PLARIDEL SURETY & INSURANCE CO.

2012 ANNUAL REPORT

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ABOUT PLARIDEL

More than half a century ago, a group of patriotic and prominent Filipino businessmen believed that the then-fledgling insurance industry would one day be an important pillar of the country's economy. However, even then, the industry was dominated by foreign-owned or foreign-controlled insurance companies. Propelled by their desire to make a truly Filipino insurance company a major force in the industry, PLARIDEL SURETY & INSURANCE CO. was formed in 1945.

The company's name, PLARIDEL, was borrowed from one of the most eminent and illustrious heroes of our history. PLARIDEL was the *nom de guerre* of Marcelo H. Del Pilar, a great Filipino patriot who helped free our country from foreign tyranny.

The dream and vision of having a strong and truly Filipino insurance company, given life in 1945, is still alive today. Before the turn of the new millennium, the torch was passed on to a new group of visionaries – who strongly believed that such a dream cannot be allowed to die, who clearly envisioned the actualization of that dream. This group of professionals and businessmen saw the time when a truly Filipino company will not only stand at the forefront of the Philippine insurance industry, but will also hold its head up high in Asia, and eventually, in the international community.

PLARIDEL NOW

Plaridel Surety & Insurance Co. offers all lines of non-life insurance such as Fire, Motor Car, Personal Accident, Marine, Bonds and other Casualty lines, and is accredited with various private and government entities and banking institutions. Plaridel has a network of branches, brokers and agencies to provide excellent customer service and prompt claim attention.

Our staff is dedicated to the ideals of Plaridel – professionalism, swift action, innovation and care. These ideals guide every action of our people. Our view of the relationship with our customers is more far-sighted than that of other companies. We are not interested only in the business at hand, but in building long-term relationships.

Plaridel helps you protect what matters most!

MESSAGE

We are happy to report that this is another year of progress and development in the life of Plaridel. We are continuing to build Plaridel even if we are humbled by the strength of our competitors in the insurance industry.

The Company has worked to earn the trust and confidence of its policyholders and established valuable partnerships with its agents and producers, underwriting the business carefully, as well as effectively managing claims and providing excellent customer service.

Throughout the year, we are faced with many challenges, especially the Company's compliance with the Department of Finance Order No. 27-06 were insurers must possess of capitalization of P1 billion by 2016 as part of the schedule, starting with an increase to P175 million as of the end of 2011; P250 million by the end of 2012; P450 million in 2013; P625 million in 2014 and P800 million by the end of 2015.

We thank our hardworking, competent and capable officers and staff, without whose dedication none of the work we do would be possible. We thank our loyal agents, agencies, brokers and producers who are our partners in accomplishing our corporate mission.

We thank our Board of Directors for their ongoing support and counsel, and we acknowledge with much appreciation the cooperation and assistance extended by the Insurance Commission towards the achievement of our goals.

FERDINAND Z. MORALES	RHODORA B. MORALES
Chairman of the Board	President/CEO

E.P. De Guzman & Co.
Certified Public Accountant
2nd Fl. PM Bldg. 134 Timog Avenue, Diliman Quezon City
Tel. No. 9227246, 929 3139, 923 0445 Fax No. 410 1528

Plaridel Surety
And
Insurance Company

AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011

Amounts in Philippine Peso

E. P. De Guzman & Company
Certified Public Accountants

PRC-BOA Accreditation No. 2190
I.C. Accreditation No.F-0121015-R
2nd Floor PM Bldg., 134 Timog Avenue, Diliman, Quezon City
Tel.922-7246, 929-3139, Fax No. 410-1528
E-Mail Address: epdg_cpa@pldtdsl.net

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
PLARIDEL SURETY & INSURANCE COMPANY
25th Flr., Suite 2502, #88 Corporate Center, Valero cor. Sedeno St, Salcedo Village, Makati City

We have audited the accompanying financial statements of **PLARIDEL SURETY & INSURANCE COMPANY** which comprise the statements of conditions as of December 31, 2012 & 2011 and the statements of 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 notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENT

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with accounting principles generally accepted in the Philippines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedure to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment 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 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 to the above present fairly, in all material respects, the financial position of **PLARIDEL SURETY & INSURANCE COMPANY** as of December 31, 2012 & 2011 and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

E.P.DEGUZMAN&COMPANY
TIN:239-187-805

ESTRELLITA G. DEL ROSARIO
Partner
CPA Certificate No. 14705
BIR Accreditation No. AN-07-000467-1-2012
TIN: 106-090-137
PTR No.7551972B, Jan. 4, 2013, Q.C.

May 20, 2013
Quezon City, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENT

e management of **PLARIDEL SURETY & INSURANCE COMPANY** is responsible for the paration and fair representation of the financial statements for the years ended December 31, 2012, in cordance with the prescribed reporting framework indicated therein. This responsibility includes signing and implementing internal controls relevant to the preparation and fair presentation of financial atements that are free from material misstatement, whether due to fraud or error, selecting and applying propriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

e **Board of Directors** or **Trustees** reviews and approves the financial statements and submit the same to e stockholders or members.

