ASSURANCE AND ADVISORY
BUSINESS SERVICES

PIONEER INSURANCE & SURETY CORPORATION

Financial Statements
December 31, 2007 and 2006

and

Independent Auditors' Report

SGV & Co
A MEMBER PRACTICE OF ERNST & YOUNG GLOBAL
Quality In Everything We Do

SYCIP GORRES VELAYO & CO.

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Pioneer Insurance & Surety Corporation

We have audited the accompanying financial statements of Pioneer Insurance & Surety Corporation, which comprise the balance sheets as at December 31, 2007 and 2006, and the statements of income, statements of changes in stockholders' 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 Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control 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.

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 misstatements.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pioneer Insurance & Surety Corporation as of December 31, 2007 and 2006, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-1
Tax Identification No. 102-085-577
PTR No. 0017592, January 3, 2008, Makati City

March 27, 2008

PIONEER INSURANCE & SURETY CORPORATION
BALANCE SHEETS

	December 31	
	2007	2006
ASSETS		
Cash and Cash Equivalents (Notes 4, 9, 34 and 35)	**₱552,067,203**	₱598,925,627
Short-term Cash Investments (Notes 5, 34 and 35)	**35,495,949**	305,600
Insurance Receivables - net (Notes 3, 6, 33, 34 and 35)	**504,009,381**	554,746,385
Financial Assets (Notes 3, 7, 34 and 35)		
Financial assets at fair value through profit or loss	**200,988,517**	186,588,574
Available-for-sale financial assets (Note 9)	**2,825,757,827**	2,446,571,664
Loans and receivables (Note 33)	**29,042,372**	23,121,067
Accrued Income (Notes 8, 34 and 35)	**3,339,319**	1,719,389
Deferred Acquisition Costs (Notes 10, 33 and 36)	**123,220,506**	111,590,092
Reinsurance Assets (Notes 11, 16, 33 and 34)	**1,022,980,559**	1,517,762,251
Investment Properties (Notes 3, 12 and 32)	**395,921,960**	294,755,732
Property and Equipment - net (Notes 3, 13 and 33)	**965,563,157**	934,184,361
Investments in Shares of Stock of a Subsidiary and an Associate (Notes 3 and 14)	**89,167,781**	89,167,781
Pension Asset (Notes 3, 20 and 32)	**13,112,573**	18,299,805
Other Assets (Note 33)	**27,264,364**	31,218,968
	₱6,787,931,468	₱6,808,957,296
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Insurance contract liabilities (Notes 3, 16, 33 and 34)	**₱1,707,731,275**	₱2,278,507,380
Insurance payables (Notes 17, 32, 34 and 35)	**747,622,767**	697,813,357
Trade and other payables (Notes 3, 18, 32, 34 and 35)	**135,020,547**	204,175,277
Notes payable (Notes 19, 34 and 35)	**130,000,000**	53,500,000
Deferred reinsurance commissions (Note 10)	**88,610,062**	74,525,302
Deferred income tax liabilities - net (Notes 3 and 29)	**169,034,515**	155,566,127
	2,978,019,166	3,464,087,443

(Forward)

	December 31	
	2007	2006
Stockholders' Equity		
Capital stock - ₱100 par value		
Authorized, issued and outstanding - 3,000,000 shares	**₱300,000,000**	₱300,000,000
Paid-in surplus	**72,500,000**	72,500,000
Revaluation surplus (Note 13)	**379,918,480**	380,652,855
Reserve for fluctuation of available-for-sale financial assets (Notes 7 and 15)	**2,461,231,051**	2,056,476,043
Reserve for fluctuation of available-for-sale financial assets transferred to an affiliate (Notes 14 and 15)	**76,644,609**	76,644,609
Cumulative translation adjustments (Note 15)	**8,109,426**	35,127,740
Retained earnings (Note 21)		
Appropriated for catastrophic losses	**28,928,246**	29,904,595
Unappropriated	**482,580,490**	393,564,011
	3,809,912,302	3,344,869,853
	₱6,787,931,468	₱6,808,957,296

See accompanying Notes to Financial Statements.

PIONEER INSURANCE & SURETY CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2007	2006
REVENUES		
Gross earned premiums	**₱1,968,258,148**	₱1,902,921,338
Reinsurers' share of gross earned premiums	**1,286,506,041**	1,274,064,544
Net earned premiums (Notes 22, 32 and 33)	**681,752,107**	628,856,794
Commission income	**168,079,322**	155,373,249
Investment income (Note 23)	**69,295,035**	59,369,951
Fair value gains (Note 24)	**54,257,777**	34,477,748
Realized gains (Note 25)	**40,303,709**	13,862,499
Foreign currency exchange gain - net	**–**	1,808,700
Other income - net	**1,866,315**	369,511
	1,015,554,265	894,118,452
BENEFITS, CLAIMS AND EXPENSES		
Gross insurance contracts benefits and claims paid (Notes 16 and 26)	**962,600,854**	647,934,141
Reinsurers' share of gross insurance contracts benefits and claims paid (Notes 16 and 26)	**(635,845,405)**	(390,702,049)
Gross change in insurance contract liabilities	**(497,055,219)**	662,555,156
Reinsurers' share of gross change in insurance contract liabilities	**451,967,394**	(656,577,600)
Net benefits and claims	**281,667,624**	263,209,648
General expenses (Note 27)	**312,451,974**	290,159,115
Commission expense	**287,233,406**	260,144,776
Foreign currency exchange loss - net	**12,449,767**	–
	893,802,771	813,513,539
INCOME BEFORE INCOME TAX	**121,751,494**	80,604,913
PROVISION FOR INCOME TAX (Note 29)	**24,711,364**	20,357,846
NET INCOME (Note 31)	**₱97,040,130**	₱60,247,067

See accompanying Notes to Financial Statements.

PIONEER INSURANCE & SURETY CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Capital Stock	Paid-in Surplus	Revaluation Surplus	Reserve for Fluctuation of Available-for-Sale Financial Assets (Note 15)	Reserve for Fluctuation of Available-for-Sale Financial Assets Transferred to an Affiliate (Note 15)	Cumulative Translation Adjustments (Note 15)	Retained Earnings: Appropriated for Catastrophic Losses	Retained Earnings: Unappropriated	Total
				For the Year Ended December 31, 2007					
As of January 1, 2007	₱300,000,000	₱72,500,000	₱380,652,855	₱2,056,476,043	₱76,644,609	₱35,127,740	₱29,904,595	₱393,564,011	₱3,344,869,853
Net income for the year	–	–	–	–	–	–	–	97,040,130	97,040,130
Income (loss) recognized directly in equity	–	–	(734,375)	404,755,008	–	(27,018,314)	–	–	377,002,319
Total recognized income (loss) for the year	–	–	(734,375)	404,755,008	–	(27,018,314)	–	97,040,130	474,042,449
Transfer to (from) appropriated retained earnings (Note 21)	–	–	–	–	–	–	(976,349)	976,349	–
Cash dividends - ₱3.00 per share (Note 21)	–	–	–	–	–	–	–	(9,000,000)	(9,000,000)
As of December 31, 2007	**₱300,000,000**	**₱72,500,000**	**₱379,918,480**	**₱2,461,231,051**	**₱76,644,609**	**₱8,109,426**	**₱28,928,246**	**₱482,580,490**	**₱3,809,912,302**
				For the Year Ended December 31, 2006					
As of January 1, 2006	₱300,000,000	₱72,500,000	₱373,256,349	₱2,074,667,395	₱36,240,894	₱69,659,994	₱9,003,085	₱363,218,454	₱3,298,546,171
Net income for the year	–	–	–	–	–	–	–	60,247,067	60,247,067
Income (loss) recognized directly in equity	–	–	7,396,506	(18,191,352)	40,403,715	(34,532,254)	–	–	(4,923,385)
Total recognized income (loss) for the year	–	–	7,396,506	(18,191,352)	40,403,715	(34,532,254)	–	60,247,067	55,323,682
Transfer to (from) appropriated retained earnings (Note 21)	–	–	–	–	–	–	20,901,510	(20,901,510)	–
Cash dividends - ₱3.00 per share (Note 21)	–	–	–	–	–	–	–	(9,000,000)	(9,000,000)
As of December 31, 2006	₱300,000,000	₱72,500,000	₱380,652,855	₱2,056,476,043	₱76,644,609	₱35,127,740	₱29,904,595	₱393,564,011	₱3,344,869,853

See accompanying Notes to Financial Statements.

PIONEER INSURANCE & SURETY CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱121,751,494**	₱80,604,913
Adjustments for:		
Depreciation and amortization expense (Notes 13 and 27)	**29,699,508**	23,578,956
Increase in net provision for unearned premiums (Note 16)	**11,035,630**	45,235,366
Impairment loss on available-for-sale financial assets (Note 27)	**9,004,244**	–
Unrealized foreign currency exchange loss - net	**8,556,314**	(2,701,174)
Interest expense on reserves (Note 27)	**6,732,387**	4,154,905
Net pension benefit expense (Note 20)	**5,187,231**	12,346,517
Decrease (increase) in net deferred acquisition costs (Note 10)	**2,454,346**	(15,084,593)
Dividend income (Note 23)	**(2,183,355)**	(323,875)
Gain on sale of:		
Financial assets at fair value through profit or loss (Note 25)	**(29,091,007)**	(7,406,462)
Available-for-sale financial assets (Note 25)	**(11,212,702)**	(6,456,037)
Fair value gain on:		
Investment properties (Note 24)	**(37,689,600)**	(10,564,160)
Financial assets at fair value through profit or loss (Note 24)	**(16,568,177)**	(23,913,588)
Interest income (Note 23)	**(26,476,047)**	(30,211,534)
Operating income before changes in working capital	**71,200,266**	69,259,234
Decrease (increase) in:		
Insurance receivables	**50,737,004**	(63,221,373)
Loans and receivables	**(5,921,305)**	(5,663,512)
Accrued income	**(617,423)**	(153,638)
Increase (decrease) in:		
Insurance contract liabilities - net (Note 16)	**(128,972,261)**	(62,147,609)
Insurance payables	**49,809,410**	(48,847,323)
Trade and other payables	**(69,154,730)**	98,081,623
Net cash used in operations	**(32,919,039)**	(12,692,598)

(Forward)

	Years Ended December 31	
	2007	2006
Interest paid	**(₱6,732,387)**	(₱7,588,936)
Income taxes paid	**(14,824,609)**	(3,914,243)
Contribution to pension fund (Note 20)	**–**	(10,000,000)
Net cash used in operating activities	**(54,476,035)**	(34,195,777)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**25,464,665**	31,141,488
Dividends received	**2,226,762**	449,118
Acquisitions of:		
Property and equipment (Note 13)	**(130,027,648)**	(136,723,776)
Financial assets at fair value through profit or loss (Note 7)	**(120,203,379)**	(6,020,777)
Short-term cash investments	**(35,190,349)**	(305,600)
Available-for-sale financial assets (Note 7)	**(2,380,921)**	(19,198,558)
Proceeds from sale of:		
Financial assets at fair value through profit or loss	**151,462,620**	22,233,854
Available-for-sale financial assets	**30,123,693**	69,362,690
Property and equipment	**16,619,616**	–
Investment properties	**–**	4,944,000
Decrease (increase) in other assets	**5,835,719**	(19,561,342)
Net cash used in investing activities	**(56,069,222)**	(53,678,903)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availment of short-term borrowings	**76,500,000**	–
Payment of dividends (Note 21)	**(9,000,000)**	(9,000,000)
Net cash provided by (used in) financing activities	**67,500,000**	(9,000,000)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(3,813,167)**	2,701,174
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(46,858,424)**	(94,173,506)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**598,925,627**	693,099,133
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱552,067,203**	₱598,925,627

See accompanying Notes to Financial Statements.

