



PhilNaRe

National Reinsurance Corporation of the Philippines



Overcoming Challenges



2009 Annual Report

Our Philosophy

PhilNaRe believes in outstanding service to clients. Our strategies and way of doing business are firmly anchored on this belief. As we aim to be a locally dominant and regionally respected reinsurer, we continuously strive to extend the best measure of service to our clients who form the foundation of our business. We listen and respond to their needs, providing them with sound solutions to empower them in pursuing their goals.

Contents

Financial Highlights	1
Message to Stockholders	2
President's Report	4
Board of Directors	8
Officers	10
Statement of Management's	
Responsibility for Financial Statements	14
Report of Independent Auditors	15
Financial Statements	16
Notes to Financial Statements	19



Our Profile

National Reinsurance Corporation of the Philippines (the Company) was incorporated in 1978 pursuant to Presidential Decree No. 1270 as a domestic professional reinsurance firm to provide life and non-life reinsurance capacity to the Philippines and neighboring insurance markets. Under the same decree, the Company was designated as the vehicle for the Philippine insurance industry's participation in the Asian Reinsurance Corporation. The registered office address is located at 18th floor, Philippine AXA Life Centre, Sen. Gil Puyat Avenue corner Tindalo Street, Makati City. The Company is listed in the Philippine Stock Exchange with stock symbol NRCP.

Financial Highlights

	2009	2008	2007	2006	2005
Gross Premiums	3,538	4,494	4,317	3,782	2,590
Net Premiums	1,353	1,580	1,227	954	824
Underwriting Income (Loss)	32	(73)	391	187	75
Investment & Other Income	467	449	460	304	109
Net Income After Tax	103	94	609	275	99
Total Assets	11,096	12,272	11,518	9,116	4,458
Stockholders' Equity	6,155	5,950	6,677	3,831	2,131
Book Value Per Share	2.85	2.75	3.06	2.58	2.13
Return on Average Equity	1.70%	1.50%	11.60%	9.20%	6.10%
Expense Ratio	24.04%	13.40%	11.82%	22.98%	9.84%
Loss Ratio	70.20%	79.73%	51.82%	59.76%	66.97%
Combined Ratio	124.33%	117.64%	77.92%	102.29%	97.99%



Our ability to weather major calamities is a testament to our financial strength and reliability and our prudent risk management efforts.

Message to Stockholders

The year 2009 was undoubtedly one of the most challenging years for the Philippines in recent memory. Crippled not just by the lingering aftermath of the global financial turmoil but also by the destruction wrought by the twin typhoons "Ondoy" and "Pepeng," the country's output was at its lowest in over a decade with a mere 0.9% increment in its Gross Domestic Product for the year. Moreover, the economic crunch resulted in higher prices for basic commodities and fuel, particularly during the latter part of the year.

Nonetheless, the Philippines' stronger fundamentals, lower dependence on exports, a thriving business process outsourcing industry, and steady domestic consumption enabled the country to cope with the global recession better than many other nations in the region.

Notably, what kept the country's economy above water once more was the continued healthy influx of remittances from our five-million-strong overseas Filipino workers. These remittances continued to drive public consumption and investment in 2009 and, once again, effectively cushioned the impact of the continued global turmoil.

The Philippine insurance industry was not spared from the ill effects of the economic crunch, as 2009 invariably became the toughest year it has had to face. The unfavorable investment climate drastically affected the Variable Unit Linked (or VUL) products of the Life Insurance sector which had seen double-digit growth rates in the past 5 years or so, due to such products. On the other hand, typhoons "Ondoy" and "Pepeng," unleashed unprecedented levels of flooding that resulted in massive Property and Motor claims and losses to the Non-Life insurance industry. PhilNaRe's gross share in these losses ran close to P900 million. However, despite these, I am pleased to report that we managed to end the year with a net profit of P103 million. This is a significant 9.1% increase from the previous year's P94.4 million. Our ability to weather major calamities is a testament to our financial strength and reliability and our prudent risk management efforts.