P. De Guzman & Company, represented by **Estrellita G. Del Rosario,** the independent auditors, pointed by the stockholders has examined the financial statement of the company in accordance with ilippine Standards on Auditing, and in its report to the stockholders or members, has expressed its inion on the fairness of presentation upon completion of such examination.

ARIDEL SURETY & INSURANCE COMPANY

ATTY. RHODORA B. MORALES
sident / Chairman of the Board

MR. REYNATO T. RAMOS
Treasurer

ed this 20th day of May 2013.

. P. De Guzman & Company
ified Public Accountants

PRC-BOA Accreditation No. 2190
2nd Floor PM Bldg., 134 Timog Avenue, Diliman, Quezon City
Tel.922-7246, 929-3139, 923-0445, Fax No. 922-7246
E-Mail Address: epdg_cpa@pldtdsl.net

SUPPLEMENTAL WRITTEN STATEMENT

The Board of Directors
PLARIDEL SURETY & INSURANCE COMPANY
25th Flr., Suite 2502, #88 Corporate Center, Valero cor. Sedeno St, Salcedo Village, Makati City

We have examined the financial statement of **PLARIDEL SURETY & INSURANCE COMPANY** for the year ended December 31, 2012, on which we have rendered the attached report dated May 20, 2013.

In compliance with SRC Rule 68, we are stating that the said company has a total number of twenty five (25) stockholders owning one hundred (100) or more shares each.

E. P. DE GUZMAN & COMPANY
TIN: 239-187-805

ESTRELLITA G. DEL ROSARIO
Partner
CPA Certificate No. 14705
PRC ID expiry date: January 22, 2014
PTR No.7551972B, Jan. 4, 2013, Q.C.
BIR Accreditation No. AN-07-000467-1-2012
TIN: 106-090-137
BOA Accreditation No. 2190

May 20, 2013

PLARIDEL SURETY & INSURANCE COMPANY			
STATEMENTS OF FINANCIAL POSITION			
December 31, 2012 and 2011			
(Amounts in Philippine Pesos)			
A S S E T S	**Notes**	**2012**	**2011**
Cash and Cash Equivalents	**2.3,4**	**92,426,642**	**40,556,105**
Insurance Balances Receivable, Net	**6**	**223,610,633**	**199,263,586**
Investments	**2.3,5**	**50,647,854**	**38,301,617**
Loans and Receivables	**2.3b,8**	**57,076,965**	**69,073,337**
Real Estate	**2.4,9**	**836,642**	**836,642**
Real Estate Appraisal Increase	**2.4,9**	**6,059,358**	**6,059,358**
Property and Equipment - net	**2.3.1,7**	**90,077,912**	**64,738,455**
Other Assets	**10**	**113,078,276**	**52,968,926**
TOTAL ASSETS		**633,814,281**	**471,798,025**
LIABILITIES AND EQUITY			
LIABILITIES			
Insurances Balances Payable	**13**	**14,955,247**	**10,683,934**
Losses Payable	**11**	**9,203,898**	**8,735,567**
Accounts Payable and Accrued Expenses	**12**	**17,057,103**	**14,677,362**
Catastrophe Loss Reserve		**1,197,592**	**875,441**
Reserve for Unearned Premiums		**90,596,915**	**86,744,863**
TOTAL LIABILITIES		**133,010,755**	**121,717,167**
EQUITY			
Capital Stock- Issued and Outstanding			
@ P100.00par value per share–2,500,000 shares	**14**	**250,000,000**	**175,000,000**
Contributed Surplus		**2,576,022**	**2,576,022**
Contingency Surplus	**15**	**73,811,817**	**55,320,700**
Deposit on Subscription		**146,336,951**	**99,277,951**
Retained Earnings		**21,841,557**	**11,642,991**
Revaluation Reserve - Real Estate		**6,059,358**	**6,059,358**
Fluctuation Reserve-Stocks		**177,820**	**203,836**
TOTAL EQUITY		**500,803,526**	**350,080,857**

TOTAL LIABILITIES AND EQUITY		**633,814,281**	**471,798,025**
See Notes to Financial Statements			

PLARIDEL SURETY & INSURANCE COMPANY

STATEMENTS OF INCOME

For the Years Ended December 31, 2012 and 2011

(Amounts in Philippine Pesos)

	Notes	2012	2011
UNDERWRITING INCOME:			
Gross Premiums (Net of returns)	**2.6**	**238,296,315**	**235,548,760**
Reinsurance Premiums Ceded		**15,467,756**	**12,091,833**
NET PREMIUMS RETAINED		**222,828,559**	**223,456,927**
Premiums Reserve		**90,596,915**	**86,744,863**
GROSS PREMIUM ON NET RETAINED		**132,231,644**	**136,712,064**
Prior Year's Reserved now Earned		**86,744,863**	**42,786,658**
EARNED PREMIUMS		**218,976,507**	**179,498,722**
Commission Earned		**3,933,800**	**3,584,040**
TOTAL UNDERWRITING INCOME		**222,910,307**	**183,082,762**
UNDERWRITING EXPENSES			
Commission Expense		**31,314,891**	**27,593,955**
Losses and Loss Adjusting Expenses Incurred		**47,141,522**	**49,565,896**
Other Underwriting Expenses		**38,227,487**	**29,572,026**
		116,683,901	**106,731,877**
NET UNDERWRITING INCOME		**106,226,406**	**76,350,885**
OTHER INCOME			