1. Corporate Information

Pioneer Insurance & Surety Corporation (the Company) is a domestic corporation, which was registered with the Philippine Securities and Exchange Commission (SEC) on May 13, 1954. The Company is engaged in the business of nonlife insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events. It includes lines such as accident, fire and allied lines, motor vehicle, aviation, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with and incident to aforementioned lines. The Company is 55.09% owned by Pioneer, Inc. (PI), a company incorporated in the Philippines.

The registered office address of the Company is Pioneer House, 108 Paseo de Roxas, Legaspi Village, Makati City.

The accompanying financial statements of the Company were approved and authorized for issue by the Board of Directors (BOD) on March 27, 2008.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets, investment properties and certain property and equipment which have been measured at fair value.

The financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency.

The Company presents its balance sheet broadly in order of liquidity, with distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (noncurrent), presented in the notes to the financial statements.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of income unless required or permitted by any accounting standards or interpretations, as specifically disclosed in the accounting policies of the Company.

The Company has made use of the exemption from consolidation under Philippine Accounting Standard (PAS) 27, *Separate and Consolidated Financial Statements*. The financial statements of the Company and its subsidiaries are included in the consolidated financial statements of PI, which are in accordance with Philippine Financial Reporting Standards (PFRS).

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

Changes in Accounting Policies in 2007
The Company has adopted the following amended PAS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Company. They did, however, resulted to additional disclosures which are included in the financial statements.

- PFRS 7, *Financial Instruments: Disclosures,* introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaced the disclosure requirements in PAS 32, *Financial Instruments: Presentation and Disclosure*.

  The Company adopted the amendment to the transitional provisions of PFRS 7 as approved by the Financial Reporting Standards Council of the Philippines, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Company did not present comparative information for the disclosures required by paragraphs 31 - 42 of PFRS 7, unless the disclosure was previously required under PAS 32.

- Amendment to PAS 1, *Presentation of Financial Statements*, introduces disclosures about the level of an entity's capital and how it manages capital.

  Adoption of PFRS 7 and amendment to PAS 1 resulted in additional disclosures, which are included through out the financial statements. These disclosures include presenting the allowance for doubtful accounts (see Note 6), rollforward of other reserves (see Note 15), capital management of the Company (see Note 33), credit quality of financial assets (see Note 34), and sensitivity analyses as to currency risk, interest rate risk and equity price risk (see Note 34).

The following Philippine interpretation did not have any effect on the financial statements of the Company:

- Philippine Interpretation IFRIC 7*, Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies,* provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax.

- Philippine Interpretation IFRIC 8*, Scope of PFRS 2*, requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

- Philippine Interpretation IFRIC 9*, Reassessment of Embedded Derivatives*, establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

- Philippine Interpretation IFRIC 10*, Interim Financial Reporting and Impairment,* provides that the frequency of financial reporting affects the amount of impairment loss to be recognized in the annual financial reporting with respect to goodwill and AFS financial assets. It prohibits the reversal of impairment losses on goodwill and AFS equity financial assets recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date.

Future Changes in Accounting Policies

The Company did not early adopt the revised standards and interpretations below that have been approved but are not yet effective.

- Amendment to PAS 1, *Presentation of Financial Statements* (*Amendment on Statement of Comprehensive Income)*, will become effective for financial years beginning on or after January 1, 2009. In accordance with the amendment to PAS 1, the statement of changes in stockholders' equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

  In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with 'other comprehensive income'. The revision specify what is included in other comprehensive income, such as gains and losses on AFS assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. The Company will assess the impact of this amendment on its financial statements.

- Amendment to PAS 23, *Borrowing Costs,* becomes effective on January 1, 2009. It requires capitalization of borrowing costs that relate to a qualifying asset. The transitional requirements of the standard require it to be adopted as a prospective change from the effective date. Adoption of the amendment will have no impact on the Company's financial statements.

- PFRS 8, *Operating Segments,* becomes effective on January 1, 2009. PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. Adoption of PFRS 8 will have no impact on the Company's financial statements.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*, becomes effective for financial years beginning on or after March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the Company. The Company currently does not have any stock option plan and therefore, does not expect this interpretation to have a significant impact to its financial statements.

- Philippine Interpretation IFRIC 12*, Service Concession Arrangements,* becomes effective on January 1, 2008. This interpretation which covers contractual arrangements arising from entities providing public services is not relevant to the Company's current operations.

- Philippine Interpretation IFRIC 13*, Customer Loyalty Programs,* becomes effective for financial years beginning on or after July 1, 2008. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. Adoption of this interpretation will have no impact on the financial statements of the Company.

- Philippine Interpretation IFRIC 14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, becomes effective on January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The impact of the adoption of this interpretation will still be assessed by the Company.

Foreign Currency-Denominated Transactions and Translation

Transactions denominated in foreign currencies are recorded at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at the balance sheet date. Differences arising from monetary assets and liabilities are taken to the statement of income.

Assets and liabilities of the foreign branch are translated at the exchange rate prevailing at the balance sheet date, and revenues and expenses are translated at the monthly average exchange rates. The resulting translation adjustments are charged to cumulative translation adjustments included in the stockholders' equity section of the balance sheet.

Product Classification

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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

Cash and Cash Equivalents

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

Insurance Receivables

Insurance receivables are recognized when due and measured at the original invoice amount, less allowance for any uncollectible amount. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Financial Assets and Liabilities

Date of Recognition

Financial instruments are recognized in the balance sheets when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases and sales are purchases or sales of financial assets that require delivery of assets within period generally established by regulation or convention in the market place.

Initial Recognition

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at FVPL the initial measurement of financial assets includes transaction costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at FVPL when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Determination of Fair Value
The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same or discounted cash flow analysis. For discounted cash flow analysis, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. The use of assumptions could produce materially different estimates of fair values.

If the fair value can not be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

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

Financial assets within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, are classified in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, AFS financial assets and loans and receivables. Financial liabilities are classified either as financial liabilities at FVPL or other financial liabilities.

The Company determines the classification of its financial instruments after initial recognition and, where allowed and appropriate, reevaluates this designation at every reporting date.

Financial Asset or Liabilities at FVPL
Financial assets or liabilities at FVPL include financial assets or liabilities held for trading and financial assets or liabilities designated upon initial recognition as at FVPL.

Financial assets or liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets or liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or (b) the assets or liabilities are part of a group of financial assets or liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset or liabilities contains an embedded derivative that would need to be separately recorded.

The Company's financial assets at FVPL consist of equity and debt securities, which are held for trading. As of December 31, 2007 and 2006, the Company has no financial liabilities at FVPL.

HTM Financial Assets
HTM financial assets are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After initial measurement, HTM financial assets are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment.

This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium and discounts. Gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2007 and 2006, the Company has no HTM financial assets.

AFS Financial Assets
AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified as financial assets at FVPL, HTM financial assets, or loans and receivables. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity under reserve for fluctuation of AFS financial assets. When the asset is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the statement of income.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Impairment of Financial Assets
The Company assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Insurance Receivables
A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Loans and Receivables carried at Amortized Cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the assets is reduced through use of an allowance account. The amount of the impairment loss shall be recognized in the statement of income.

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

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of income, is transferred from stockholders' equity to the statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in the statement of income. Reversals of impairment loss on debt securities are reversed through the statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

Derecognition of Financial Assets and Liabilities
Financial assets are derecognized when (a) the rights to receive cash flows from the asset have expired; (b) 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 (c) the Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities are derecognized when the obligations under the liabilities expire, are discharged or are cancelled.

Offsetting of Financial Instruments
Financial assets and financial liabilities are only offset and the net amount is reported in the balance sheet 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

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

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

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

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

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

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

Deferred Acquisition Costs

Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged to expense in proportion to the premium revenue recognized. The unamortized acquisition costs are shown in the assets section of the balance sheet as deferred acquisition costs. Reinsurance commissions are deferred and shown in the liabilities section of the balance sheet as deferred reinsurance commissions, subject to the same amortization method as the related acquisition costs.

Investment Properties

Investment properties are held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in fair values of the investment properties are included in the statement of income in the year in which they arise.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected of its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development in view to sale.

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Company as an owner-occupied becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Property and Equipment

Property and equipment are stated at cost, except for land, buildings and building machinery and equipment that are carried at appraised values, less accumulated depreciation and amortization and any allowance for impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the statement of income during the financial period in which they are incurred.

Land, building, machinery and equipments are measured at fair value less accumulated depreciation on buildings and impairment losses recognized after the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation surplus included in the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognized in the revaluation surplus.

Accumulated depreciation as of the revaluation date is 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 the particular asset being sold is transferred to retained earnings.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings	50
Building machinery and equipment	5 - 20
Computer equipment	5
Transportation equipment	5
Furniture, fixtures and office equipment	8

Leasehold improvements are amortized over the term of the lease or estimated useful life of five (5) years, whichever is shorter.

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

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

Investments in Shares of Stock of a Subsidiary and an Associate

The investments in shares of stock of a subsidiary and an associate are carried in the balance sheet at cost, less any impairment in value. A subsidiary is an entity in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or exercises control over the operation and management of an entity. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

The Company's relationship, country of incorporation and percentage of ownership in the shares of stock of its investees as of December 31, 2007 and 2006 are as follows:

	Relationship	Country of Incorporation	Percentage of Ownership
Pioneer Intercontinental Insurance Corporation (PIIC)	Subsidiary	Philippines	91.64%
Pioneer Asia Insurance Corporation (PAIC)	Associate	Philippines	20%

The investments are derecognized on disposal, with the difference between the net proceeds and the carrying amount being recognized in the statement of income. The reporting dates of the subsidiary and the associate are identical with the Company and the accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

Borrowing Costs

The Company capitalizes its borrowing costs if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Impairment of Non-financial Assets
The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss is recognized in the statement of income.

Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged. Provision for claims reported and claims incurred but not reported (IBNR) are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the balance sheet date. The liability is not discounted for the time value of money and includes provision for unearned premiums, provision for claims reported and claims IBNR. The provision for claims liability is based on the independent adjusters' report on the individual claims and the provision for claims IBNR is calculated based on a 5-year loss experience. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract expires, is discharged or cancelled.

