		-		-	P	1,223,914	**P**	**1,223,914**
Claims payable		2,528,171		9,542,905		131,714,366		**143,785,442**
Premiums								
Due to reinsurers		56,280,852		-		-		**56,280,852**
Reserve for unearned		-		40,535,481		-		**40,535,481**
Reserve withheld for reinsurers		5,202,430		-		-		**5,202,430**
Commission payable		23,352,647		-		-		**23,352,647**
Others		-		16,814,416		-		**16,814,416**
	P	87,364,100	P	66,892,802	P	132,938,280	**P**	**287,195,182**

	Current				Non-current		2011	
		Within 6 months		6 to 12 months		1 to 5 years		Total
Payables	P	-	P	-	P	1,202,161	P	1,202,161
Claims payable		18,635,273		37,995,846		112,606,899		169,238,018
Premiums								
Due to reinsurers		51,904,338		-		-		51,904,338
Reserve for unearned		-		37,320,809		-		37,320,809
Reserve withheld for reinsurers		2,726,482		-		-		2,726,482
Commission payable		21,449,366		-		-		21,449,366
Others		-		17,515,792		-		17,515,792
	P	94,715,459	P	92,832,447	P	113,809,060	P	301,356,966

Foreign Currency Risk

The Company's foreign currency risk results primarily from movement of the Philippine Peso (PHP) against the United States dollar. The Company resolved to mitigate this risk by taking advantage of market trends. Proper timing is adhered in order to realize a foreign currency gain.

The table below summarizes the Company's exposure to foreign exchange risk as of December 31, 2012 and 2011. Included in the table are the Company's assets at carrying amounts, categorized by currency.

		2012				2011		
		USD		**PHP**		USD		PHP
Cash and cash equivalents	**$**	**182,767**	**P**	**7,528,536**	$	274,369	P	12,052,481
Held-to-maturity investments		**1,320,000**		**69,520,641**		1,120,000		53,491,349
	$	**1,502,767**	**P**	**77,049,177**	$	1,394,369	P	65,543,830

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar rate, with all variable held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets) and the Company's equity.

	US $ Depreciates		US $ Appreciates	
	2012	2011	**2012**	2011
Effect on profit before tax	**$ 1,502,767**	$ 1,394,369	**$ (1,502,767)**	$ 1,394,369
Effect on equity	**1,051,937**	976,058	**(1,051,937)**	976,058

Interest rate risk
The Company's exposure to market risk for changes in interest rates relates to the Company's cash and cash equivalents and held-to-maturity investments.

The Company's policy to manage its interest income using a mix of fixed and variable rate receivable.

Interest risk to which financial assets are exposed is the risk of loss from fluctuations in the future cash flows or fair value of financial assets because of a change in market interest rates. Interest is managed principally using mixed of fixed and variable rate receivable.

Financial assets exposed to interest rate risk follow:

	Variable	Fixed	Total
As of December 31, 2012			
Financial assets:			
Cash and cash equivalents	P 55,680,857	P -	P 55,680,857
Held-to-maturity investments	-	239,804,970	239,804,970
	P 55,680,857	P 239,804,970	P 295,485,827

	Variable	Fixed	Total
As of December 31, 2011			
Financial assets:			
Cash and cash equivalents	P 58,499,221	P -	P 58,499,221
Held-to-maturity investments	-	221,024,970	221,024,970
	P 58,499,221	P 221,024,970	P 279,524,191

The term and maturity profile of the interest bearing financial assets of the Company, together with its corresponding nominal amounts and carrying values, are shown in the following table:

	Interest term per annum	Rate fixing period	Nominal Amount	< 1 year	1-5 years	> 5 years	Carrying Value
As of December 31, 2012							
Cash and cash equivalents	Variable	various	P 55,842,991	P 55,842,991	P -	P -	P 55,842,991
Held-to-maturity investments	Fixed at the date of investment	5-24	239,804,970	239,804,970	-	-	239,804,970
			P 295,647,961	P 295,647,961	P -	P -	P 295,647,961