Interest Income on Investments and Deposits		**3,582,156**	**2,036,110**
Others		**(42,580)**	**13,757**
		3,539,575	**2,049,867**
TOTAL UNDERWRITING & OTHER INCOME		**109,765,981**	**78,400,752**
GEN. & ADMINISTRATIVE EXPENSES	**18**	**91,654,390**	**79,323,537**
INCOME/(LOSS) BEFORE TAX		**18,111,591**	**(922,785)**
TAX EXPENSE	**2.7,20**	**7,913,025**	**5,674,211**
NET INCOME/(NET LOSS)		**10,198,566**	**(6,596,996)**
See Notes to Financial Statements			

PLARIDEL SURETY & INSURANCE COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011
(Amounts In Philippine Pesos)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Net Loss)	**10,198,566**	(6,596,996)
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Depreciation	**16,527,865**	12,534,999
Provision for catastrophe loss reserve	**322,151**	328,618
Provision for Bad Debts	**8,594,480**	20,001,292
Prior Year's Adjustments	**500,000**	200,000
Changes in assets and liabilities:		1,696,051
Decrease(increase) in:		
Premium receivable	**(24,581,302)**	(14,637,204)
Due from ceding companies and reinsurers	**7,393,825**	(2,853,906)
Reinsurance recoverable on paid losses	**(6,964,600)**	-
Other receivables	**11,996,373**	(42,748,931)
Increase(decrease) in:		
Due to reinsurers and ceding companies	**4,130,044**	31,178
Losses payable	**468,332**	(4,553,557)
Premiums reserve w/held for ceding companies	**141,269**	(212,880)
Accounts payable and accrued expenses	**2,379,741**	(1,554,384)
	322,151	328,618
Reserve for unearned premiums	**3,852,052**	43,958,205
	35,280,946	5,921,104
CASH FLOWS FROM INVESTING ACTIVITIES		

Acquisition of property and equipment	**(51,478,923)**	(39,164,853)
Additions to investments	**(12,346,237)**	(7,911,220)
Other assets	**(60,109,350)**	(15,536,974)
	(123,934,510)	(62,613,047)
CASH FLOWS FROM FINANCING ACTIVITIES		
Paid Up Capital	**75,000,000**	27,631,000
Contingency surplus	**18,491,117**	7,270,700
Deposit on subscription	**47,059,000**	40,318,079
Fluctuation reserve-stocks	**(26,016)**	16,260
	140,524,101	75,236,039
NET INCREASE (DECREASE) IN CASH	**51,870,537**	18,544,096
CASH-Beginning of year	**40,556,105**	22,012,009
CASH- End of year	**92,426,642**	40,556,105

See accompanying Notes to Financial Statements

PLARIDEL SURETY & INSURANCE COMPANY

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2012 and 2011

(Amounts In Philippine Pesos)

	Notes	**2012**	2011
CAPITAL STOCK			
Authorized @ P100.00 par value per share – 6,500,000 shares			
Issued and Outstanding @ P100.00 par value per share – 2,500,000 shares	**14**	**250,000,000**	**175,000,000**
CONTRIBUTED SURPLUS		**2,576,022**	2,576,022
CONTINGENCY SURPLUS		**73,811,817**	55,320,700
DEPOSIT ON SUBSCRIPTION		**146,336,951**	**99,277,951**
REVALUATION RESERVE - REAL ESTATE		**6,059,358**	6,059,358
FLUCTUATION RESERVE - STOCKS		**177,820**	203,836

TOTAL	**47,891,968**	338,437,867
RETAINED EARNINGS:		
RETAINED EARNINGS, Beginning	**11,642,991**	16,543,937
NET INCOME /(NET LOSS)	**10,198,566**	(6,596,996)
PRIOR YEAR'S ADJUSTMENTS	**-**	1,696,051
RETAINED EARNINGS, Ending	**21,841,557**	11,642,991
TOTAL EQUITY	**500,803,526**	350,080,857

See accompanying Notes to Financial Statements

PLARIDEL SURETY & INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Plaridel Surety & Insurance Company (the Company**)** was incorporated in the Philippines. It was registered with the Securities and Exchange Commission on December 18, 1945 primarily to engage in non-life insurance business. The number of employees of the Company is about 65 and 58 as of December 31, 2012 and 2011, respectively.

The company's registered office, which is also its principal place of business, is at Suites 2502 & 2602, 88 Corporate Center, Sedeño corner Valero Streets, Salcedo Village, Makati City.

The financial statements of the Company for the year ended December 31, 2012 (including the comparatives for the year ended December 31, 2011) were authorized for issue by the Board of Directors on May 20, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standard

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense.
These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with PAS 1 (Revised2007), Presentation of Financial Statements. The company presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Company applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassified items in the financial statements.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Company's functional currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2009 that are Relevant to the Company

In 2009, the Company adopted the following new revisions and amendments to PFRS that are relevant to the Company and effective for financial statements for the annual period beginning on or after January 01, 2009:

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures
Various Standards	:	008 Annual Improvements to PFRS

Discussed below are the effects on the financial statements of the new and amended standards.