The provision for unearned premiums includes premiums received for risks that have not yet expired. Generally the provision is released over the term of the contract and is recognized as premium income.

At each reporting date, a liability adequacy test is performed. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the provision for outstanding claims. The provision for unearned premiums is increased to the extent that future claims in respect of current insurance contracts exceed future premiums plus the provision for unearned premiums.

Pension Asset
The Company operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeds 10% of the higher of the defined benefit obligation and the fair value of plan assets at the date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, the past service cost is recognized immediately.

The plan asset or pension benefit obligation comprises the present value of the pension benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Revenue Recognition

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

Premiums

Premiums from short duration contracts are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo insurance contracts. The gross premiums written for marine cargo insurance policies for the first ten months of the year and the last two months of the preceding year are recognized as premium income in the current year. The portion of the premiums written that relate to the unexpired periods of the policies at balance sheet dates and the last two months of marine cargo policies are accounted for as reserve for unearned premiums and presented in the liabilities section of the balance sheet, under insurance contract liabilities. The related reinsurance premiums that pertain to the unexpired periods at balance sheet date are accounted for as deferred reinsurance premiums shown as part of assets in the balance sheet, under reinsurance assets. The net changes in these accounts between balance sheet date are charged to or credited against income for the year.

Commission Income

Commissions earned from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the balance sheet date is accounted for as deferred reinsurance commissions and presented in the liabilities section of the balance sheet.

Interest Income

Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest rate method.

Dividend Income

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

Rental Income

Rental income from investment property is recognized in the statement of income on a straight-line basis over the lease term.

Benefits and Claims
Gross benefits and claims consist of benefits and claims paid to policyholders, which include excess gross benefit claims for products, as well as changes in the gross valuation of insurance contract liabilities, except for gross changes in the provision for unearned premiums which are included in net premiums earned. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims.

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

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

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

Company as a Lessee
Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Company as a Lessor
Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Income Taxes
Current Income Tax
Current income tax assets and liabilities 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 at the balance sheet date.

Deferred Income Tax
Deferred income tax is provided using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

Income tax relating to items recognized directly in equity is recognized in stockholders' equity and not in the statement of income.

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

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

<u>Contingencies</u>
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

<u>Events after the Balance Sheet Date</u>
Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to the financial statements when material.

3. **Significant Accounting Judgments and Estimates**

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

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

Judgments

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

Fair Values of Financial Assets and Liabilities

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

Operating Lease Commitments - Company as Lessor

The Company has entered into commercial property leases on its investment properties. The Company has determined that it retains all the significant risks and rewards of ownership of these properties thus accounts for them as operating leases.

Operating Lease Commitments - Company as Lessee

The Company has entered into commercial property leases with various lessors. The Company has determined that the lessors retain all the significant risks and rewards of ownership of the leased properties thus accounts for them as operating leases.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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.

Valuation of Insurance Contract Liabilities
Estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims IBNR at the balance sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet claims provision.

The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claims settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and any changes were made are charged to provision. Insurance claims liability are not discounted for the time value of money.

The carrying values of insurance contract liabilities amounted to ₱1,707,731,275 and ₱2,278,507,380 as of December 31, 2007 and 2006, respectively (see Note 16).

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

As of December 31, 2007 and 2006, the carrying value of the Company's AFS equity financial assets amounted to ₱2,800,655,164 and ₱2,411,218,221, respectively (see Note 7).

In 2007, the Company recognized impairment loss on its AFS equity financial assets amounting to ₱9,004,244 (see Notes 7 and 27).

Estimation of Useful Lives of Property and Equipment
The Company reviews annually the estimated useful lives of property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

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

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the assets; 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 net selling price and the value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific asset, the recoverable amount represents the net selling price.

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 Company's financial statements.

The carrying value of investment properties amounted to ₱395,921,960 and ₱294,755,732 as of December 31, 2007 and 2006, respectively (see Note 12). The carrying value of property and equipment amounted to ₱965,563,157 and ₱934,184,361 as of December 31, 2007 and 2006, respectively (see Note 13). The carrying value of investments in shares of stock of a subsidiary and an associate amounted to ₱89,167,781 as of December 31, 2007 and 2006 (see Note 14).

The Company did not recognize any impairment loss on its investment properties, property and equipment and investment in shares of stock of a subsidiary and an associate in 2007 and 2006.

Estimation of Allowance for Doubtful Accounts
The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis.

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

As of December 31, 2007 and 2006, the carrying value of insurance receivables amounted to ₱504,009,381 and ₱554,746,385, respectively. The allowance for doubtful accounts pertaining to insurance receivables as of December 31, 2007 and 2006 amounted to ₱688,262 and ₱2,584,802, respectively (see Note 6).

The carrying value of loans and receivables amounted to ₱29,042,372 and ₱23,121,067 as of December 31, 2007 and 2006, respectively. There is no allowance for doubtful accounts pertaining to loans and receivables as of December 31, 2007 and 2006 (see Note 7).

Recognition of Deferred Income Tax Assets
Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that the taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The balance of the Company's deferred income tax assets as of December 31, 2007 and 2006 amounted to ₱249,492,735 and ₱257,958,617, respectively (see Note 29).

Pension and Other Employee Benefits
The determination of obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rates. In accordance with PFRS, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations.

As of December 31, 2007 and 2006, pension asset amounted to ₱13,112,573 and ₱18,299,805, respectively (see Note 20).

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

The accrued balance of other employee benefits, included under trade and other payables in the balance sheet, as of December 31, 2007 and 2006 amounted to ₱36,468,732 and ₱33,854,788, respectively.

Contingencies
The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Company does not believe these proceedings will have a material adverse effect on the Company's financial position (see Note 30).

4. Cash and Cash Equivalents

This account consists of cash placed in:

	2007	2006
Petty cash fund	**₱211,423**	₱218,965
Cash in commercial banks and trust company	**87,683,106**	112,632,026
Short-term deposits (Note 9)	**464,172,674**	486,074,636
	₱552,067,203	₱598,925,627

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are placed for varying periods of up to three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposits rates.

5. Short-term Cash Investments

This account consists of cash placed in:

	2007	2006
Commercial banks and trust company	**₱35,290,349**	₱100,000
Thrift banks, rural banks and cooperatives	**205,600**	205,600
	₱35,495,949	₱305,600

This account consists of time deposits with maturity of more than three months but less than one year from dates of placement and earn interest with rates ranging from 2.13% to 7.00% in 2007 and from 7.00% to 7.50% in 2006.

6. Insurance Receivables - Net

This account consists of:

	2007	2006
Due from policyholders	**₱374,256,226**	₱437,250,740
Reinsurance recoverable on paid losses		
Treaty	**70,633,867**	60,221,632
Facultative	**21,474,528**	7,008,550
Due from ceding companies		
Facultative (Note 32)	**33,830,054**	47,092,157
Treaty	**2,985,926**	3,965,904
Funds held by ceding companies - treaty	**1,517,042**	1,792,204
	504,697,643	557,331,187
Less allowance for doubtful accounts	**688,262**	2,584,802
	₱504,009,381	₱554,746,385

The aging analysis of insurance receivables not impaired as of December 31, 2007 and 2006 follows:

	2007						
		Past due but not impaired					
	Neither past due nor impaired	**30 > 60 days**	**60 > 120 days**	**120 > 180 days**	**> 180 days**	**Impaired**	**Total**
Due from policyholders	**₱366,413,171**	**₱4,440,923**	**₱1,844,522**	**₱1,190,341**	**₱367,269**	**₱–**	**₱374,256,226**
Reinsurance recoverable on paid losses						**–**	
Treaty	**67,335,419**	**–**	**2,518,923**	**779,525**	**–**	**–**	**70,633,867**
Facultative	**11,019,663**	**438,302**	**650,925**	**–**	**9,365,638**	**–**	**21,474,528**
Due from ceding companies						**–**	
Facultative	**6,360,249**	**10,607,993**	**3,166,746**	**–**	**13,006,804**	**688,262**	**33,830,054**
Treaty	**–**	**385,055**	**396,684**	**283,726**	**1,920,461**	**–**	**2,985,926**
Funds held by ceding companies - treaty	**449,134**	**243,925**	**–**	**–**	**823,983**	**–**	**1,517,042**
	₱451,577,636	**₱16,116,198**	**₱8,577,800**	**₱2,253,592**	**₱25,484,155**	**₱688,262**	**₱504,697,643**

	2006						
		Past due but not impaired					
	Neither past due nor impaired	30 > 60 days	60 > 120 days	120 > 180 days	> 180 days	Impaired	Total
Due from policyholders	₱141,508,091	₱109,672,854	₱182,777,566	₱2,044,071	₱1,248,158	₱–	₱437,250,740
Reinsurance recoverable on paid losses						–	
Treaty	51,162,444	6,349,379	–	2,709,809	–	–	60,221,632
Facultative	–	2,143,184	–	1,224,539	3,640,827	–	7,008,550
Due from ceding companies						–	
Facultative	13,764,704	10,325,964	5,162,982	–	15,253,705	2,584,802	47,092,157
Treaty	–	1,805,205	1,267,706	–	892,993	–	3,965,904
Funds held by ceding companies - treaty	117,385	–	501,327	245,448	928,044	–	1,792,204
	₱206,552,624	₱130,296,586	₱189,709,581	₱6,223,867	₱21,963,727	₱2,584,802	₱557,331,187

The following is a reconciliation of the changes in the allowance for doubtful accounts on due from policyholders:

	2007	2006
Balance at beginning of year	**₱2,584,802**	₱2,741,852
Accounts written-off	**(1,592,340)**	–
Foreign exchange adjustments	**(304,200)**	(157,050)
Balance at end of year	**₱688,262**	₱2,584,802

7. **Financial Assets**

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

	2007	2006
Financial assets at FVPL	**₱200,988,517**	₱186,588,574
AFS financial assets	**2,825,757,827**	2,446,571,664
Loans and receivables	**29,042,372**	23,121,067
	₱3,055,788,716	₱2,656,281,305

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

a) Financial Assets at FVPL

	2007	2006
Listed equity securities - common shares	**₱200,988,517**	₱181,625,695
Government debt securities - foreign currency	–	4,962,879
	₱200,988,517	₱186,588,574

b) AFS Financial Assets

	2007	2006
Traded securities - at fair value		
Listed equity securities		
Common shares	**₱2,490,046,439**	₱2,120,269,496
Preferred shares	**88,725**	88,725
Government debt securities - local currency (Note 9)	**25,102,663**	35,353,443
	2,515,237,827	2,155,711,664
Nontraded securities - at cost		
Unlisted equity securities		
Preferred shares	**238,000,000**	238,000,000
Common shares	**72,520,000**	52,860,000
	310,520,000	290,860,000
	₱2,825,757,827	₱2,446,571,664

As of December 31, 2007 and 2006, the reserve for fluctuation of AFS financial assets amounted to ₱2,461,231,051 and ₱2,056,476,043, respectively.