	Interest term per annum	Rate fixing period		Nominal Amount		< 1 year		1-5 years		> 5 years		Carrying Value
As of December 31, 2011												
Cash and cash equivalents	Variable	various	P	58,499,221	P	58,499,221	P	-	P	-	P	58,499,221
Held-to-maturity investments	Fixed at the date of investment	5-24		221,024,970		-		103,500,000		117,524,970		221,024,970
			P	279,524,191	P	58,499,221	P	103,500,000	P	117,524,970	P	279,524,191

Equity Price Risk
The Company is exposed to equity price risk arising from available-for-sale investments.

The available-for-sale investments are revalued on each reporting period end based on quoted market prices. Any resulting fair value gains or losses arising from the revaluation of the available-for-sale investments are recognized directly in the statement of comprehensive income. Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measure are measured at cost less any impairment losses at end of each reporting period.

Fair Value Measurement
The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm length transaction. In determining the fair value of its financial assets and liabilities, the Company takes into account its current circumstances and the costs that would be incurred to exchange or settle the underlying financial assets and liabilities.

		2012				2011		
		Carrying Amount		**Fair Value**		Carrying Amount		Fair Value
Assets				**(in thousands)**				
Cash and cash equivalents	P	**55,843**	P	**55,843**	P	58,646	P	58,646
Premiums due from ceding companies		**21,239**		**21,239**		14,401		14,401
Reinsurance recoverable on losses		**135,879**		**135,879**		160,561		160,561
Premiums receivable		**21,050**		**21,050**		21,349		21,349
Commission receivable		**11,741**		**11,741**		10,227		10,227
Premiums reserve withheld by ceding companies		**7,427**		**7,427**		3,466		3,466
Receivables		**1,928**		**1,928**		1,123		1,123
Other current assets		**9,590**		**9,590**		9,402		9,402
Salvage recoverable		**1,394**		**1,394**		1,544		1,544
Available-for-sale investments		**169,408**		**169,408**		137,572		137,572
	P	**435,499**	P	**435,499**	P	418,291	P	418,291
Liabilities								
Claims payable	P	**143,785**	P	**143,785**	P	169,238	P	169,238
Premium due to reinsurers		**56,281**		**56,281**		51,904		51,904
Commission payable		**23,353**		**23,353**		21,449		21,449
Reserve for unearned premiums		**40,535**		**40,535**		37,321		37,321
Payables		**1,224**		**1,224**		1,202		1,202
Premium reserve withheld for reinsurers		**5,202**		**5,202**		2,726		2,726
Bonuses payable (See Note 18)		**5,100**		**5,100**		3,264		3,264
Credits to clients (See Note 18)		**5,501**		**5,501**		4,089		4,089
Documentary stamps payable (See Note 18)		**1,245**		**1,245**		449		449
Fire service tax payable (See Note 18)		**415**		**415**		497		497
	P	**282,641**	P	**282,641**	P	292,139	P	292,139

The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturity of these financial instruments. Similarly, the historical cost carrying amounts of receivables and payables approximate their fair values. The fair value of available-for-sale securities is measured with reference to the securities' quoted market price and other valuation techniques where there is no active market base at the balance sheet date.

Fair Value Hierarchy
As of December 31, 2012, the Company held the financial instruments measured at fair value:

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

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

	Level 1	Level 2	Level 3	Total
Available - for - sale investment				
Equity securities	P 152,559,266	P -	P 16,848,872	P 169,408,138

Capital Risk Management
The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- To retain the financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To align the profile of assets and liabilities taking account of risks inherent in the business
- To maintain financial strength to satisfy the requirements of the policyholders, regulators and shareholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximize shareholders value.

The operations of the Company are also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

In reporting financial strength, capital and solvency are measured using the rules prescribed by the Insurance Commission of the Philippines.