I am pleased to report that the U.S.-based global credit rating organization, A. M. Best, has once again reaffirmed PhilNaRe's 2009 Financial Strength rating of B++. This positive rating reflects your Company's continued market presence and leadership in the Philippines, sufficient risk-adjusted capitalization, stable combined ratio and conservative investment portfolio.

As I look back on the past eight years of the company's operations, I can say that the great strides achieved by the company -- particularly in the aspects of business growth and development, capital enhancement, and financial strength and stability -- give me pride and satisfaction. During this eight-year period, its gross premiums grew by over 160% from P1.70 billion in 2002 to a high of P4.49 billion in 2008 and its net income after tax rose by 600% from P86 million in 2002 to a peak of P609 million in 2007. Paid-up capital of the company jumped four-fold from P421 million to P2.18 billion at year-end 2009, making it one of the highest-capitalized domestic insurance firms in the country. Its total assets likewise soared by

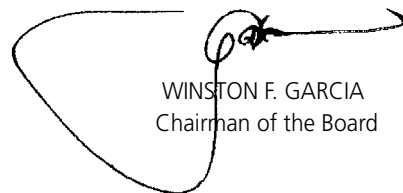
387% from P2.26 billion to just over P11 billion. On the other hand, its net worth of P908 million multiplied nearly seven times to reach P6.15 billion.

The period also witnessed accomplishments by PhilNaRe in other fields. Its successful merger with Universal Malayan Re in 2006 made it the sole domestic professional reinsurer. As an integral part of its four-pillar Capitalization Enhancement Program, the company went public in 2007 and became the first Filipino insurance entity to be listed in the Philippine Stock Exchange. As a publicly-listed organization, PhilNaRe strengthened its adherence to sound corporate governance and best practices. In a recent communication, the Institute of Corporate Directors advised us that the company's score in their Corporate Governance Scorecard for publicly-listed companies in the Philippines had increased to 85.6%, which is well above the average score of 73% for all respondents. This is the second consecutive year that PhilNaRe improved its corporate governance rating and landed in the First Quartile of all companies surveyed. It also embarked on enterprise risk management to identify and manage the risks to which the company is exposed. It conceptualized and implemented an integrated computerization project to achieve greater efficiency and productivity in its operations, more accurate and up-to-date management information and enhanced services to its clientele. I am pleased to inform you that this program went live in June of 2010.

The favorable performance of PhilNaRe in 2009, attained in the face of adverse economic, business and other conditions, should not however lull us into a false sense of complacency. It should instead spur us to exert even greater effort to fulfill our vision of making PhilNaRe a domestically dominant and regionally respected reinsurer. It should likewise challenge us to transform the company into a true bed-rock of professionalism and service excellence.

On a personal note, I wish to take this opportunity to express my gratitude to our clients, partners and stockholders for their unwavering loyalty and trust. I would also like to thank the members of the Board of Directors for their unfailing support as well as the management and staff for their commitment and dedication to and tenacity in the attainment of our objectives.

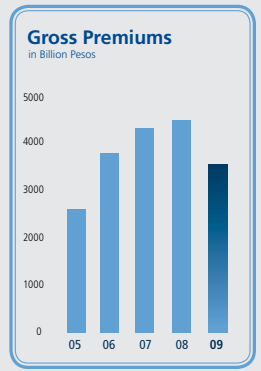
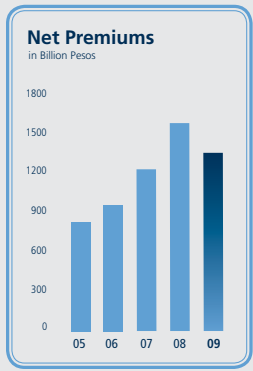
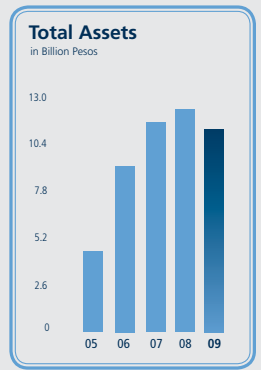
I am confident that all the initiatives and efforts undertaken by your Company will ensure that it remains dynamic, focused and responsive to ever-changing market conditions. I am likewise confident that it is adequately prepared and equipped to forge ahead and reach even greater heights of success and achievement in the coming years.