(i) PAS 1 (Revised 2007), Presentation of Financial Statements (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for sale assets or translation differences related to foreign operations). A statement showing its financial position (or balance sheet) at the beginning of the previous

(ii) period when the entity retrospectively applies an accounting policy or makes a retrospective restatement financial statements.

The company's adoption of PAS 1(Revised 2007) did not result in any material adjustments in its financial statements as the change in accounting policy only affects presentation aspects.

(iii) PAS 23 (Revised 2007), Borrowing costs. Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset

(iv) PFRS 7 (Amendment), Financial Statements Disclosures. The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of the financial position.

(v) 2008 Annual Improvements to PFRS. The FRSC has adopted the Improvements to International Financial Reporting Standards 2008. These amendments become effective in the Philippines in annual periods beginning on or after January 1, 2009. The Company expects the amendments to the following standards to be relevant to the Company's accounting policies:

• PAS 1 (Amendment), Presentation of Financial Statements. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Presently, the Company has no financial assets classified as held for trading under PAS 1, hence, this amendment will have no impact in the Company's 2009 financial statements.

• PAS 19 (Amendment), Employee Benefits. The amendment includes the following:

– Clarification that a curtailment is considered to have occurred to the extent that benefit promises are affected by future salary increases and a reduction in the present value of the defined benefit obligation results in negative past service cost.
– Change in the definition of return of plan assets to require the deduction of plan administration costs in the calculation of plan assets return only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

– Distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after12 months of employee service being rendered.

– Removal of the reference to recognition in relation to contingent liabilities in order to be consistent with PAS 37, Provisions, Contingent Liabilities and Contingent Assets, which requires contingent liabilities to be disclosed and not recognized.
The Company's management assessed that this amendment to PAS 19 will have no impact on its 2009 financial statements.

• PAS 39 (Amendment), Financial Instruments: Recognition and Measurement. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The Company initially determined that adoption of this amendment will not have a material effect on its 2009 financial statements.

• PAS 40 (Amendment), Investment Property. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value.

Minor amendments are made to several other standards; however, those amendments are not expected to have a material impact on the Company's financial statements

(b) Effective in 2009 but not relevant to the Company

The following amendments, interpretations and improvements to published standards are mandatory for accounting periods beginning on or after January 01, 2009 but are not relevant to the Company's financial statements:

PFRS 1 AND PAS 27 (Amendments):	PFRS 1 – Fist Time Adoption of PFRS and PAS 27- Consolidated and Separate Financial Statements
PFRS 2 (Amendment):	Share-based Payment
PFRS 8 :	Operating Segments

Philippine Interpretations

IFRIC 13 :	Customer Loyalty Programmes
IFRC 16 :	Hedges of a Net Investment in a Foreign Operation

2.3 Financial Assets

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

All financial assets are recognized on their trade date. All financial assets that are not classified as at 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:

(a) Financial Assets at Fair Value through Profit or Loss

This category include financial assets that are either classified as held for trading or designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as "held for trading" unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or expected to be realized within 12 months from the balance sheet date.

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

(b) Loans and Receivable

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated cash flows.

The Company's loans and receivables are presented as Trade and Other Receivables in the Balance Sheet.

(c) Held-to-maturity Investments

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to-maturity if the Company has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. They are included in non-current assets under Long-Term Financial Assets account in the balance sheets, except those maturing within 12 months of the balance sheet date.

Held-to-maturity investments are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investments have 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.

(d) Available-for-sale Financial Assets

This include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Financial Assets account in the balance sheet unless management intends to dispose of the investment within 12 months from the balance sheet date.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the income statement when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the income statement. If circumstances change, impairment losses on available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the income statement.

Impairment losses recognized on financial assets are presented as part of Finance Costs in the income statement.

For investments that are actively traded in organized financial markets, far value is determined by reference to stock exchange-quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows (such as dividend income) of the underlying net asset base on the investment.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss are presented in the income statement line item Finance Income and Finance Costs, respectively.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.3.1 Property, Plant and Equipment

Land, building and improvements are measured at fair value less depreciation for building and improvements. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for addition, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from accounts and any resulting gain or loss is reflected in income for the period.

Following initial recognition at cost, land, building and improvements are carried at revalued amounts which are the fair values at the date of the revaluation, as determined by independent appraisers, less any subsequent accumulated depreciation (on buildings and improvements) and accumulated impairment losses. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction as at the valuation date. Any revaluation surplus is credited to the Revaluation Reserves account included in the Equity section of the balance sheet. Any revaluation deficit directly offsetting a previous surplus in the same asset is directly eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to particular asset being sold is transferred to retained earnings. Revaluation are performed every three years ensuring that the carrying amount does not differ materially from that which would determined using the fair value at the balance sheet date.