Capitalization Requirements for Life, Non-Life, and Reinsurance Companies (Department Order 27-06)
Any licensed wholly Filipino-owned domestic life or non-life insurance company existing, operating, or otherwise doing business in th.
e Philippines, licensed as of the effectivity of this Order, must possess of capitalization hereunder specified in accordance with the following schedule of compliance:

Paid-up Capital	Compliance Date	
P 250,000,000	On or before	December 31, 2012
P 450,000,000	On or before	December 31, 2013
P 625,000,000	On or before	December 31, 2014
P 800,000,000	On or before	December 31, 2015
P 1,000,000,000	On or before	December 31, 2016

The statutory net worth of life, non-life, and reinsurance companies 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 Insurance Commissioner.

The requirements under this Order shall be without prejudice to other requirements to be imposed under the Risk-Based Capital method to be adopted by the Insurance Commission, and the statutory Margin of Solvency requirement under Section 194 of the Insurance Code.

The Company is complying with the 2012 minimum paid-up capital of Php250 million.

The capital structure of the Company consists of equity attributable to equity holders comprising issued capital and retained earnings.

There were no changes in the Company's approach to capital management during the period.

28. DIVIDEND RESTRICTION

Dividends to stockholders which the Company may declare are subject to the provision of insurance law which stipulates that no such dividends may be distributed unless they originated from the excess profits after considering retention equivalent to the paid – up capital, the margin of solvency, the legal reserve fund, and all losses that may be incurred in settlement of liabilities for taxes and expenses.

29. MARGIN OF SOLVENCY REQUIREMENTS

All non-life insurance companies doing business in the Philippine are required to maintain a margin of solvency at all times, of at least ten (10%) percent of its net premiums written during the preceding calendar year, which shall not be less than P500,000 to be determined after deducting from the total assets designated as non – admitted assets, liabilities, and paid – up capital. The Company has appropriated from Retained Earnings the amount of P500,000 to meet the requirements.

30. SECURITY FUND CONTRIBUTION

This is the Company's contribution to the common fund of all domestic insurance companies intended to secure the payment of insurance claims even in case of insolvency as required by Section 367 of the Insurance Code. Earnings from the fund inures proportionately to the credit of contributing members.

31. CONTINGENCIES

The Company is a party litigant in a case pending in the Regional Trial Court. As at December 31, 2012, the outcome of the case is uncertain.

32. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Revenue Regulation No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulation (RR) No. 15-2010 which took effect on December 29, 2010 which provides for additional information required to be disclosed in the notes to financial statements regarding taxes, duties and license fee, paid or accrued, during the taxable year. Specifically, the disclosure should include the following: (a) amount of Value-Added Tax (VAT) output taxes declared during the year with account title and amount/s; (b) amount of VAT Input taxes claimed; (c) landed cost of imports and the amount of customs duties and tariff fees; (d) amount of excise taxes, classified per major product category; (e) documentary stamp tax (DST) on loan instruments and other transactions; (f) all other taxes, local and national, license and permit fees lodged under taxes and licenses account both under the Cost of sales and operating expense accounts; (g) amount of withholding taxes;(h) periods covered and amounts of deficiency assessments; and (i) tax cases and amounts involved.

In compliance with the requirements set forth by RR 15-2010, the following taxes are either paid or accrued by the Company.

1. The following table shows the Company's Sales and VAT output declared as of December 31, 2012 and 2011:

	2012	2011
Underwriting income	**P 86,196,844**	P 100,245,284
VAT output	**7,771,147**	12,029,434

2. The amount VAT Input taxes claimed are broken down as follows:

	2012	2011
Beginning of the year	**P -**	P -
Current year's purchases		
I. Goods other than for resale or manufacture	**2,572,474**	2,580,565
	2,572,474	2,580,565
Application against output VAT	**(2,572,474)**	(2,580,565)
Balance at the end of the year	**P -**	P -

3. Landed Cost, Customs' Duties and Tariff Fees

   The Company did not have any importations in 2012 and 2011 that would require for the payment of customs duties and tariff fees.