WINSTON F. GARCIA
Chairman of the Board



President's Report





The past year 2009 saw unfavourable local insurance market conditions and an unexpected magnitude of losses from the massive floods spawned by twin typhoons “Ondoy” and “Pepeng” put your Company to yet another test. However, I am pleased to report that the company was able to demonstrate once more its capability and resiliency in surmounting adversity.

UNDERWRITING OPERATIONS

Your Company's total gross premiums amounted to P3.54 billion, a reduction of 21% from the previous year. Net premiums retained also decreased by 14% to P1.35 billion. The decline in the company's premium volume was largely due to stricter underwriting measures it adopted in its Non-Life portfolio which resulted in the cancellation of loss-producing business, particularly in Marine Hull, and non-acceptance of risks which were inadequately-rated. On the other hand, despite challenging business conditions, your Company's Life operations still managed to post a growth rate of 4% and generate gross premiums of P531 million in 2009.

The healthy underwriting profits registered by our Life business and Casualty lines more than compensated for losses experienced by our Fire and Marine Hull portfolios. Consequently, your Company's over-all underwriting income swung back to a profit of P32 million after suffering a negative result in the previous year.

INVESTMENTS AND INCOME

Your Company's investment and other income increased by 4% to P467 million in 2009. Positive trends prevailed in its main investment markets of Philippine equities and bonds. With the company continuing to invest in high-quality fixed-income government securities and corporate bonds, Interest income recorded a 2% increase to reach P382 million. Other income, comprised largely of dividend and trading income, achieved a gain of P108 million compared to a loss in the previous year. This turn-

around cushioned the impact of an unrealized foreign exchange loss of P24 million. As in previous years, the over-all stability of our investments is an offshoot of your Company's conservative investment policy, emphasizing safety of principal.

While total resources dipped by 9% to P11 billion in 2009, I am pleased to report that your Company's Stockholders' Equity went up by over 3% to P6.15 billion, among the highest in the domestic insurance market.

Despite the continued unfavourable business climate, tough insurance market conditions and unprecedented weather-related claims, your Company registered a consolidated net income of P103 million, a 9% improvement from the previous year's level. The company rode on its effective risk management policies, financial strength and stable investment portfolio to achieve this positive outcome.

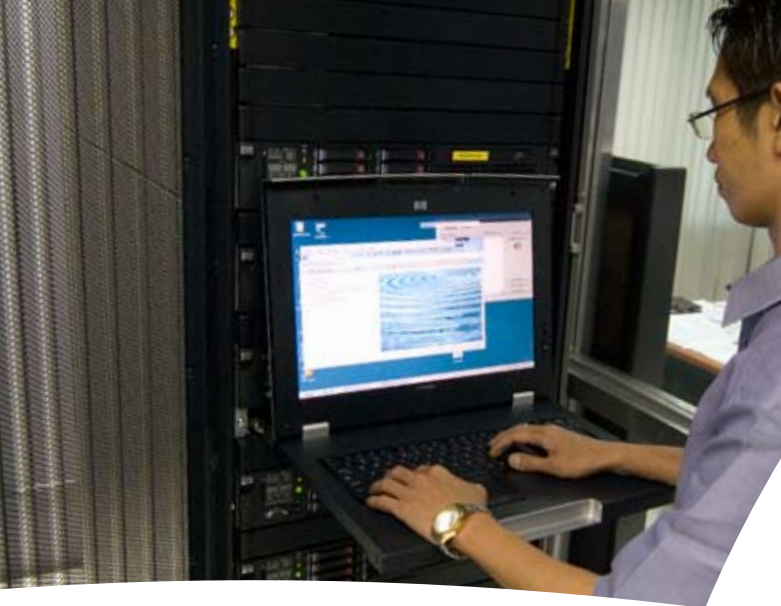
PROJECTS AND ACTIVITIES

In 2009, your Company went full-blast with its integrated computerization program with the aim of improving its internal systems, enhancing efficiency and productivity as well as elevating standards of service to its clients. We believe that in order for your company to be a dominant force in the Philippine insurance industry, we must utilize the best reinsurance technology available.