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

Buildings and improvements	10-20 years
Office Furniture, fixtures and other equipment	5-10 years
Transportation equipment	3-5 years
Computer Software and Hardware	2- 5 years

An asset's carrying amount is written down immediately to its recoverable amount if asset's carrying amount is greater than its estimated recoverable amount.
The residual values and estimated useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

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

2.4 Investment Property

Investment property is measured initially at acquisition cost. Subsequently, investment property is stated at fair value as determined by independent appraisers. The carrying amounts recognized in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Any gain or loss resulting from either a change in the fair value is immediately recognized in the income statement as Fair Value Gains from Investment Property.
Investment Property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the income statement in the year of retirement or disposal.

2.5 Financial Liabilities

Financial liabilities include bank loans, trade and other payable and finance lease liabilities, due to related parties and retirement benefit obligation.

Financial liabilities are recognized when the Company becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in the income statement under the caption Finance Costs.

Bank loans are raised to support of long-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premium payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interests method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Finance lease liabilities are measured at initial value less the capital element of lease repayment.

Trade payable are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the shareholders.

Financial liabilities are derecognized from the balance sheet only when the obligations are extinguished either through discharge, cancellation or expiration.

2.6 Revenue and Cost 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.

Cost and expenses are recognized in the income statement upon utilization of the service or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provisions when the related revenue is recognized. Finance costs are reported on an accrual basis.

2.7 Income Taxes

Current tax asset or liabilities comprise those claims from, or obligations to, fiscal authorities relating to current or prior reporting period, that are uncollected or unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax asset or liabilities are recognized as a component of tax expense in the income statement.

Deferred tax is provided, using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.
Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

2.8 Equity

Capital Stock is determined using the nominal value of shares that have been issued.

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

Treasury shares are stated at the cost of re-acquiring such shares.

Revaluation reserve comprises gains and losses due to the revaluation of property, plant and equipment and certain financial assets.

Retained earnings include current and prior period results disclosed in the income statement.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes.

3.1 Judgments

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

(a) Functional Currency

The Company has determined that its functional currency is the Philippine peso which is the currency of the primary environment in which the Company operates.

(b) Held-to-maturity Investment

The Company follows guidance on PAS 39 on classifying non-derivatives financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making the judgment, the Company evaluates its intention and ability to hold its investments in bonds up to maturity.

If the Company fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value, not amortized cost.

(c) Distinction between Investment Properties and Owner-Owned Properties

The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generated cash flows largely independently of the other assets held by an entity. Owner-occupied properties generates cash flows that are attributable not only to property but also to other assets used in the production or supply process.

(d) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies.

3.2 Estimates

The estimates and assumptions used in the company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the company's financial statements. Actual results could differ from such.

Estimating allowances for doubtful accounts. Provisions are made for specific and groups of accounts where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average of accounts, collection experience and historical loss experience.

Estimating Useful Lives of Properties and Equipment

The Company estimates the useful lives of property, plant and equipment are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives of the property, plant and equipment are reviewed periodically and are updated if expectations differ from, precious estimates due to physical wear and tear, technical or commercial obsolescence and legal or other times on the use of the Company's assets. In addition, the estimation of the useful lives of the property. plant and equipment is based on Company's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought by changes in factors mentioned above. The amounts and time recorded expenses for any period would be affected by changes in these factors and circumstance. A reduction in the estimated useful lives of property, plant and equipment would increase the recognized operating expenses and decrease non-current assets.

Accumulated depreciation of property and equipment amounted to Php 77,057,644.00 and Php 60,529,779.00 as of December 31, 2012 and 2011, respectively. Property and equipment, net of accumulated depreciation amount of Php 90,077,912.22 and Php 64,738,455.00 as of December 31, 2012 and 2011, respectively (See Note 7).

(Amounts in Philippine Pesos)

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2012	2011	
Cash on hand	1,738,227	2,283,328	Cash
in Banks	14,434,668	23,596,671	
Short term placements	76,253,746	14,676,106	
	92,426,642	40,556,105	
	===========	==========	

Cash in bank generally earn interests at rates based on daily bank deposit rates.
Short-term placements are made for varying periods of between 30-60 days and earn effective interest ranging from .25% to 1.00% in 2012 and 1.5% to 2% in 2011.

5. FINANCIAL ASSETS

The amounts in the balance sheets comprise of the following categories of financial assets:

	2012	2011
Held-to-maturity Investments		
Government Securities	50,647,854	38,301,617
	========	=========

Government Securities were deposited with the Bureau of Treasury under RoSS investment in accordance with the provisions of the Insurance Code as security for the benefit of the policy holders and creditors of the Company.

Interest income recognized in 2012 and 2011 are presented as part of Investment and Other Income in the Income Statements

	2012	2011		
Available-for-sale financial assets				
Cost:				
Quoted in the stock exchange	18,500	18,500		
Not quoted in the stock exchange				
Unrealized appreciation (decline) in value of investments:				
Quoted in the stock exchange			22,500	22,500
Not quoted in the stock exchange				

(Amounts in Philippine Pesos)

All amounts presented have been determined directly by reference to published quoted in an active market and it was provided by the Insurance Commission.

6. INSURANCE BALANCES RECEIVABLES

This account composed of the following:

	2012	**2011**
Premiums Receivable and Agents' balances	198,891,884	174,310,583
Amounts Recoverable from Reinsurers	6,964,600	
6,893,196		
Due from Ceding companies	17,754,149	
17,390,943		
	223,610,633	199,263,586

Premiums receivable are usually due within 30-90 days without interest. The Insurance Commission allows the company to give a 90-day credit term to their agents and brokers.

7. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the carrying amounts at the beginning and end of 2012 and 2011, and the gross carrying amounts and accumulated depreciation of property, plant and equipment is shown below:

	Computer Hardware & Software	Office Furniture/ and Equipment	Building Improvement	Transportation & Other Equipment	Total 2012	2011
GROSS CARRYING AMOUNT:						
Beginning balance	55,223,825	18,651,758	45,070,256	6,322,395	125,268,235	106,633,292
Additions/ Disposals	21,679,801	95,159	10,000,000	10,092,362		41,867,321

18,634,943

Ending 76,903,626 18,746,917 55,070,256 16,414,757 167,135,556
125,268,234
Balance

ACCUMULATED DEPRECIATION:

Beginning balance 33,995,599 6,509,136 14,143,277 5,881,768
60,529,779 47,994,780
Additions 6,472,528 2,162,695 7,588,027 304,615 16,527,865 7,653,396

Ending Balance 40,468,127 8,671,831 21,731,303 6,186,383 77,057,644
47,994,780

NET CARRYING AMOUNT:

Beginning 21,228,226 12,142,622 30,926,979 440,628
64,738,455 58,638,512
Balance-

Ending
Balance 36,435,498 10,075,086 33,338,953 10,228,374 90,077,912
64,738,455

8. LOANS AND RECEIVABLE

Loans receivable includes unsecured salary, educational, housing and car loans to Company employees which have annual effective interest rates of 11% to 10% both in 2012 and 2011. These loans are collected through salary deductions with a term of 5 to 20 years.

9. INVESTMENT PROPERTY

The Company's investment property includes two pieces of land which came from foreclosure proceedings. No income or loss (other than fair value gains) or direct operating expenses were recognized during the reporting period presented.

(Amounts in Philippine Pesos)

Appraisal was done by Advanced Services Appraisal Corp. on October 13, 2003 for both the Cuyapo and Rizal, Nueva Ecija properties.

10. SECURITY FUND CONTRIBUTIONS

This fund was created under Section 365 of Presidential Decree No.612, as Amended under Presidential Decree No. 1640, to be used for the payment of valid claims against insolvent insurance companies. The balance of this account P19,903.00 as of December 31, 2012, represents the Company's contribution to the fund and is presented in the balance sheet as part of Other Assets.

11 . LOSSES PAYABLE

This account consists of:

	2012	**2011**
Losses and Claims Payable-Direct Business	9,203,898	8,735,567
Losses and Claims Payable to Ceding Co.	-	-

PFRS 4 prohibits recognition as a liability a provisions for possible future claims under insurance contracts that are not in existence at the reporting date such as catastrophe provisions and equalization provisions, thus, this account contains claims that already incurred as of the reporting date.

12. ACCOUNTS PAYABLE

This account is composed of the following:

	2012	**2011**
Taxes Payable	8,554,541	7,382,163
Accounts Payable	8,418,992	7,208,816
SSS/Pag-Ibig/Philhealth cont	83,570	86,383
	17,057,103	14,677,362
	==========	==========

13. INSURANCES PAYABLE BALANCES

This account represents treaty and facultative cessions:

	2012	**2011**

	2012	2011
Premiums Due to Reinsurers- Treaty	2,059,019	1,191,603
Premiums Due to Reinsurers-Facultative	11,862,363	8,599,735
Funds Held for Ceding Companies	1,033,865	892,596
	17,057,103	14,677,362

14. CAPITAL STOCK

Capital Stock consists of:

	Shares		Amount	
	2012	**2011**	**2012**	**2011**
Common Shares – P100/ParValue Authorized, issued and fully paid-up-	2,500,000	1,750,000	250,000,000	175,000,000

As of December 31, 2012 and 2011, the Company has a total networth of P 500,803,525.00 and P 350,080,858.00, respectively.

15. CONTINGENCY SURPLUS

The contingent surplus is the total amount put up by the owners to cover all the deficiencies on margin of solvency.

16. MARGIN OF SOLVENCY

Under the Insurance Code, an insurance company doing business in the Philippines shall maintain at all times a margin of solvency equal to P500,000 or 10% of the total amount of its premiums written during the previous year, which-ever is higher. The margin of solvency shall be the excess of the value of its admitted assets (as defined under the insurance code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums, and reinsurance reserves.

The final amount of the margin of solvency can be determined only after the accounts of the Company have been examined by the Insurance Commission specifically as to admitted assets and non-admitted assets as defined in the Insurance Code.