4. Excise Tax

   The Company did not have any transactions in 2012 and 2011 which are subject to excise tax.

5. Documentary Stamp Tax

   The Company paid P16,627,011 and P9,568,479 as of December 31, 2012 and 2011, respectively.

6. Taxes and Licenses

The details of taxes and licenses are shown as part of expenses follows:

	2012	2011
Local		
Business permits	**P 50,954**	P 49,140
Taxes and licenses	**295,675**	486,137
Other taxes	**-**	23,860
	P 346,629	P 559,137

7. Withholding taxes

The details of total withholding taxes for the year ended December 31, 2012 and 2011 are as follows:

	2012	2011
National Internal Revenue Taxes		
Withholding taxes		
Withholding Tax on Compensation	**P 1,488,798**	P 1,782,908
Expanded Withholding Tax	**2,453,947**	5,713,965
Final Withholding Tax	**501,535**	76,053
	P 4,444,280	P 7,572,926

8. Deficiency Tax Assessments and Tax Cases

As of December 31, 2012 and 2011, the Company did not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

Revenue Regulation No. 19-2011

These Revenue Regulations are issued to prescribe the new BIR Forms that will be used for Income Tax filing covering and starting with Calendar Year 2011, and to modify Revenue Memorandum Circular No. 57-2011.

1. Revenues/Receipts/Fees

	2012
Underwriting income	P 110,713,015

2. Cost of Services

	2012
UNDERWRITING EXPENSES	
Agents' commission and expenses	P 38,918,861
Claims, losses paid and adjustment expenses	24,347,638
Insurance expenses	18,163,940
Total underwriting expenses	81,430,439
COST OF SERVICES	
Salaries and wages	8,319,168
Officers and employees benefits	1,193,676
Taxes and licenses	346,629
Communication and postage	508,289
Printing, stationery and supplies	341,396
Professional fees	625,620
Repairs and maintenance	290,037
	11,624,815
	P 93,055,254

3. Non-operating and Taxable Other Income

	2012
Others	P 917,846

4. Itemized Deduction

	2012
Bonus	P 5,099,542
Salaries and wages	3,565,358
Depreciation and amortization	1,847,113
Light and water	971,616
Directors' fees and allowances	522,500
Communication and postage	508,289
Professional fees	625,619
Transportation and travel	358,300
Representation and entertainment	463,924
Officers' and employees benefits	511,575
Rental expenses	403,388
Printing, stationary and supplies	146,313
Repairs and maintenance	124,301
Interest expense	132,553
Insurance	78,927
Donations and contributions	11,000
Miscellaneous expenses	7,129,441
	P 22,499,759

5. Taxes and Licenses

The details of the Company's taxes and licenses are presented in No. 5 and 6 of Revenue Regulation No.15-2010 notes.

6. Other Information

All other information prescribed to be disclosed by the BIR has been included in this note.

Russell Bedford

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Mercado, Calderon, Jaravata & Co.
Certified Public Accountants

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SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS

The Shareholders and the Board of Directors
Empire Insurance Company
2nd Floor Prudential Life Plan Bldg.
843 A. Arnaiz Street, Makati City

We have audited the financial statements of Empire Insurance Company as of and for the year ended December 31, 2012, on which we have rendered the attached report, dated April 15, 2013.

In compliance with SRC Rule 68, we are stating that the Company has one hundred twenty four (124) shareholders owning 100 or more shares each as of December 31, 2012 as disclosed in Note 19 to the financial statements.