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

	FVPL	AFS	Total
At January 1, 2006	₱171,875,101	₱2,468,067,396	₱2,639,942,497
Additions	6,020,777	19,198,558	25,219,335
Disposals	(14,827,392)	(62,906,653)	(77,734,045)
Net unrealized fair value gains	23,913,588	22,323,284	46,236,872
Net unrealized foreign currency exchange loss	(393,500)	–	(393,500)
Premium/discount amortization		(110,921)	(110,921)
At December 31, 2006	186,588,574	2,446,571,664	2,633,160,238
Additions	120,203,379	2,380,921	122,584,300
Disposals	(122,371,613)	(18,910,991)	(141,282,604)
Net unrealized fair value gains	16,568,177	404.780,208	421,348,385
Impairment loss	–	(9,004,244)	(9,004,244)
Premium/discount amortization	–	(59,731)	(59,731)
At December 31, 2007	**₱200,988,517**	**₱2,825,757,827**	**₱3,026,746,344**

The maturity profile of investments in government debt securities are as follows:

	2007	2006
Due within one year	**₱10,251,050**	₱18,486,661
Due after one year through five years	**14,851,613**	21,829,661
	₱25,102,663	₱40,316,322

c) Loans and Receivables

	2007	2006
Chattel mortgage loan	**₱21,686,261**	₱17,538,938
Rental deposits	**1,297,271**	1,203,373
Other receivables (Note 32)	**6,058,840**	4,378,756
	₱29,042,372	₱23,121,067

The maturity profile of loans and receivables are as follows:

	2007	2006
Due within one year	**₱10,988,840**	₱4,378,756
Due after one year	**18,053,532**	18,742,311
	₱29,042,372	₱23,121,067

8. Accrued Income

This account consists of:

	2007	2006
Accrued interest	**₱2,166,244**	₱1,120,330
Accrued rent	**1,152,450**	535,027
Accrued dividends	**20,625**	64,032
	₱3,339,319	₱1,719,389

The carrying amounts of accrued income approximate fair values at year-end. All are due within one year.

9. Statutory Deposits

The following are deposited with local and foreign government agencies in compliance with insurance laws and requirements:

	2007	2006
Short-term deposits (Note 4)	**₱74,069,919**	₱73,974,957
Government debt securities (Note 7)	**23,510,322**	33,048,000
	₱97,580,241	₱107,022,957

The short-term deposits represent placements by its Hong Kong Branch, which are held in trust for the beneficiary title of the Insurance Authority of Hong Kong. These deposits earn interest at commercial rates.

Government debt securities are deposited with the Philippine Insurance Commission (IC) in accordance with the provisions of the Insurance Code (the Code) for the benefit and security of policyholders and creditors of the Company. The carrying value of government debt securities deposited with IC amounted to in ₱22,265,263 in 2007 and ₱33,048,000 in 2006.

10. **Deferred Acquisition Costs** - Net

The rollforward analysis of this account follows:

	2007	2006
Deferred acquisition costs:		
Balance at beginning of year	**₱111,590,092**	₱100,578,810
Net commission expenses deferred during the year	**11,630,414**	11,011,282
Balance at end of year	**123,220,506**	111,590,092
Deferred reinsurance commissions:		
Balance at beginning of year	**74,525,302**	78,598,613
Net reinsurance commissions deferred (earned) during the year	**14,084,760**	(4,073,311)
Balance at end of year	**88,610,062**	74,525,302
	₱34,610,444	₱37,064,790

11. **Reinsurance Assets**

This account consists of:

	2007	2006
Reinsurance recoverable on unpaid losses (Note 16)	**₱513,891,706**	₱969,112,115
Deferred reinsurance premiums (Note 16)	**509,088,853**	548,650,136
	₱1,022,980,559	₱1,517,762,251

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

The following shows the aging information of the reinsurance recoverable on unpaid losses as of December 31, 2007 and 2006:

	2007	2006
Current	**₱157,661,706**	₱774,510,747
Noncurrent	**356,230,000**	194,601,368
	₱513,891,706	₱969,112,115

12. **Investment Properties**

The rollforward analysis of this account follows:

	2007	2006
Balance at beginning of year	**₱294,755,732**	₱321,982,156
Fair value adjustments (Note 24)	**37,689,600**	10,564,160
Transfer from construction in progress	**85,042,708**	–
Disposals	**–**	(35,514,500)
Other adjustments	**(21,566,080)**	(2,276,084)
Balance at end of year	**₱395,921,960**	₱294,755,732

The values of the land and condominium units were arrived at using the Market Data Approach. In this approach, the values are based on sales and listings of comparable property registered in the vicinity. The technique of this approach requires the establishing of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the Company's properties. In valuing the condominium units, records of recent sales and offerings of similar property are analyzed and comparisons were made for such factors as size, location, quality and prospective use.

The condominium units in Hong Kong are on a 50-year lease contract and were revalued at HK$50 million (₱265.4 million) and HK$36.8 million (₱232.6 million) as of December 31, 2007 and 2006, respectively, as determined by an independent chartered surveyor using the Market Data Approach.

As of December 31, 2007 and 2006, an amount of HK$24 million (₱127.4 million) and HK$17.6 million (₱111.3 million), respectively, is classified as investment property.

Other adjustments pertain to the effect of translation of investment property of the Hong Kong Branch to its Philippine Peso equivalent.

13. **Property and Equipment** - Net

This account consists of properties and equipment carried at cost and revalued amounts as follows:

	2007	2006
At revalued amounted	**₱766,517,690**	₱753,097,468
At cost	**199,045,467**	181,086,893
	₱965,563,157	₱934,184,361

The borrowing cost capitalized amounted to ₱6,051,220 and ₱3,434,031 as of December 31, 2007 and 2006.

Property and equipment carried at revalued amounts are as follows:

	2007			
	Land	**Buildings**	**Building Machinery and Equipment**	**Total**
Revalued amount				
At beginning of year	**₱525,392,000**	**₱232,301,074**	**₱20,607,770**	**₱778,300,844**
Additions	**–**	**404,464**	**2,682,591**	**3,087,055**
Appraisal increase	**–**	**36,093,040**	**–**	**36,093,040**
Disposals/retirements	**–**	**–**	**(1,066,918)**	**(1,066,918)**
Adjustments	**–**	**(19,468,800)**	**–**	**(19,468,800)**
At end of year	**525,392,000**	**249,329,778**	**22,223,443**	**796,945,221**
Accumulated depreciation				
At beginning of year	**–**	**19,516,184**	**5,687,192**	**25,203,376**
Depreciation (Note 27)	**–**	**4,620,397**	**1,670,676**	**6,291,073**
Disposals/retirements	**–**	**–**	**(1,066,918)**	**(1,066,918)**
Adjustments	**–**	**(184,496)**	**184,496**	**–**
At end of year	**–**	**23,952,085**	**6,475,446**	**30,427,531**
Net book value	**₱525,392,000**	**₱225,377,693**	**₱15,747,997**	**₱766,517,690**

	2006			
	Land	Buildings	Building Machinery and Equipment	Total
Revalued amount				
At beginning of year	₱525,392,000	₱235,073,242	₱16,328,572	₱776,793,814
Additions	–	1,506,686	4,279,198	5,785,884
Appraisal increase	–	11,379,240	–	11,379,240
Adjustments	–	(15,658,094)	–	(15,658,094)
At end of year	525,392,000	232,301,074	20,607,770	778,300,844
Accumulated depreciation				
At beginning of year	–	14,784,369	4,547,320	19,331,689
Depreciation (Note 27)	–	4,731,815	1,139,872	5,871,687
At end of year	–	19,516,184	5,687,192	25,203,376
Net book value	₱525,392,000	₱212,784,890	₱14,920,578	₱753,097,468

Total depreciation and amortization expense charged against operations amounted to ₱29,699,508 and ₱23,578,956 in 2007 and 2006, respectively (see Note 27).

The related revaluation surplus recognized in the stockholder's equity amounted to ₱379,918,480 and ₱380,652,855 as of December 31, 2007 and 2006, respectively.

Property and equipment carried at cost are as follows:

	2007							
	Buildings	**Building Machinery and Equipment**	**Leasehold Improvements**	**Computer Equipment**	**Transportation Equipment**	**Furniture, Fixtures and Equipment**	**Construction in Progress**	**Total**
Cost								
At beginning of year	**₱–**	**₱–**	**₱12,005,960**	**₱38,278,274**	**₱31,100,921**	**₱32,329,850**	**₱127,173,942**	**₱240,888,947**
Additions	**–**	**–**	**–**	**8,932,807**	**9,768,424**	**10,396,132**	**97,843,230**	**126,940,593**
Transfer from construction in progress	**₱89,610,310**	**₱50,364,154**	**–**	**–**	**–**	**–**	**(139,974,464)**	**–**
Disposals/ retirements	**–**	**–**	**(4,415,770)**	**(3,941,080)**	**(5,668,951)**	**(1,526,897)**	**–**	**(15,552,698)**
Transfer to investment property and property and equipment at revalued amounts	**–**	**–**	**–**	**–**	**–**	**–**	**(85,042,708)**	**(85,042,708)**
Adjustments	**–**	**–**	**–**	**(1,162,128)**	**–**	**(1,121,056)**	**–**	**(2,283,184)**
At end of year	**89,610,310**	**50,364,154**	**7,590,190**	**42,107,873**	**35,200,394**	**40,078,029**	**–**	**264,950,950**
Accumulated depreciation and amortization								
At beginning of year	**–**	**–**	**6,409,453**	**20,476,119**	**15,762,764**	**17,153,718**	**–**	**59,802,054**
Depreciation and amortization (Note 27)	**1,120,129**	**4,004,994**	**2,079,034**	**7,213,260**	**6,589,285**	**2,401,733**	**–**	**23,408,435**
Disposals/retirements	**–**	**–**	**(4,415,770)**	**(3,941,080)**	**(5,567,560)**	**(1,419,405)**	**–**	**(15,343,815)**
Adjustments	**–**	**–**	**–**	**(1,102,408)**	**–**	**(858,783)**	**–**	**(1,961,191)**
At end of year	**1,120,129**	**4,004,994**	**4,072,717**	**22,645,891**	**16,784,489**	**17,277,263**	**–**	**65,905,483**
Net book value	**₱88,490,181**	**₱46,359,160**	**₱3,517,473**	**₱19,461,982**	**₱18,415,905**	**₱22,800,766**	**₱–**	**₱199,045,467**

	2006							
	Buildings	Building Machinery and Equipment	Leasehold Improvements	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
Cost								
At beginning of year	₱–	₱–	₱11,418,667	₱39,524,097	₱30,460,376	₱32,287,393	₱13,333,158	₱127,023,691
Additions	–	–	587,293	6,764,735	3,124,546	1,774,348	122,121,001	134,371,923
Disposals/ retirements	–	–	–	(7,424,557)	(2,484,001)	(1,165,885)	(8,280,217)	(19,354,660)
Adjustments	–	–	–	(586,001)	–	(566,006)	–	(1,152,007)
At end of year	–	–	12,005,960	38,278,274	31,100,921	32,329,850	127,173,942	240,888,947
Accumulated depreciation and amortization								
At beginning of year	–	–	4,082,757	21,713,727	12,194,006	16,259,259	–	54,249,749
Depreciation and amortization (Note 27)	–	–	2,326,696	6,703,413	6,052,759	2,624,401	–	17,707,269
Disposals/retirements	–	–	–	(7,424,557)	(2,484,001)	(1,165,885)	–	(11,074,443)
Adjustments	–	–	–	(516,464)	–	(564,057)	–	(1,080,521)
At end of year	–	–	6,409,453	20,476,119	15,762,764	17,153,718	–	59,802,054
Net book value	₱–	₱–	₱5,596,507	₱17,802,155	₱15,338,157	₱15,176,132	₱127,173,942	₱181,086,893

14. Investments in Shares of Stock of a Subsidiary and an Associate

This account consists of:

Investment in a subsidiary - PIIC	₱85,905,101
Investment in an associate - PAIC	3,262,680
	₱89,167,781

The Company has acquired additional shares in PIIC in exchange for the Company's AFS financial assets with carrying value of ₱40,910,100. The unrealized gain on the transferred AFS financial assets amounting to ₱76,644,609 is included in the stockholders' equity under reserve for fluctuation of AFS financial assets transferred to an affiliate.