We continued to give high importance to our ongoing Enterprise Risk Management (ERM) program. With the help of outside consultants, we formulated a Risk Management Plan which is a detailed description, among others, of the company's responses to risks, allocation of resources, assignment of risk owners and identification of indicators.

As part of our manpower development thrust, we resumed our program of sending our officers and staff to various overseas training programs and seminars in addition to those available locally.

We also organized a seminar on Aviation, in cooperation with our overseas reinsurance partners, for local insurance executives. This is in line with our desire to contribute to the growth and development of the Philippine insurance industry. On the other hand, to promote camaraderie and healthy competition among our valued clients, we held our 15th Annual Invitational Golf Tournament.



CORPORATE GOVERNANCE

As a publicly-listed firm, your Company's commitment to the principles and best practices of good governance remains steadfast. This is amply reflected by the results of the 2009 survey of the Institute of Corporate Directors on the corporate governance scorecard of publicly-listed companies in the Philippines, undertaken in partnership with the PSE and SEC. I am pleased to report that your Company garnered a score of 85.6% which was higher than the national average of 73%. It thus earned the distinction of being in the First Quartile rank of all companies surveyed for the second consecutive year.

FINANCIAL STRENGTH RATING/OUTLOOK

Citing once again your Company's strong capitalization, conservative investment portfolio and established market presence in the Philippines, New Jersey-based rating agency A. M. Best reaffirmed the company's B++ financial rating and stable outlook for 2009.

OUTLOOK FOR 2010 AND BEYOND

Even as the general prognosis points to a continuing but fragile global economic recovery in 2010, recent developments in the Philippines augur well and provide good reasons for a renewed sense of confidence and optimism in the insurance industry.

Among these developments and ranking in importance are the generally successful automated Philippine elections, a first in the country's history, the clear electoral mandate received by President-elect Benigno Aquino Jr. and the expected peaceful transfer of power from the current to the new government. These are seen by many as positive factors in further stimulating and invigorating both domestic and overseas investor confidence which should translate to an improved over-all business climate in the country.

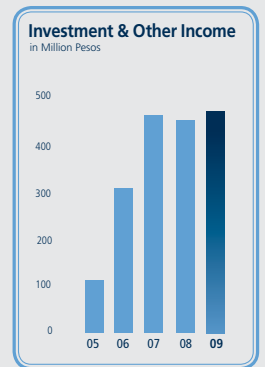
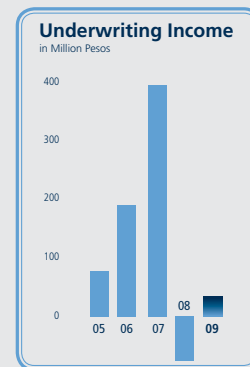
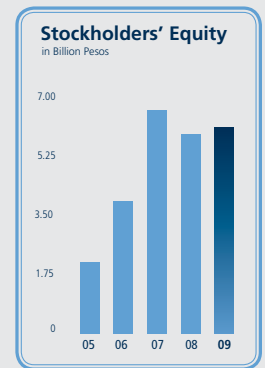
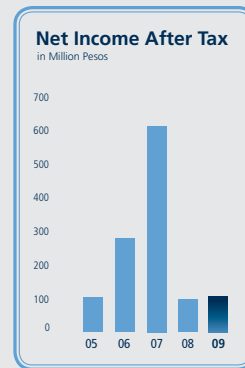
The devastating impact of twin typhoons "Ondoy" and "Pepeng" has not only necessitated corrective pricing adjustments in the Non-life market but has also heightened public awareness about Natural Perils and the necessity to secure adequate coverage for such perils. We are gratified to note that our past efforts to achieve adequate premium rate levels for Natural Perils even at the cost of losing inadequately-rated accounts have borne fruit.