MERCADO, CALDERON, JARAVATA & CO.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 18 2013 SDS
RECEIVED
PRECIOSA C. JAVIER

Marcelino Mercado

MARCELINO A. MERCADO
Partner
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 3676574; Issued on January 7, 2013, Makati City
SEC Accreditation No. 1019-A
Issued December 9, 2011; Valid until December 9, 2014
BIR Accreditation No. 08-003338-2-2012
Issued October 23, 2012; Valid until October 23, 2015
Firm's BOA/PRC Cert. of Reg. No. 2209; Valid until December 31, 2014
Firm's SEC Accreditation No. 0208-F; Valid until December 31, 2013

April 15, 2013

EMPIRE INSURANCE COMPANY

SCHEDULE OF UNDERWRITING INCOME AND EXPENSES

		Motor Car		Marine						Years Ended December 31	
	Fire	Own Damage	TPL	Cargo	Hull	Aviation	Bonds	Personal Accident	Others	2012	2011
UNDERWRITING INCOME											
Direct premiums - Net	P 58,724,059	P 28,394,681	P 1,921,208	P 1,116,858	P 6,106,391	-	P 1,028,002	P 2,649,268	P 4,580,906	**P 104,521,373**	P 101,607,323
Add: Premiums assumed	19,861,963	163,980	1,958	956	13,707,484	-	150,937	1,810,200	6,651,552	**42,349,030**	120,367,009
Gross premiums	78,586,022	28,558,661	1,923,166	1,117,814	19,813,875	-	1,178,939	4,459,468	11,232,458	**146,870,403**	221,974,332
Less: Premiums ceded	22,519,263	549,597	-	935,622	19,802,376	-	14,808	437,350	9,850,733	**54,109,749**	151,459,312
Net premiums retained	56,066,759	28,009,064	1,923,166	182,192	11,499	-	1,164,131	4,022,118	1,381,725	**92,760,654**	70,515,020
Less: Premiums reserve for the year	24,314,034	12,891,724	986,526	45,575	479	-	610,706	1,255,714	430,723	**40,535,481**	37,320,810
Gross premiums on net retained	31,752,725	15,117,340	936,640	136,617	11,020	-	553,425	2,766,404	951,002	**52,225,173**	33,194,210
Add: Premiums released from reserve	16,863,985	17,831,447	812,084	154,230	-	-	687,983	698,951	272,130	**37,320,810**	24,388,754
Premiums earned	48,616,710	32,948,787	1,748,724	290,847	11,020	-	1,241,408	3,465,355	1,223,132	**89,545,983**	57,582,964
Commisions earned	9,927,951	118,501	-	1,000,468	3,688,510	-	10,304	148,672	6,272,626	**21,167,032**	21,178,479
Total underwriting income	58,544,661	33,067,288	1,748,724	1,291,315	3,699,530	-	1,251,712	3,614,027	7,495,758	**110,713,015**	78,761,443
UNDERWRITING EXPENSES											
Agents' commission and expenses	21,123,973	7,309,532	175,022	790,000	2,614,373	-	507,220	965,352	5,433,389	**38,918,861**	33,990,468
Claims, losses paid and adjustment expenses	10,006,821	12,439,616	177,432	152	-	-	312,500	1,052,120	358,997	**24,347,638**	17,584,504
Insurance epenses	15,701,047	2,345,393	-	117,500	-	-	-	-	-	**18,163,940**	-
Total underwriting expenses	46,831,841	22,094,541	352,454	907,652	2,614,373	-	819,720	2,017,472	5,792,386	**81,430,439**	51,574,972
NET UNDERWRITING INCOME	P 11,712,820	P 10,972,747	P 1,396,270	P 383,663	P 1,085,157	-	P 431,992	P 1,596,555	P 1,703,372	**P 29,282,576**	P 27,186,471

SCHEDULE I

EMPIRE INSURANCE COMPANY

FINANCIAL RATIO ANALYSIS

	2012	2011
ASSET MANAGEMENT		
Asset turnover	**0.04**	0.03
Fixed asset turnover	**7.43**	2.69
SOLVENCY		
Solvency ratio	**0.11**	0.06
Debt-to-equity ratio	**0.72**	0.87
Equity-to-assets ratio	**0.58**	0.53
Asset-to-equity ratio	**1.72**	1.87
Debt ratio	**0.42**	0.47
Interest coverage ratio	-	-
LIQUIDITY MANAGEMENT		
Current ratio	**1.18**	1.15
Quick ratio	**0.95**	0.96
PROFITABILITY RATIO		
Gross profit margin	**26%**	35%
Operating profit margin	**26%**	23%
Net profit margin	**27%**	23%
Return on equity	**8%**	5%
Return on assets	**4%**	3%