17. DIVIDEND DECLARATION

Under the Insurance Code, a domestic non-life insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock
- the margin of solvency required
- the legal reserve fund required; and
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

(Amounts in Philippine Pesos)

18. PRESENTATION OF ACCOUNTS

OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below:

	2012	2011
Salaries & wages	10,928,670	10,170,147
Provision for Bad Debts	8,594,480	20,001,292
Authentication&TransactionFees	13,775,248	7,596,285
13th Month Pay, Bonuses & Benefits	7,806,824	4,308,509
Rent	1,991,226	1,973,646
Communication, Light & Water	2,973,262	2,429,781
Miscellaneous	1,610,388	1,299,876
Professional & Technical Devt.	3,338,188	3,267,672
Taxes and Licenses	173,609	250,462
Stationery Printing & Off. Supplies	3,383,704	2,223,380
Representation and Entertainment	2,819,812	1,785,666
Advertising & Promotion	7,749,507	2,023,987
Professional Fees	934,660	757,280
SSS, HDMF, PhilhealthContributions	873,611	818,425
Employees'Welfare	510,533	1,040,908
Transportation and Travel	1,834,286	1,949,693
Condominium Association Dues	298,226	360,100
Gasoline, Oil and Lubricants	481,546	537,376
Membership and Association Dues	374,557	271,607
Postage, DST and Shipping Charges	329,621	222,336
Insurance	2,103,163	2,602,835
Provision for Retirement Plan	500,000	200,000
Repairs and Maintenance	159,038	106,344
Books and Subscription	17,916	19,978
Provision for Catastrophe Losses	322,151	328,618
Depreciation and Amortization	16,527,865	12,534,999
Total General and Administrative Expenses	**91,654,390**	**79,323,537**
	==========	=========

(Amounts in Philippine Pesos)

19. EMPLOYEE BENEFITS

19.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits (Note 17)are presented below:

	2012	2011
Salaries and wages	10,928,669.82	10,170,147
Insurance	2,103,162.74	2,602,835
Bonuses	2,815,259.66	4,308,509

19.2 Retirement Plan

The company has not established a formal retirement fund. But since 2005 the Company provides short-term benefits to its employees and has not yet established a formal retirement fund. However, it accrues
the estimated cost of retirement benefits required by the provision of Republic Act (R.A.) No. 7641 (Retirement Law). The Company's application of PAS 19 increased the employee benefits when it was recognize as expense starting calendar year 2006.

20. INCOME TAX

On October 10, 2007, the BIR issued Revenue Regulations No. 12-2007, which amended the timing of the calculation and payment of MCIT from an annual basis to a quarterly basis, i.e. excess MCIT from a previous quarter during the current taxable year may be applied against subsequent quarterly or current annual income tax due, whether MCIT or Regular Corporate Income Tax (RCIT). However, excess MCIT from the previous taxable year'/s are not creditable against MCIT due for a subsequent quarter and are only creditable against quarterly and annual RCIT.

On May 24, 2005, Republic Act. No. 9337 entitled "an act Amending National Internal Revenue Code, as Amended with Salient Features" (Act), was passed into law effective November l, 2005, among others, the Act includes the following significant revision to the rules to taxation:

a. Change in the corporate income tax rates from 32% to 35% starting November 1, 2005 and to 30% starting January 2009.

b. Change in the amount of interest expense disallowed as tax-deductible expense equivalent to a certain percentage applied to the interest income subjected to final tax, such percentage was changed from 38% to 42% starting November 1, 2005 and 33% starting January 1, 2009; and

c. Grant of authority to the Philippine President to increase the 10% VAT rate to 12% effective February 1, 2006 subject of compliance with certain economic conditions.

21. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Company:

21.1. Operating Lease Commitments – Company as Lessee

The Company is a lessee under renewable operating leases covering its main office. The lease has term of two years with renewal options and include escalation of 10% every year.

Total rentals from these operating leases amounted to Php 1,991,226 in 2012 and Php 1,973,646 in 2011.

21.2 Others

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements. Management believes that losses as of December 31, 2012, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

22. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks: Credit risk, liquidity risk, market risk, interest risk and the Company's overall risk management program seeks to specific risks. Further quantitative disclosures are included throughout these financial statements;

- Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

- Interest risk

The Company has no interest-bearing debt obligations to third parties. As such, the Company has minimal interest rate risk.

- Foreign currency risk

The company has no foreign assets and financing facilities extended to the Company, but in case there will be they will be denominated in Philippine Peso. As such, the company's foreign currency risk is minimal.

- Liquidity risk

Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the company's creditors. The Company manages liquidity risk holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. In addition, the company seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise. Further quantitative disclosures are included throughout these financial statements, mainly in Note 11.

- Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company has in place the business credit policy and procedures regarding loan

activities from credit initiation, approval, documentation and disbursement, and loan administration.

The Company's credit risk is primarily attributable to its loan receivables.
There is no significant exposure to credit risk because portion of or the whole collections form each contracts are forfeited in favor of the Company in the event of customer default.

- Short-term benefits

The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Company to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses, non-monetary benefits.

- Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy./ Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Income Taxes

Current tax assets and liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in the income statement

.

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that is has become probable that future taxable profit will allow the deferred tax asset to be recovered.

23. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and,
- to provide an adequate return to shareholders by complying with the capital requirements and limitation enforced by the IC and by aligning the Company's operational strategy to its corporate goals. The capital requirements and limitations are as follows.

Capital Management

The Company's objectives when managing capital are to increase the value of shareholders' investment and maintain high growth by applying free cash flow to selective investments. The Company strategies with the objective of establishing a versatile and resourceful financial management and capital structure, by complying with the capital requirements and limitation enforced by the Insurance Commission and by aligning the Company's operational strategy to its corporate goals.