With the support and guidance of the Insurance Commission and under the impetus and leadership of the Philippine Insurers and Reinsurers Association (PIRA), the major property underwriters in the market have signed an undertaking to comply faithfully with all the circulars of the Insurance Commission regarding the writing of Natural Perils, particularly minimum/tariff rates and maximum commissions on such perils. The implementation of this agreement also includes guidelines on the reporting and handling of and sanctions for violations. It is expected that other companies in the market will likewise support and join this laudable endeavour.

The signing of Republic Act 10001 reducing taxes on Life insurance has led industry officials to predict that this sector's growth rate in 2010 can possibly reach a high of 30%, reversing the decline that it experienced in the last two years. A new law, Republic Act 9505 entitled "Personal Equity Retirement Account" (PERA), which seeks to promote capital market development and savings mobilization subject to tax incentive, is likewise expected to boost and create new opportunities for the insurance industry.

Internally, we will continue to enforce strict underwriting measures to ensure a better selection of risks and adequate premium rates on the business we accept. While we cannot prevent calamities, we have ensured that protective measures are in place to shield your Company against the spate of claims and losses that such calamities bring. We will likewise pursue the initiatives we have undertaken to put reinsurance transactions in order. This will allow us to monitor and track our commitments more accurately and ensure that we receive proper and timely compensation for such commitments. All these steps should further improve your Company's underwriting performance.

We realize that we need to complement the company's financial strength with marked improvements in the capability of our manpower resources and the quality of our internal business infrastructure. Hence, we are intensifying the local and overseas



guidance and direction, to our shareholders, clients and business partners for their continued loyalty and support and to our management and staff for their unwavering dedication and hard work. Indeed, your Company's success, particularly during times of adversity, can only be possible with the collective contributions and cooperation of all our shareholders and stakeholders.

Roberto B. Crisol
President and CEO

training of our executives and staff to make them more effective in carrying out their duties and responsibilities. Furthermore, we expect our integrated computerization program which went on-stream in June 2010 to achieve higher levels of efficiency and productivity in our operations and to generate more up-to-date and more reliable information for management decision-making. We also expect the program to enhance our service capability to our clients in support of our business objectives.

Your Company's underwriting and financial policies are subject to a continuing and dynamic process of evaluation and enhancement in keeping with evolving business and market needs and conditions. We strive to maintain a healthy balance among various considerations - revenue growth, risk acceptance and aversion, underwriting and investment prudence and stakeholders' interest. For these reasons, while 2009 proved to be another difficult and trying period, your Company nonetheless was able to produce positive results from its operations.

In closing, I would like to express my sincerest gratitude and appreciation to our Board of Directors for their valuable

- 1. Winston F. Garcia**
Chairman of the Board
- 2. Helen Y. Dee ***
Vice Chairman of the Board
- 3. Roberto B. Crisol**
President and CEO
- 4. Alfonso L. Salcedo, Jr.**
Director and Treasurer
- 5. Romeo L. Bernardo**
Director
- 6. Primitivo C. Cal**
Director
- 7. Noel M. Juan**
Director
- 8. Jose Teodoro K. Limcaoco**
Director
- 9. Consuelo D. Manansala ****
Director
- 10. Rizalino S. Navarro**
Director
- 11. Yvonne S. Yuchengco**
Director

* replaced Atty. Adelita A. Vergel De Dios
effective January 21, 2010

** replaced Ms. Josefina L. Valera
effective March 4, 2010

Board of Directors





Advisers:
Adelita A. Vergel De Dios
Rafael C. Gallaga
Joli Co Wu

Corporate Secretary
Noel A. Laman

Assistant Corporate Secretary
Ma. Pilar M. Pilares-Gutierrez

External Auditors
Punongbayan & Araullo

External Legal Counsel
Castillo Laman Tan Pantaleon
& San Jose Law Offices

Officers



OFFICE OF THE PRESIDENT

Roberto B. Crisol, President; Armando S. Malabanan, EVP; Regina S. Ramos, VP



LIFE

Raymundo T. Bautista, SVP; Augusto C. Cipriano, VP
Rosario V. Engracia, AVP; Francisco B. Kabigting, AVP