1. **ASSET MANAGEMENT**

   a. Asset turnover ratio calculates the total revenue for every peso of assets a Company owns. There are general rule that should be kept in mind when calculating asset turnover. Asset turnover is meant to measure a Company's efficiency in using its assets. The higher the number, the better, although investors must be sure compare a business to its industry. It is fallacy to compare completely unrelated businesses. The higher a Company's asset turnover, the lower its profit margin tends to be (and vice versa).

      For every peso of assets on hand, the Company is generating 4 percent and 3 percent in sales as of December 31, 2012 and 2011, respectively.

   b. Fixed asset turnover measures a Company's ability to generate net income from fixed assets. A higher fixed asset turnover ratio shows that the Company has been more effective in using the investment in fixed assets to generate income.

      As of December 31, 2012, and 2011, the Company's fixed assets turnover is 7.43 and 2.69, respectively.

2. **SOLVENCY**

   a. Solvency ratio quantifies the size of the Company's after tax income, no counting non-cash depreciation expenses, as contrasted to the total debt obligations of the Company excluding deferred tax liabilities. Acceptable solvency ratios vary from industry to industry. However, as a general rule of thumb, a solvency ratio higher than 20% is considered financially sound.

   b. Debt-to-equity ratio is calculated by dividing total liabilities by total equity. This ratio shows the financial flexibility and the long-term capital structure of the Company. The rule of thumb, debt equity ratio should not be more than 2:1.

c. Equity-to-asset ratio measures the proportion of Company's assets financed by the owner's equity. The equity to asset ratio of the Company indicates that each of peso of equity, the Company has 58 percent and 53 percent in assets as of December 31, 2012 and 2011, respectively.

d. Asset-to-equity ratios used as a measure of the company's leverage and long-term solvency. It compares total assets to total shareholder equity.

e. Debt ratio indicates what proportion of debt a company has relative to its assets. The measure gives an idea to the leverage of the company along with the potential risks the company faces in terms of its debt-load.

f. The interest coverage ratio is used to determine how easily a Company can pay interest expenses on outstanding debt. The ratio is calculated by dividing a Company's earnings before interest and taxes (EBIT) by the Company's interest expenses for the same period. The lower the ratio interest coverage, the larger the debt burden is on the Company. Also known as interest coverage.

As of December 31, 2012 and 2011, the Company has no long-term debt.

3. LIQUIDITY MANAGEMENT

a. Current ratio is the most commonly used measure of the liquidity of a Company. This ratio measures how many pesos of current assets are available to pay one peso worth of current liabilities.

If the ratio is less than 1, current liabilities exceed current assets and the Company's liquidity is threatened. A high current ratio is a favorable condition financially because it indicates the ability to pay current liabilities from conversion of current assets into cash. The rule of thumb has been that a current ratio below 2 suggests the possibility of liquidity problems. The current ratio is current assets divided by the current liabilities.

The Company is able to cover every peso of its current obligations with 1.18 and 1.15 in current assets as of December 31, 2012 and 2011, respectively.

b. Quick ratio also known as liquid ratio considers only the liquid forms of current assets thus revealing the Company's reliability on inventory and other current assets to settle short-term debts. As of December 31, 2012 and 2011, the quick ratio of the Company is .95 and .96, respectively.

4. PROFITABILITY RATIO

Profitability ratios (also referred to as profit margin ratios) compare components of income with sales. They give us an idea of what makes up a Company's income and are usually expressed as a portion of each peso of sales.

a. Gross profit margin ratio indicates how much of every peso of revenues is left after cost of services.

b. Operating profit margin is a ratio that indicates how much of each peso of revenues is left over after operating expenses.

c. Net profit margin indicates how much of each peso of revenues is left over after all expenses.

d. Return on equity measures the percentage return on the actual investments made by the stockholders. As a rule of thumb, companies with return on equity significantly below 15% are doing poorly. Companies with return on equity consistently above 15% are doing well.

e. Return on assets ratio measures how efficiently profits are being generated from the assets employed. The higher the return, the more efficient management is in utilizing its asset base. As a rule of thumb, return on assets should not be less than 5%.