Financial information of PIIC and PAIC follows:

	2007	2006
PIIC		
Total assets	**₱278,597,958**	₱235,268,708
Total liabilities	**93,225,500**	101,736,768
Net income (loss)	**8,135,362**	(10,527,098)
PAIC		
Total assets	**163,392,056**	165,871,764
Total liabilities	**38,493,165**	36,902,487
Net income	**13,558,022**	1,895,479

15. Other Reserves

This account consists of:

	Reserve for Fluctuation of Available-for-sale Financial Assets	Reserve for Fluctuation of Available-for-sale Financial Assets Transferred to an Affiliate	Cumulative Translation Adjustments	Total
Balance as of January 1, 2006	₱2,074,667,395	₱36,240,894	₱69,659,994	₱2,180,568,283
Currency translation difference	–	–	(34,532,254)	(34,532,254)
Net unrealized gains on AFS financial assets	(18,191,352)	40,403,715	–	22,212,363
Balance as of December 31, 2006	2,056,476,043	76,644,609	35,127,740	2,168,248,392

(Forward)

	Reserve for Fluctuation of Available-for-Sale Financial Assets	Reserve for Fluctuation of Available-for sale Financial Assets Transferred to an Affiliate	Cumulative Translation Adjustments	Total
Net unrealized gains on AFS financial assets	₱406,963,466	₱–	₱–	₱406,963,466
Impairment loss	9,004,244	–	–	9,004,244
Unrealized gains on AFS financial assets	(11,212,702)	–	–	(11,212,702)
Currency translation difference	–	–	(27,018,314)	(27,018,314)
Balance as of December 31, 2007	**₱2,461,231,051**	**₱76,644,609**	**₱8,109,426**	**₱2,545,985,086**

16. Insurance Contract Liabilities and Reinsurance Assets

The analysis of short-term insurance contract liabilities, net of reinsurers' share of liabilities follows:

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 11)	**Net 2007**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 11)	Net 2006
Total provision for claims reported and claims IBNR (Note 34)	**₱853,824,757**	**₱513,891,706**	**₱339,933,051**	₱1,396,075,209	₱969,112,115	₱426,963,094
Provision for unearned premiums (Note 33)	**853,906,518**	**509,088,853**	**344,817,665**	882,432,171	548,650,136	333,782,035
Total insurance contract liabilities	**₱1,707,731,275**	**₱1,022,980,559**	**₱684,750,716**	₱2,278,507,380	₱1,517,762,251	₱760,745,129

The analysis of total provision for claims reported and claims IBNR follows:

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 11)	**Net 2007**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 11)	Net 2006
Balance at beginning of year	**₱1,396,075,209**	**₱969,112,115**	**₱426,963,094**	₱747,078,427	₱303,551,905	₱443,526,522
Claims incurred during the year	**472,910,798**	**183,878,011**	**289,032,787**	1,311,040,624	1,047,279,649	263,760,975
Claims paid during the year (Note 26)	**(962,600,854)**	**(635,845,405)**	**(326,755,449)**	(647,934,141)	(390,702,049)	(257,232,092)
Decrease in claims IBNR	**(7,365,163)**	**–**	**(7,365,163)**	(551,327)	–	(551,327)
	899,019,990	**517,144,721**	**381,875,269**	1,409,633,583	960,129,505	449,504,078
Effect of foreign exchange on outstanding claims	**(45,195,233)**	**(3,253,015)**	**(41,942,218)**	(13,558,374)	8,982,610	(22,540,984)
Balance at end of year (Note 34)	**₱853,824,757**	**₱513,891,706**	**₱339,933,051**	₱1,396,075,209	₱969,112,115	₱426,963,094

The provision for unearned premiums may be analyzed as follows:

	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 11)	**Net 2007**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 11)	Net 2006
Balance at beginning of year	**₱882,432,171**	**₱548,650,136**	**₱333,782,035**	₱974,176,701	₱685,630,032	₱288,546,669
New policies written during the year (Note 22)	**1,939,732,495**	**1,246,944,758**	**692,787,737**	1,811,176,808	1,137,084,648	674,092,160
Premiums earned during the year (Note 22)	**(1,968,258,148)**	**(1,286,506,041)**	**(681,752,107)**	(1,902,921,338)	(1,274,064,544)	(628,856,794)
Balance at end of year	**₱853,906,518**	**₱509,088,853**	**₱344,817,665**	₱882,432,171	₱548,650,136	₱333,782,035

17. Insurance Payables

This account consists of:

	2007	2006
Due to reinsurers (Note 32)	**₱618,731,659**	₱578,437,014
Premium reserve withheld for treaty reinsurers	**128,891,108**	119,376,343
	₱747,622,767	₱697,813,357

The following shows the aging information of insurance payables as of December 31, 2007 and 2006:

	2007	2006
Current	**₱690,437,461**	₱634,067,035
Noncurrent	**57,185,306**	63,746,322
	₱747,622,767	₱697,813,357

18. Trade and Other Payables

This account consists of:

	2007	2006
Accrued taxes and expenses	**₱46,467,308**	₱133,079,468
Accounts payable and other liabilities	**32,891,759**	37,718,730
Commissions payable	**32,817,980**	28,819,079
Loans payable (Note 20)	**18,300,000**	–
Service award liability	**4,543,500**	4,558,000
	₱135,020,547	₱204,175,277

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

19. Notes Payable

This account pertains to various short-term loans amounting to ₱130,000,000 and ₱53,500,000 as of December 31, 2007 and 2006, respectively, granted by a local bank used to finance the Company's construction of a building. The loans are due to be settled the next year. The loans bear nominal interest ranging from 7.75% to 8.00% in 2007 and 5.85% in 2006 (see Note 13).

20. Pension Cost

The Company has a qualified, noncontributory retirement plan covering all employees, which requires contributions to be made to administered funds.

The following tables summarize the components of net benefit expense recognized in the statements of income and the funded status and amounts recognized in the balance sheets for the retirement plan:

The net benefit expense, which is included under salaries, allowances and benefits in the general expense account for the years ended December 31, 2007 and 2006 follows:

	2007	2006
Current service cost	**₱9,001,600**	₱8,334,800
Interest cost	**11,998,943**	13,380,931
Expected return on plan assets	**(15,473,023)**	(9,238,613)
Recognized actuarial gain	**(340,289)**	(130,601)
	₱5,187,231	₱12,346,517

The pension asset recognized in the balance sheets as of December 31, 2007 and 2006 follows:

	2007	2006
Fair value of plan assets	**₱220,470,939**	₱193,412,779
Present value of defined benefit obligation	**(166,130,267)**	(149,986,791)
	54,340,672	43,425,988
Unrecognized actuarial gains	**(41,228,099)**	(25,126,183)
	₱13,112,573	₱18,299,805

Movements in the pension asset recognized in the balance sheets follow:

	2007	2006
Balance at beginning of year	**₱18,299,805**	(₱9,924,178)
Net benefit expense	**(5,187,232)**	(12,346,517)
Contributions paid	**–**	40,570,500
Balance at end of year	**₱13,112,573**	₱18,299,805

The reconciliation of the present value of pension benefit obligation follows:

	2007	2006
Balance at beginning of year	**₱149,986,791**	₱111,507,760
Interest cost	**11,998,943**	13,380,931
Current service cost	**9,001,600**	8,334,800
Actuarial loss	**–**	17,391,100
Benefits paid	**(4,857,067)**	(627,800)
Balance at end of year	**₱166,130,267**	₱149,986,791

The reconciliation of the fair value of the plan assets follows:

	2007	2006
Balance at beginning of year	**₱193,412,779**	₱115,482,666
Expected return on plan assets	**15,473,023**	9,238,613
Contributions paid	**–**	40,570,500
Benefits paid	**(4,857,067)**	(627,800)
Actuarial gains	**16,442,204**	28,748,800
Balance at end of year	**₱220,470,939**	₱193,412,779
Actual return on plan assets	**₱31,915,227**	₱37,987,413

The distribution of the plan assets of the Pioneer Group, of which 70.79% and 71.39% is attributed to the Company as of December 31, 2007 and 2006, respectively, is as follows:

	2007	2006
AFS financial assets	**₱202,108,878**	₱196,997,322
Cash and cash equivalents	**38,586,322**	35,927,555
Accounts receivable	**32,367,806**	2,489,586
Investment properties	**30,570,500**	30,570,500
Financial assets at FVPL	**10,000,000**	4,938,498
	313,633,506	270,923,461
Due to hospital funds	**(2,173,965)**	–
Total plan assets	**₱311,459,541**	₱270,923,461

On November 6, 2007, the Company borrowed ₱18,300,000 million from the pension fund with 6% interest rate and maturing on December 31, 2008. The loan is still outstanding as of the balance sheet date (see Note 18).

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

	2007	2006
Salary increase rate		
Beginning of year	**7.5%**	10.0%
End of year	**7.5%**	7.5%
Discount rate		
Beginning of year	**8.0%**	12.0%
End of year	**8.0%**	8.0%
Expected return on plan assets		
Beginning of year	**8.0%**	8.0%
End of year	**8.0%**	8.0%

The amounts for December 31, 2007 and 2006 are as follows:

	2007	2006
Present value of pension benefit obligation	**₱166,130,267**	₱149,986,791
Fair value of plan assets	**220,470,939**	193,412,779
Surplus	**54,340,672**	43,425,988
Experience adjustment on plan assets	**16,442,204**	28,748,800
Change in assumptions on plan liabilities	**–**	17,017,500
Experience adjustments on plan liabilities	**–**	373,600

21. Retained Earnings

Appropriation for Catastrophic Losses
A portion of the Company's retained earnings is appropriated for catastrophic losses, which is equivalent to 10% of net retained premiums for earthquake and other perils. This amounted to ₱28,928,246 and ₱29,904,595 as of December 31, 2007 and 2006, respectively.