FINANCE

John E. Huang, SVP
Marissa P. Aldeano, VP
Amerfil V. Basco, VP
Honorata S. Lucos, AVP
Vicente B. Villarama, VP



CORPORATE SERVICES

Edgar B. Villaseñor, VP; Rene O. de Guzman, VP;
Rosario P. Ventura, AVP; Normando S. Aguilar, AVP



NON-LIFE

Rodolfo M. Nayve, SVP
Roberto S. de Leon II, VP
Ma. Lourdes M. Santos, VP
Eileen D. Clemente, VP
Rowena S. Pangilinan, AVP
Ronaldo C. Dizon, AVP
Editha B. Geronimo, AVP



Statement of Management's Responsibility for Financial Statements

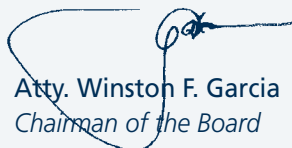
The management of National Reinsurance Corporation of the Philippines is responsible for all information and representations contained in the financial statements for the years ended December 31, 2009, 2008 and 2007. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:



Atty. Winston F. Garcia
Chairman of the Board



Roberto B. Crisol
President & CEO



Alfonso L. Salcedo, Jr.
Treasurer

Report of Independent Auditors

The Board of Directors and the Stockholders
National Reinsurance Corporation of the Philippines
18th Floor, Philippine AXA Life Center
Sen. Gil J. Puyat Avenue corner Tindalo Street
Makati City

We have audited the accompanying financial statements of National Reinsurance Corporation of the Philippines, which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2009, and notes to financial statements comprising of 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 misstatement, 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 misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Reinsurance Corporation of the Philippines as of December 31, 2009 and 2008, and of its financial performance and its cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO



By: Leonardo D. Cuaresma, Jr.
Partner
CPA Reg. No. 0058647
TIN No. 109-227-862
PTR No. 2087612, January 4, 2010, Makati City
Partner's SEC Accreditation No. 0007-AR-2
BIR AN 08-002511-7-2008 (Nov. 25, 2008 to 2011)

Firm BOA/PRC Cert. of Reg. No. 0002
Firm SEC Accreditation No. 0002-FR2

April 21, 2010

Statements of Financial Position

DECEMBER 31, 2009 AND 2008
(Amounts in Philippine Pesos)

	<u>Notes</u>		<u>2009</u>		<u>2008</u>
<u>ASSETS</u>					
CASH AND CASH EQUIVALENTS	5	P	683,659,159	P	1,149,558,287
REINSURANCE BALANCES RECEIVABLE - Net	6		2,874,413,754		4,353,404,620
AVAILABLE-FOR-SALE FINANCIAL ASSETS	7		6,048,736,164		5,284,585,889
LOANS AND RECEIVABLES	8		253,464,887		195,738,148
PROPERTY AND EQUIPMENT - Net	9		130,034,934		86,546,717
DEFERRED ACQUISITION COSTS			165,674,472		200,656,735
DEFERRED REINSURANCE PREMIUMS	10		771,688,546		827,251,651
DEFERRED INPUT VALUE-ADDED TAX			54,956,162		64,455,903
OTHER ASSETS	11		<u>113,234,480</u>		<u>109,444,086</u>
TOTAL ASSETS		P	<u>11,095,862,558</u>	P	<u>12,271,642,036</u>
<u>LIABILITIES AND EQUITY</u>					
REINSURANCE BALANCES PAYABLE	6	P	3,587,881,996	P	4,705,635,537
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	12		34,425,812		45,463,886
RESERVE FOR UNEARNED REINSURANCE PREMIUMS	10		1,179,075,555		1,353,110,258
DEFERRED REINSURANCE COMMISSIONS			97,541,765		108,339,395
DEFERRED OUTPUT VALUE-ADDED TAX			<u>42,315,325</u>		<u>109,378,539</u>
TOTAL LIABILITIES			<u>4,941,240,453</u>		<u>6,321,927,615</u>
EQUITY	18		<u>6,154,622,105</u>		<u>5,949,714,421</u>
TOTAL LIABILITIES AND EQUITY		P	<u>11,095,862,558</u>	P	<u>12,271,642,036</u>

See Notes to Financial Statements.

Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2009	2008	2007
REINSURANCE PREMIUM INCOME				
Reinsurance premiums - net of returns	19	P 3,538,375,311	P 4,493,504,395	P 4,316,582,453
Retroceded premiums	19	<u>2,185,981,710</u>	<u>2,913,546,920</u>	<u>3,089,227,573</u>
Reinsurance premiums retained		1,352,393,601	1,579,957,475	1,227,354,880
Decrease (increase) in reserve for unearned reinsurance premiums	10	<u>118,471,598</u>	<u>(28,617,613)</u>	<u>(52,098,520)</u>
		<u>1,470,865,199</u>	<u>1,551,339,862</u>	<u>1,175,256,360</u>
UNDERWRITING DEDUCTIONS				
Share in claims and losses	14	1,032,572,094	1,236,916,617	609,018,943
Commissions - net	14	<u>406,973,774</u>	<u>387,202,440</u>	<u>175,325,371</u>
		<u>1,439,545,868</u>	<u>1,624,119,057</u>	<u>784,344,314</u>
NET UNDERWRITING INCOME (LOSS)		31,319,331	(72,779,195)	390,912,046
INVESTMENT AND OTHER INCOME - Net	13	<u>466,656,885</u>	<u>449,195,685</u>	<u>460,100,356</u>
PROFIT AFTER INVESTMENT AND OTHER INCOME		497,976,216	376,416,490	851,012,402
GENERAL AND ADMINISTRATIVE EXPENSES	15	<u>325,072,508</u>	<u>211,654,086</u>	<u>145,042,933</u>
PROFIT BEFORE TAX		172,903,708	164,762,404	705,969,469
TAX EXPENSE	17	<u>69,864,351</u>	<u>70,318,983</u>	<u>96,556,113</u>
NET PROFIT		<u>P 103,039,357</u>	<u>P 94,443,421</u>	<u>P 609,413,356</u>
Earnings Per Share	22	<u>P 0.05</u>	<u>P 0.04</u>	<u>P 0.31</u>

See Notes to Financial Statements.

Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
NET PROFIT		P 103,039,357	P 94,443,421	P 609,413,356
OTHER COMPREHENSIVE INCOME (LOSS)				
Fair value gains (losses) - net of taxes	7	<u>188,255,431</u>	<u>(345,325,081)</u>	<u>(202,931,460)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)		<u>P 291,294,788</u>	<u>(P 250,881,660)</u>	<u>P 406,481,896</u>

See Notes to Financial Statements.

Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Philippine Pesos)