Russell Bedford

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INDEPENDENT AUDITORS' REPORT

The Shareholders and the Board of Directors
Empire Insurance Company
2nd Floor Prudential Life Plan Bldg.
843 A. Arnaiz Street, Makati City

We have audited in accordance with Philippine Standards on Auditing the financial statements of Empire Insurance Company as at and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated April 15, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all effective standards and interpretations is the responsibility of the Company's management. This schedule is presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

MERCADO, CALDERON, JARAVATA & Co.

MARCELINO A. MERCADO
Partner
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PRECIOSA C. JAVIER

April 15, 2013

EMPIRE INSURANCE COMPANY
Philippine Financial Reporting Standards (PFRSs)
and Interpretations
Effective as of December 31, 2012

PFRSs AND INTERPRETATIONS Effective as of December 31, 2012		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and quantitative characteristics		✓		
PFRSs Practice Statement Management Commentary				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosure about Financial Instruments			✓
	Amendments to PFRS 7: Disclosures - Transfer of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓

PFRSs AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements			✓
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interest in Other Entities			✓
PFRS 13	Fair Value Measurement			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Capital Disclosures			✓
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income			✓
PAS 2	Inventories			✓
PAS 7	Statements of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Assets			✓
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures		✓	
PAS 19 (Amended)	Employee Benefits		✓	
PAS 20	Accounting for Government Grants and Disclosures of Government Assistance			✓
PAS 21	The Effect of Changes in Foreign Exchange Rates			✓
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Cost			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
PAS 28	Investments in Associates			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓

PFRSs AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Finacial Assets - Effective Date and Transistion			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
	Amendments to PAS 39: Eligible Hedged Items			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Intsruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interest Arising from Decommissioning , Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting under Hyperinflationary Economies			✓
IFRIC 8	Scope of IFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment		✓	
IFRIC 11	PFRS 2 - Group and Treasury Shares Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding requiremnt.			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operations			✓
IFRIC 17	Distributions of Non-Cash Assets to Owners			✓
IFRIC 18	Transfer of Assets to Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓

PFRSs AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
SIC-12	Consolidation - Special Purpose Entities Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Ventures			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Website Costs			✓

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REPORT OF INDEPENDENT AUDITORS

Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

In compliance with SEC Memorandum Circular No. 11, series of 2008 and pursuant to Sections 43 and 143 of the Corporation Code of the Philippines and Section 5 of the Securities Regulation Code, the amount of retained earnings available for dividend declaration as at December 31, 2012 is P31,459,334 as presented in the attached Annex "A" of Empire Insurance Company.

MERCADO, CALDERON, JARAVATA & CO.

Marcelino A. Mercado

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Annex "A"

EMPIRE INSURANCE COMPANY
Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2012

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		P 127,617,262
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Earnings	29,877,553	
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate / joint venture	-	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	-	
Unrealized actuarial gain	-	
Fair value adjustment (M2M gains)	-	
Fair value adjustment of Investment Property resulting to gain	-	
Adjustment due to deviation from PFRS/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the FPRS	-	
Sub-total	29,877,553	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRS/GAAP - losses		
Deferred tax assets	-	
Effect of change in accounting for employee benefits (PAS 19)	-	
Loss on fair value adjustment of investment property (after tax)	-	
	-	
Net income actually earned during the period		29,877,553
Add(Less):		
Dividend declarations during the period	(85,000,000)	
Margin of solvency	(500,000)	
Legal reserve fund	(40,535,481)	
Effects of prior period adjustments	-	
Treasury shares	-	(126,035,481)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		**P 31,459,334**

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