Declaration of Cash Dividends
On July 30, 2007, the BOD approved the declaration of cash dividends amounting to ₱9,000,000 out of the unappropriated retained earnings of the Company as of December 31, 2006 in favor of stockholders of record as of July 31, 2007.

On June 15, 2006, the BOD approved the declaration of cash dividends amounting to ₱9,000,000 out of the unappropriated retained earnings of the Company as of December 31, 2005 in favor of stockholders of record as of June 30, 2006.

22. Net Earned Premiums

Net earned premiums on insurance contracts are as follows:

	2007	2006
Gross premiums written		
Direct	**₱797,347,375**	₱770,482,321
Assumed (Note 32)	**1,142,385,120**	1,040,694,487
	1,939,732,495	1,811,176,808
Gross change in provision for unearned premiums	**28,525,653**	91,744,530
Gross earned premiums (Note 16)	**1,968,258,148**	1,902,921,338
Reinsurers' share of gross premiums written		
Direct	**359,229,270**	485,464,932
Assumed (Note 32)	**887,715,488**	651,619,716
	1,246,944,758	1,137,084,648
Reinsurers' share of change in provision for unearned premiums	**39,561,283**	136,979,896
Reinsurers' share of gross earned premiums (Note 16)	**1,286,506,041**	1,274,064,544
	₱681,752,107	₱628,856,794

23. Investment Income

This account consists of:

	2007	2006
Rental income (Notes 28 and 32)	**₱40,635,633**	₱28,834,542
Interest income		
Cash and cash equivalents	**20,502,138**	24,047,708
AFS financial assets	**2,996,145**	3,110,361
Loans and receivables	**2,217,838**	1,730,941
Insurance receivables	**453,260**	480,075
Financial assets at FVPL	**243,314**	829,772
Short-term cash investments	**63,352**	12,677
Dividend income	**2,183,355**	323,875
	₱69,295,035	₱59,369,951

24. Fair Value Gains

This account consists of:

	2007	2006
Fair value gain on investment property	**₱37,689,600**	₱10,564,160
Fair value gain on financial assets at FVPL	**16,568,177**	23,913,588
	₱54,257,777	₱34,477,748

25. Realized Gains

This account consists of:

	2007	2006
Gain on sale of financial assets at FVPL	**₱29,091,007**	₱7,406,462
Gain on sale of AFS financial assets	**11,212,702**	6,456,037
	₱40,303,709	₱13,862,499

26. Net Insurance Contract Benefits and Claims Paid

Gross insurance contracts benefits and claims paid follows:

	2007	2006
Direct	**₱870,563,475**	₱306,697,965
Assumed	**92,037,379**	341,236,176
	₱962,600,854	₱647,934,141

Reinsurers' share of insurance contracts benefits and claims paid follows:

	2007	2006
Direct	**₱614,406,639**	₱182,223,999
Assumed	**21,438,766**	208,478,050
	₱635,845,405	₱390,702,049

27. General Expenses

This account consists of:

	2007	2006
Salaries, allowances and benefits (Notes 20 and 32)	**₱179,558,212**	₱178,303,905
Depreciation and amortization (Note 13)	**29,699,508**	23,578,956
Communication, light and water	**23,300,979**	23,457,927
Security, janitorial and contractual services	**10,418,430**	8,694,724
Office supplies, printing and stationery	**10,197,491**	9,960,257
Impairment loss on AFS financial assets	**9,004,244**	–
Professional fees	**8,974,713**	8,698,711
Interest expense on reserves	**6,732,387**	4,154,905
Entertainment, amusement and recreation	**6,651,826**	5,953,162

(Forward)

	2007	2006
Taxes and licenses	**₱6,351,418**	₱3,864,895
Transportation and travel	**3,734,121**	2,523,431
Repairs and maintenance	**2,302,034**	5,837,524
Advertising expenses	**256,867**	782,588
Miscellaneous expenses	**15,269,744**	14,348,130
	₱312,451,974	₱290,159,115

28. Operating Lease Commitments

The Company has entered into various leases for its office spaces. These leases have terms of one to five years. Some of these lease agreements include a clause of 2.5% to 5% escalation increase annually.

As of December 31, 2007 and 2006, the Company, as a lessor, has future minimum rentals under operating leases as follows:

	2007	2006
Within one year	**₱75,363,375**	₱19,760,664
After one year but not more than five years	**115,581,707**	38,033,749
	₱190,945,082	₱57,794,413

As of December 31, 2007 and 2006, the Company, as a lessee, has future minimum rentals under operating leases as follows:

	2007	2006
Within one year	**₱1,989,186**	₱2,787,570
After one year but not more than five years	**3,502,540**	4,200,786
	₱5,491,726	₱6,988,356

29. Income Taxes

The provision for income tax consists of:

	2007	2006
Current	**₱13,670,750**	₱2,717,752
Final	**1,153,859**	1,196,491
Deferred	**9,886,755**	16,443,603
	₱24,711,364	₱20,357,846

The current provision for income tax represents the regular corporate income tax in 2007 and MCIT in 2006.

The Company's net deferred income tax liabilities relate to the tax effects of the following:

	2007	2006
Deferred income tax assets:		
Excess of net provision for unearned premiums per books over tax basis	**₱201,968,107**	₱214,945,278
Deferred reinsurance commissions - net	**31,013,522**	26,083,856
Unamortized past service cost	**9,025,996**	10,154,246
Unrealized foreign currency exchange loss - net	**2,994,708**	–
Provision for claims IBNR	**2,233,805**	2,649,814
Nondeductible employee benefits	**2,014,955**	1,957,826
Allowance for doubtful accounts	**240,892**	240,892
Accrued rent expense	**750**	45,589
MCIT	–	1,881,116
	249,492,735	257,958,617
Deferred income tax liabilities:		
Deferred reinsurance premiums	**(178,181,099)**	(192,027,548)
Gain on fair value of investment properties	**(65,457,156)**	(49,618,420)
Deferred acquisition costs	**(43,127,177)**	(39,056,532)
Pension asset	**(4,589,400)**	(6,404,932)
Unrealized foreign currency exchange gain - net	–	(945,411)
	(291,354,832)	(288,052,843)
Deferred income tax liability through stockholders' equity:		
Revaluation of assets	**(127,172,418)**	(125,471,901)
	(₱169,034,515)	(₱155,566,127)

The following are the movements in MCIT:

	2007	2006
Balance at beginning of year	**₱1,881,116**	₱–
Additions	–	1,881,116
Application	**(1,881,116)**	–
Balance at end of year	**₱–**	₱1,881,116

The reconciliation of provision for income tax computed at statutory income tax rate to the provision for income tax reported in the statements of income follows:

	2007	2006
Provision for income tax at statutory income tax rate	**₱42,613,023**	₱28,211,719
Add (deduct) the tax effects of:		
Final tax paid	**1,153,859**	1,196,491
Nondeductible expenses	**640,501**	129,780
Dividend income	**(764,174)**	(113,356)
Rental income on PEZA registered property - net	**(1,794,936)**	–
Interest income already subjected to final tax	**(3,030,611)**	(4,214,913)
Realized gain	**(14,106,298)**	(4,851,875)
Provision for income tax	**₱24,711,364**	₱20,357,846

30. Contingencies

The Company has various contingent liabilities arising in the ordinary conduct of business, which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these claims, if any, will not have a material or adverse effect on the Company's operations.

Also, the Company may have certain obligations under the terms of bonds issued in favor of the Bureau of Customs but management believes that these obligations, if any, will not materially affect the financial statements.

31. Reconciliation of Net Income under PFRS to Statutory Net Income

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

	2007	2006
Net income per PFRS	**₱97,040,130**	₱60,247,067
Add (deduct):		
Deferred acquisition costs - net	**(2,454,346)**	15,084,593
Difference in change in provision for unearned premiums - net	**(2,483,650)**	(7,411,786)
Reversal of (provision for) catastrophic losses (Note 21)	**976,349**	(20,901,510)
Tax effects of reconciling items	**(1,728,299)**	(2,685,482)
Statutory net income	**₱91,350,184**	₱44,332,882

32. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Transactions with related parties are made at normal market prices. Outstanding balances as of year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2007 and 2006, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Significant related party transactions are summarized below:

a. In the ordinary course of business, the Company accepts and cedes insurance business under various reinsurance contracts with related parties. The amounts of cessions and acceptances, net of related commission income and expenses, follow:

	2007	2006
Premium cessions		
PIIC	**₱5,904,391**	₱3,008,936
PAIC	**26,864**	21,470
Premium acceptances		
PIIC	**7,435,724**	6,554,536
PAIC	**195,686**	190,449

The related outstanding insurance balances due from (to) related parties included in the following balance sheet accounts follow:

	2007	2006
PIIC		
Due from ceding company	**₱3,259,656**	₱3,209,905
Due to reinsurer	**(2,695,314)**	(2,629,893)
PAIC		
Due from ceding company	**198,496**	322,611
Due to reinsurer	**(54,711)**	(19,126)

b. The Company earns rentals from its buildings and condominium units under lease agreements with related parties. Rental income follows:

	2007	2006
Pioneer Life Inc. (PLI)	**₱8,470,184**	₱7,370,973
PIIC	**195,116**	303,530
	₱8,665,300	₱7,674,503

c. The Company has receivables from (payables to) its related parties for their acquisition of shares of stocks and advances for various expenses, which are included in loans and receivables and accounts payable accounts, as follows:

	2007	2006
Pioneer Life Holdings, Inc	**₱1,004,800**	₱1,004,800
PLI	**(28,342)**	419,217
PIIC	**463,367**	354,448
	₱1,439,825	₱1,778,465

d. Key management personnel of the Company include all personnel having a position of Assistant Vice President and above.

The summary of compensation of key management personnel is as follows:

	2007	2006
Salaries and other short-term employee benefits	**₱60,681,365**	₱57,631,801
Post-employment and other long-term benefits	**2,389,565**	5,687,600
	₱63,070,930	₱63,319,401

33. **Capital Management**

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the Risk-Based Capital (RBC) Model. The Company fully complied with the externally imposed capital requirements during the reported financial periods. These are the margin of solvency (MOS), fixed capitalization requirement and RBC requirements.

MOS

The Company shall maintain, at all times, a MOS equal to ₱500,000 or 10% of its net premiums written during the preceding year, whichever is higher. The MOS shall be the excess of the value of its admitted assets (as defined under the Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2007 and 2006, the minimum required MOS of the Company amounted to ₱69,278,774 and ₱67,409,216, respectively Provision for unearned premiums, determined in accordance with the Code for purposes of MOS, amounted to ₱276,854,784 and ₱268,302,804 as of December 31, 2007 and 2006, respectively. In the accompanying financial statements, the PFRS net provision for unearned premiums amounted to ₱344,817,665, computed as Provision for unearned premiums of ₱853,906,518 less deferred reinsurance premiums of ₱509,088,853 in 2007 (see Note 16).