23.1 MINIMUM CAPITALIZATION

Under the Department Order No. 27-06 (DO No. 27-06), any reinsurance company existing, operating, or otherwise doing business in the Philippines, must possess minimum capitalization in accordance with the following schedule of compliance:

(Amounts in Philippine Pesos)

	December 31, 2012	December 31, 2011
Minimum statutory net worth	P 500,000,000	P 350,000,000
Minimum paid-up capital	250,000,000	175,000,000

As defined by DOF No. 27-06, statutory net worth represents 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 Company has met the minimum capital requirements for both years.

23.2 RISK-BASED CAPITAL REQUIREMENTS

As per Insurance Memorandum Circular No. 7-2006, every non-life insurance company is annually required to maintain a minimum Risk-Based Capital (RBC) ratio of 100%. RBC ratio is computed by dividing the Company's net worth by an RBC requirement prescribed by the IC. The RBC requirement is determined after considering the admitted value of certain financial statement accounts whose final amounts can be determined only after the examination by the IC.

24. SUPPLEMENTARY TAX INFORMATION UNDER RR-15-2010

As of and for the year ended the Company reported and paid the following taxes for the year 2012:

Value Added Tax (VAT)	P 27,446102.65
Documentary Stamp Tax (DST)	28,584,276.43

Information on the Company's Importations for 2012

The Company has no importation transaction in 2012.

Other Taxes and licenses:

The details of Taxes, Licenses and Fees account for the year ended December 31, 2012 presented under General and Administrative is broken down
as follows :

Filing fees		182,655.39
Real estate taxes	126,698.06	
Residence tax	10,500.00	

Excise Tax:

The Company did not incur any excise tax for the year ended December 31, 2012 since it does not have any transactions which are subject to excise tax.

Withholding Taxes:

Details of withholding taxes in 2012 are as follows:

Withholding taxes on compensation and benefits	P 706,037.61
Expanded withholding taxes	1,901,471.00
Final withholding taxes	716,431.32

Tax Assessment and Cases

The Company has no Final Assessment Notice and/or Formal Letter of Demand from the Bureau of Internal Revenue (BIR) alleged deficiency income tax, VAT, documentary stamps tax and withholding tax.

In addition, the Company has no pending tax case outside the administration of the BIR.

STATEMENT OF BOARD OPERATION

A. Mission and Responsibility of the Board of Directors

The Board presents a balanced assessment on the Company's position through the Financial Statements and Annual Reports. Two independent directors were elected to ensure adherence to corporate governance principles and leading practices.

Various functions are being performed by or delegated to particular departments, each headed by officers/managers with specific signing authorities.

B. Board Committees

The Company has a Management Committee which hold meetings every 1st Friday of the month to discuss and review operating and production performances. The other committees were the Nomination, Audit and Remuneration Committees as required by the Insurance Commission under Circular No. 31-2005 on corporate governance practices.

C. Board Meetings

The Board meets as often as required to discuss corporate and other matters needed to be approved and deliberated upon. There are nine board/stockholders' meetings held during the year under review.

BOARD OF DIRECTORS

FERDINAND Z. MORALES
Chairman

DOMINGO C. GOTAUCO, JR.
Independent Director

ATTY. AGNES T. BOCAR
Corporate Secretary/Director

ATTY. RHODORA B. MORALES
Director

MANUEL-LUIS I. VELASCO
Independent Director

COMMITTEES

NOMINATION COMMITTEE

FERDINAND Z. MORALES
Chairman

DOMINGO C. GOTAUCO, JR.
Member

RHODORA B. MORALES
Member

AUDIT COMMITTEE

FERDINAND Z. MORALES
Chairman

MANUEL LUIS I. VELASCO
Member

AGNES T. BOCAR
Member

REMUNERATION COMMITTEE

RHODORA B. MORALES
Chairman

MANUEL LUIS I. VELASCO

Member

AGNES T. BOCAR
Member

OPERATING OFFICERS

ATTY. RHODORA B. MORALES
President & Chief Executive Officer

ROSARIO S. LOPEZ
Vice President/Chief Finance Officer

REYNATO T. RAMOS
Vice President – Administration

ATTY. APRIL RAINE B. MORALES
Vice President - Legal

CHRISTIAN C. BOQUIREN
Executive Assistant to the President

ARTURO G. ODILAO
Assistant Vice President

DEPARTMENT MANAGERS

ALONA P. SANGAHIN
Manager – Accounting

LUISITO MARQUEZ
Manager – Marketing & Sales

REDENTOR P. SANGAHIN
Manager/Forms Custodian

AGNES C. SALTING
Manager – Credit & Collection

REY M. DELOS REYES
Manager – Judicial Bonds

RAFAEL A. LOPEZ
Para-Legal/Liaison Officer

ERWIN ROMMEL AMAN
Manager - CTPL Claims

MICHAEL N. GABRIEL
Manager - Motor Car Claims/Other Lines

BRANCH MANAGERS/OIC

ARTHUR G. ODILAO
Quezon City

GREGORIO D. RIVO
Manager - Manila

LUCINA O. CONING
OIC – Cebu City

JANICE R. SIA
Manager – Iloilo City