As of December 31, 2007, the estimated amounts of non-admitted assets, as defined under the Code, which are included in the accompanying balance sheets, are as follows:

Reinsurance assets	₱509,088,853
Deferred acquisition costs	123,220,506
Property and equipment - net	44,734,144
Other assets	32,141,843
Loans and receivables	8,782,146
Insurance receivables	7,843,055
	₱725,810,547

In accordance with pertinent provisions of the Code, the Company is restricted from declaring dividends on its outstanding capital stock except from profits attested to be remaining on hand after retaining unimpaired its entire paid-up capital stock, the required MOS, unearned premiums and a sum sufficient to pay all net losses reported, or in the course of settlement, and all other liabilities.

The final amount of the MOS can be determined only after the accounts of the Company have been examined by the IC, particularly with respect to the determination of admitted and nonadmitted assets.

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

Fixed Capitalization Requirements

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

As of December 31, 2007, the required minimum statutory net worth and minimum paid-up capital for the Company is ₱150,000,000 and ₱75,000,000, respectively.

RBC Requirements

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

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

Consolidated Compliance Framework
IMC 10-2006 integrated the compliance standards for the fixed capitalization and RBC framework. Under this IMC, all insurers shall annually comply with the RBC ratio requirements.

The following table shows how the RBC ratio was determined by the Company based on its internal calculations:

	2007	2006
Net worth	**₱3,599,472,772**	₱3,279,853,797
RBC capital	**1,975,973,206**	2,071,066,018
RBC ratio	**182.16%**	158.37%

Subsequent to year 2006, the fixed capitalization requirements for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2007 which shall be based on the 2006 synopsis, the industry RBC ratio compliance rate is 80% and the RBC hurdle rate is 150%.

For the review year 2008 which shall be based on the 2007 synopsis, the Industry RBC Ratio Compliance Rate is 80% and the RBC Hurdle Rate is 175%.

Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

34. Management of Insurance and Financial Risk

Insurance Risk
The risk under insurance contract is the possibility of occurrence of insured event and uncertainty of the amount and timing of resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims and actual benefits paid are greater than originally estimated.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks can also be improved by careful selection and implementation of underwriting strategy and guidelines.

The majority of reinsurance business ceded is placed on a quota share basis with retention limits. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets.

Although the Company have reinsurance agreements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The business of the Company mainly comprises of short-term nonlife insurance contract.

The Company principally issued the following types of general insurance contracts: fire, engineering, marine, motor car, personal accident and miscellaneous casualty.

The table below sets out the concentration of the claims liabilities as of December 31, 2007 and 2006 by type of contract (see Note 16).

	Gross Claims Liabilities	**Reinsurers' Share of Claims Liabilities**	**Net 2007**	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net 2006
Fire	**₱271,361,316**	**₱252,276,290**	**₱19,085,026**	₱783,925,178	₱721,624,177	₱62,301,001
General accident	**198,304,397**	**63,100,645**	**135,203,752**	216,479,244	48,446,947	168,032,297
Marine hull	**157,070,245**	**146,902,259**	**10,167,986**	70,536,391	62,263,448	8,272,943
Motor car	**130,910,998**	**1,239,371**	**129,671,627**	147,915,372	9,299,368	138,616,004
Engineering	**53,217,362**	**41,962,526**	**11,254,836**	131,613,775	121,350,052	10,263,723
Others	**42,960,439**	**8,410,615**	**34,549,824**	45,605,249	6,128,123	39,477,126
	₱853,824,757	**₱513,891,706**	**₱339,933,051**	₱1,396,075,209	₱969,112,115	₱426,963,094

The geographical concentration of the Company's insurance contract liabilities is noted below. The disclosures are based on the countries where the business is written.

	Gross Claims Liabilities	**Reinsurers' Share of Claims Liabilities**	**Net 2007**	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net 2006
Philippines	**₱628,612,430**	**₱496,380,592**	**₱132,231,838**	₱1,095,161,474	₱943,065,338	₱152,096,136
Hong Kong	**225,212,327**	**17,511,114**	**207,701,213**	300,913,735	26,046,777	274,866,958
	₱853,824,757	**₱513,891,706**	**₱339,933,051**	₱1,396,075,209	₱969,112,115	₱426,963,094

Key Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include variations in interest, delays in settlement and changes in foreign currency rates.

Sensitivities
The insurance claims provision is sensitive to the above key assumptions. Because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the balance sheet dates.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and income before income tax. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	December 31, 2007			
	Change in Assumption	**Impact on Gross Insurance Contract Liabilities**	**Impact on Net Insurance Contract Liabilities**	**Impact on Income Before Income Tax**
Average claim costs	5% increase	₱68,962,641	₱25,516,177	(₱25,643,758)
Average number of claims	5% increase	74,594,960	27,600,135	(27,738,136)

	December 31, 2006			
	Change in Assumption	Impact on Gross insurance Contract Liabilities	Impact on Net insurance Contract Liabilities	Impact on Income Before Income Tax
Average claim costs	5% increase	₱49,086,406	₱15,707,650	(₱15,786,188)
Average number of claims	5% increase	68,944,907	22,062,370	(22,172,682)

Claims Development Table
The following tables reflect the cumulative incurred claims, including both claims notified and claims IBNR, for each successive accident year at each balance sheet date, together with cumulative payments to date.

The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

Accident year	2003 and prior years	2004	2005	2006	2007	Total
	Gross insurance contract liabilities for 2007					
Estimate of ultimate claims costs						
At the end of accident year	₱487,325,097	₱459,660,907	₱440,058,304	₱1,046,511,990	₱491,366,588	₱491,366,588
One year later	479,512,510	451,428,543	494,209,521	941,576,861	–	941,576,861
Two years later	468,954,395	438,023,490	479,534,098	–	–	479,534,098
Three years later	452,190,995	422,365,756	–	–	–	422,365,756
Four years later	523,053,451	–	–	–	–	523,053,451
Current estimate of cumulative claims	523,053,451	422,365,756	479,534,098	941,576,861	491,366,588	2,857,896,754
Cumulative payments to date	401,674,314	383,032,755	388,456,846	681,478,108	149,429,974	2,004,071,997
Liability recognized in the balance sheet	₱121,379,137	₱39,333,001	₱91,077,252	₱260,098,753	₱341,936,614	₱853,824,757

Accident year	2003 and prior years	2004	2005	2006	2007	Total
	Net insurance contract liabilities for 2007					
Estimate of ultimate claims costs						
At the end of accident year	₱165,690,533	₱151,688,099	₱140,818,657	₱389,495,672	₱191,632,969	₱191,632,969
One year later	163,034,253	148,971,419	158,147,047	350,440,429	–	350,440,429
Two years later	159,444,494	144,547,752	153,450,911	–	–	153,450,911
Three years later	153,744,939	139,380,700	–	–	–	139,380,700
Four years later	157,516,502	–	–	–	–	157,516,502
Current estimate of cumulative claims	157,516,502	139,380,700	153,450,911	350,440,429	191,632,969	992,421,511
Cumulative payments to date	109,836,381	124,896,260	111,612,961	302,170,849	3,972,009	652,488,460
Liability recognized in the balance sheet	₱47,680,121	₱14,484,440	₱41,837,950	₱48,269,580	₱187,660,960	₱339,933,051

Financial Risk

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

Credit Risk

Credit risk is a risk due to uncertainty in a counterparty's (also called an obligor) ability to meet its obligation.

Prior to extending credit, the Company manages its credit risk by assessing credit quality of its counterparty. Another method by which the company manages its credit risk exposure is through credit analysis, this is a process of assessing the credit quality of a counterparty, which is a process that entails judgment.

The credit policy group reviews all information about the counterparty which may include its balance sheets, statements of income and other market information. The nature of the obligation is likewise considered. Based upon this analysis, the credit analyst assigns the counterparty a credit rating to determine whether or not credit may be provided.

Credit risk limit is also used to manage credit exposure which specifies exposure credit limit for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

The following table provides information regarding the credit risk exposure of the Company as of December 31, 2007 by classifying financial assets according to credit ratings of the counterparties:

	Investment Grade	Below Investment Grade	Total
Cash and cash equivalents	₱552,067,203	₱–	₱552,067,203
Short-term cash investments	35,495,949	–	35,495,949
Insurance receivables			
Due from policyholders	368,489,221	5,078,743	373,567,964
Reinsurance recoverable on paid losses	87,478,902	4,629,493	92,108,395
Due from ceding companies	34,424,589	2,391,391	36,815,980
Funds held by ceding companies	1,517,042	–	1,517,042
Loans and receivables			
Chattel mortgage loan	21,686,261	–	21,686,261
Rental deposits	1,297,271	–	1,297,271
Other receivables	6,058,840	–	6,058,840
Government debt securities	25,102,663	–	25,102,663
	₱1,133,617,941	₱12,099,627	₱1,145,717,568

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

a. *Cash and cash equivalents, short-term cash investments*
These are classified as investment grade. These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b. *Insurance and other loans and receivables*
The Company uses a credit rating concept based on the borrowers overall credit worthiness. Investment grade is given to borrowers and counterparties having good standing in terms of credit and paying habits and their outstanding account balance does not exceed 30% of their total production. Below investment grade is given to borrowers and counterparties having low standing in terms of credit and paying habits and their outstanding balance exceeds 50% of their total production.

c. *Debt securities*
These are classified as investment grade. The government debt securities are issued by local government authority and are considered as risk-free debt securities

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risks may result from either the inability to sell financial assets quickly at their fair values; or the counterparty failing to repay a contractual obligation; or insurance liabilities falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

An institution may suffer from a liquidity problem when its credit rating falls. The Company is also exposed to liquidity risk if markets on which it depends on are subject to loss of liquidity.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company manages liquidity through a liquidity risk policy which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specify the sources of funding and the events that would trigger the plan; concentration of funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

The table below analyzes financial assets and liabilities of the Company as of December 31, 2007 and 2006 into their relevant maturity groups based on the remaining period at the balance sheet date to their contractual maturities or expected repayment dates.

	December 31, 2007			
	Up to a year	**1-3 years**	**3-5 years**	**Total**
Cash and cash equivalents	**₱552,067,203**	**₱–**	**₱–**	**₱552,067,203**
Short-term cash investments	**35,495,949**	**–**	**–**	**35,495,949**
Insurance receivables	**504,009,381**	**–**	**–**	**504,009,381**
Financial assets at FVPL	**200,988,517**	**–**	**–**	**200,988,517**
AFS financial assets	**–**	**22,471,144**	**2,803,286,683**	**2,825,757,827**
Loans and receivables	**12,286,111**	**11,824,310**	**4,931,951**	**29,042,372**
Accrued income	**3,339,319**	**–**	**–**	**3,339,319**
Total financial assets	**₱1,308,186,480**	**₱34,295,454**	**₱2,808,218,634**	**₱4,150,700,568**
Insurance payables	**₱747,622,767**	**₱–**	**₱–**	**₱747,622,767**
Trade and other payables	**130,548,547**	**654,000**	**3,818,000**	**135,020,547**
Notes payable	**130,000,000**	**–**	**–**	**130,000,000**
Total financial liabilities	**₱1,008,171,314**	**₱654,000**	**₱3,818,000**	**₱1,012,643,314**

	December 31, 2006			
	Up to a year	1-3 years	3-5 years	Total
Cash and cash equivalents	₱598,925,627	₱–	₱–	₱598,925,627
Short-term cash investments	305,600	–	–	305,600
Insurance receivables	554,746,385	–	–	554,746,385
Financial assets at FVPL	186,588,574	–	–	186,588,574
AFS financial assets	12,895,831	21,003,598	2,412,672,235	2,446,571,664
Loans and receivables	8,128,828	11,003,316	3,988,923	23,121,067
Accrued income	1,719,389	–	–	1,719,389
Total financial assets	₱1,363,310,234	₱32,006,914	₱2,416,661,158	₱3,811,978,306
Insurance payables	₱634,067,035	₱63,746,322	₱–	₱697,813,357
Trade and other payables	199,799,777	473,000	3,902,500	204,175,277
Notes payable	53,500,000	–	–	53,500,000
Total financial liabilities	₱887,366,812	₱64,219,322	₱3,902,500	₱955,488,634

It is unusual for a Company, primarily transacting insurance business, to predict the requirements of funding with absolute certainty since the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement.

The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate, based on statistical techniques and past experience.

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

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Company manages market risk by evenly distributing capital among investment instruments, sectors and geographical areas.

The Company structures levels of market risk it accepts through a sound market risk policy based on specific guidelines set by an Investment Committee. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation and portfolio limit structure. Moreover, control of relevant market risks an be addressed through compliance reporting of market risk exposures to the IC, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

a. *Currency Risk*

The Company maintains US dollar-denominated cash deposits and invests in US Dollar-denominated bonds to meet its dollar obligations from its dollar insurance products. The balance of the Company's US Dollar deposits, which are subject to currency exposure amounted to US$ 3.273 million as of December 31, 2007.

	December 31, 2007				
	Philippine Peso	**US Dollar**	**HK Dollar**	**Euro**	**Total**
Cash and cash equivalents	**₱62,193,646**	**₱416,060,327**	**₱73,813,230**	**₱–**	**₱552,067,203**
Short-term cash investments	**–**	**35,495,949**	**–**	**–**	**35,495,949**
Insurance receivables	**404,479,169**	**44,479,632**	**55,050,580**	**–**	**504,009,381**
Financial assets					
Financial assets at FVPL	**200,988,517**	**–**	**–**	**–**	**200,988,517**
AFS financial assets	**2,824,165,487**	**–**	**1,592,340**	**–**	**2,825,757,827**
Loans and receivables	**28,005,786**	**–**	**1,036,586**	**–**	**29,042,372**
Accrued income	**2,365,581**	**–**	**973,738**	**–**	**3,339,319**
Total assets	**₱3,522,198,186**	**₱496,035,908**	**₱132,466,474**	**₱–**	**₱4,150,700,568**
Insurance payables	**₱551,111,858**	**₱123,801,079**	**₱70,697,885**	**₱2,011,945**	**₱747,622,767**
Trade and other payables	**135,020,547**	**–**	**–**	**–**	**135,020,547**
Notes payable	**130,000,000**	**–**	**–**	**–**	**130,000,000**
Total liabilities	**₱816,132,405**	**₱123,801,079**	**₱70,697,885**	**₱2,011,945**	**₱1,012,643,314**

	December 31, 2006				
	Philippine Peso	US Dollar	HK Dollar	Euro	Total
Cash and cash equivalents	₱111,832,182	₱393,269,622	₱93,823,823	₱–	₱598,925,627
Short-term cash investments	305,600	–	–	–	305,600
Insurance receivables	356,079,870	142,725,196	55,538,515	402,804	554,746,385
Financial assets					
Financial assets at FVPL	186,588,574	–	–	–	186,588,574
AFS financial assets	2,441,052,467	4,962,879	556,318	–	2,446,571,664
Loans and receivables	22,522,874	–	598,193	–	23,121,067
Accrued income	1,385,586	–	333,803	–	1,719,389
Total assets	₱3,119,767,153	₱540,957,697	₱150,850,652	₱402,804	₱3,811,978,306
Insurance payables	₱407,375,733	₱234,923,900	₱54,921,058	₱592,666	₱697,813,357
Trade and other payables	196,691,732	–	7,483,545	–	204,175,277
Notes payable	53,500,000	–	–	–	53,500,000
Total liabilities	₱657,567,465	₱234,923,900	₱62,404,603	₱592,666	₱955,488,634

The following table shows the effect of the increase or decrease in applicable foreign exchange rate as follows:

Currency	Change in rate	Impact on income before tax	Impact on equity (net of tax)
US Dollar	+ 7%	₱3,576,207	₱2,324,534
HK Dollar	+ 7%	(276,667)	(179,833)
Euro	+ 7%	(140,836)	(91,543)
US Dollar	- 7%	(3,576,207)	(2,324,534)
HK Dollar	- 7%	276,667	179,833
Euro	- 7%	140,836	91,543

b. *Interest Rate Risk*

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

The following table sets out the Company's financial instruments exposed to interest rate risk by maturity:

	December 31, 2007				
	Within one Year	**1-2 years**	**2-3 years**	**3-4 years**	**Total**
Cash and cash equivalents	**₱442,596,791**	**₱–**	**₱–**	**₱–**	**₱442,596,791**
Short-term cash investments	**35,495,949**	–	–	–	**35,495,949**
Financial assets					
AFS financial assets	**9,005,991**	**8,050,921**	**4,169,173**	**1,039,178**	**22,265,263**
Loans and receivables	**4,930,000**	**8,554,628**	**5,759,083**	**2,442,550**	**21,686,261**
Total interest-bearing financial assets	**₱492,028,731**	**₱16,605,549**	**₱9,928,256**	**₱3,481,728**	**₱522,044,264**
Insurance payables	**₱128,891,108**	**₱–**	**₱–**	**₱–**	**₱128,891,108**
Notes payable	**130,000,000**	–	–	–	**130,000,000**
Total interest-bearing financial liabilities	**₱258,891,108**	**₱–**	**₱–**	**₱–**	**₱258,891,108**

	December 31, 2006				
	Within one Year	1-2 years	2-3 years	3-4 years	Total
Cash and cash equivalents	₱487,395,055	₱–	₱–	₱–	₱487,395,055
Short-term cash investments	305,600	–	–	–	305,600
Financial assets					
Financial assets at FVPL	4,962,879	–	–	–	4,962,879
AFS financial assets	12,895,831	9,854,585	7,023,199	3,091,472	32,865,087
Loans and receivables	3,750,072	6,793,515	5,176,363	1,818,988	17,538,938
Total interest-bearing financial assets	₱509,309,437	₱16,648,100	₱12,199,562	₱4,910,460	₱543,067,559
Insurance payables	₱119,376,343	₱–	₱–	₱–	₱119,376,343
Notes payable	53,500,000	–	–	–	53,500,000
Total interest-bearing financial liabilities	₱172,876,343	₱–	₱–	₱–	₱172,876,343

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's net income before income tax (due to changes in fair value of fixed rate financial assets) and equity (that reflects adjustments to profit before tax and revaluing fixed rate AFS financial assets).

Change in basis points	Change on income before tax	Impact on equity
+80	₱2,888,082	₱1,887,253
-80	(2,687,698)	(1,747,004)

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

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

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each country, sector and market.

The following table shows the equity impact of reasonably possible change of Philippine Stock Exchange index (PSEi) as of December 31, 2007:

	Change in equity prices	Impact on equity
PSEi	+15%	₱215,844,159
	-15%	(215,844,159)

35. **Financial Assets and Liabilities**

The table below presents a comparison by category of carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2007 and 2006.

	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Loans and receivables				
Cash and cash equivalents	**₱552,067,203**	**₱552,067,203**	₱598,925,627	₱598,925,627
Short-term cash investments	**35,495,949**	**35,495,949**	305,600	305,600
Insurance receivables				
Due from policy holders	**374,256,226**	**374,256,226**	437,250,740	437,250,740
Reinsurance recoverable on paid losses				
- treaty	**70,633,867**	**70,633,867**	60,221,632	60,221,632
- facultative	**21,474,528**	**21,474,528**	7,008,550	7,008,550
Due from ceding companies				
- facultative	**33,141,792**	**33,141,792**	44,507,355	44,507,355
- treaty	**2,985,926**	**2,985,926**	3,965,904	3,965,904
Funds held by ceding companies - treaty	**1,517,042**	**1,517,042**	1,792,204	1,792,204
Accrued income	**3,339,319**	**3,339,319**	1,719,389	1,719,389
Other loans and receivables	**29,042,372**	**29,042,372**	23,121,067	23,121,067
Financial assets at FVPL securities				
Listed equity securities - common shares	**200,988,517**	**200,988,517**	181,625,695	181,625,695
Government debt securities - foreign currency	–	–	4,962,879	4,962,879
AFS financial assets				
Traded securities				
Listed equity securities				
Common shares	**2,490,046,439**	**2,490,046,439**	2,120,269,496	2,120,269,496
Preferred shares	**88,725**	**88,725**	88,725	88,725
Government debt securities - local currency	**25,102,663**	**25,102,663**	35,353,443	35,353,443
Non-traded securities				
Unlisted equity securities				
Preferred Shares	**238,000,000**	**238,000,000**	238,000,000	238,000,000
Common shares	**72,520,000**	**72,520,000**	52,860,000	52,860,000
Total financial assets	**₱4,150,700,568**	**₱4,150,700,568**	₱3,811,978,306	₱3,811,978,306
Other financial liabilities				
Insurance payables				
Due to reinsurers	**₱618,731,659**	**₱618,731,659**	₱578,347,014	₱578,347,014
Premiums reserve withheld for treaty reinsurers	**128,891,108**	**128,891,108**	119,376,343	119,376,343
Trade and other payables	**135,020,547**	**135,020,547**	204,175,277	204,175,277
Notes payable	**130,000,000**	**130,000,000**	53,500,000	53,500,000
Total financial liabilities	**₱1,012,643,314**	**₱1,012,643,314**	₱955,398,634	₱955,398,634

Fair values of financial assets are estimated as follows:

Cash and cash equivalents - the fair value approximates the carrying amounts at initial recognition.

Debt securities - the fair values are generally based on quoted market prices.

Equity securities - the fair values are generally based on quoted market prices. For the unquoted equity securities, these are carried at cost less allowance for impairment losses due to unpredictable nature of future cash flows and the lack of other suitable methods of arriving at a reliable fair value.

Insurance receivables, loans and receivables, and accrued income - due to the short-term nature of the investments, the fair values approximate the carrying amounts.

Accrued income - due to the short-term nature of the investments, the fair values approximate the carrying amounts.

Insurance payables, trade and other payable, and notes payable - due to short-term nature of the transactions, the carrying amounts approximate fair values.