Notes	Capital Stock (Note 18)		Additional Paid-in Capital	Treasury Shares - At Cost (Note 18)	Revaluation Reserves	Retained Earnings		Total Equity
	No. of Shares	Amount				Appropriated (Note 18)	Unappropriated	
Balance as of January 1, 2009	2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 40,081,811)	(P 169,811,573)	P 221,334,777	P 737,099,970	P5,949,714,421
Cash Dividends	-	-	-	-	-	(86,387,104)	(86,387,104)	(86,387,104)
Appropriated for contingencies	-	-	-	-	-	10,303,936	(10,303,936)	-
Total comprehensive income for the year	-	-	-	-	188,255,431	-	103,039,357	291,294,788
Total equity as of December 31, 2009	2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 40,081,811)	P 18,443,858	P 231,638,713	P 743,448,287	P6,154,622,105
Balance as of January 1, 2008	2,181,954,600	P 2,181,954,600	P 3,019,218,458	P -	P 175,513,508	P 211,890,435	P 1,088,491,811	P6,677,068,812
Shares reacquired	18	-	-	(40,081,811)	-	-	-	(40,081,811)
Cash dividends	18	-	-	-	-	(436,390,920)	(436,390,920)	(436,390,920)
Appropriated for contingencies	18	-	-	-	-	9,444,342	(9,444,342)	-
Total comprehensive income (loss) for the year	-	-	-	-	(345,325,081)	-	94,443,421	(250,881,660)
Total equity as of December 31, 2008	2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 40,081,811)	(P 169,811,573)	P 221,334,777	P 737,099,970	P5,949,714,421
Balance as of January 1, 2007	15,885,583	P 1,588,558,300	P 1,274,936,540	(P 254,639,635)	P 378,444,968	P 150,949,099	P 692,756,613	P3,831,005,885
Declaration of 1:100 stock split	18	(15,885,583)	-	-	-	-	-	-
Cancelled shares	-	-	-	-	-	-	-	-
Reissued shares	1,588,558,300	-	-	-	-	-	-	-
Shares issued	1,18	5,93,396,300	1,744,281,918	358,070,611	-	-	-	2,695,748,829
Shares reacquired	18	-	-	(103,430,976)	-	-	-	(103,430,976)
Cash dividends	18	-	-	-	-	(152,736,822)	(152,736,822)	(152,736,822)
Appropriated for contingencies	18	-	-	-	-	60,941,336	(60,941,336)	-
Total comprehensive income (loss) for the year	-	-	-	-	(202,931,460)	-	609,413,356	406,481,896
Total equity as of December 31, 2007	2,181,954,600	P 2,181,954,600	P 3,019,218,458	-	P 175,513,508	P 211,890,435	P 1,088,491,811	P6,677,068,812

See Notes to Financial Statements.

Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	P	172,903,708	P 164,762,404	P 705,969,469
Adjustments for:				
Interest income	13	(382,426,619)	(375,001,848)	(340,942,749)
Impairment losses	6	128,325,407	32,795,155	-
Increase (decrease) in reserve for unearned reinsurance premiums	10	(118,471,598)	28,617,613	52,098,520
Dividend income		(29,972,727)	(29,972,727)	(17,161,730)
Unrealized foreign currency loss (gain)		25,264,356	(71,027,129)	81,036,843
Depreciation	9, 11	10,765,008	11,136,989	10,157,716
Operating income (loss) before working capital changes		(193,612,465)	(238,689,543)	491,158,069
Decrease (increase) in reinsurance balances receivable		1,330,812,182	(1,471,828,939)	86,859,634
Decrease in loans and receivables		66,534,371	7,249,688	39,359,982
Decrease (increase) in deferred acquisition costs		24,184,633	(8,773,478)	(29,479,995)
Decrease in deferred input value-added tax (VAT)		9,499,741	17,098,397	132,628,679
Decrease (increase) in other assets		(6,380,376)	10,849,240	(2,223,396)
Increase (decrease) in reinsurance balances payable		(1,219,616,664)	2,027,975,256	(148,456,533)
Increase (decrease) in accounts payable and accrued expenses		(11,038,073)	2,573,765	(16,291,673)
Decrease in deferred output Value Added Tax		(67,063,214)	(46,947,910)	(168,575,443)
Cash generated from (used in) operations		(66,679,865)	299,506,476	384,979,324
Cash paid for income taxes		(69,499,923)	(73,065,054)	(68,947,956)
Net Cash From (Used in) Operating Activities		(136,179,788)	226,441,422	316,031,368
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal/maturities of:				
Available-for-sale financial assets	7	3,747,134,327	1,333,353,912	200,227,592
Property and equipment	9	-	355,500	306,648
Interest received		373,618,987	371,547,597	250,580,727
Dividends received		29,972,727	24,429,144	17,161,730
Disposals (aquisitions) of:				
Available-for-sale financial assets	7	(4,327,663,119)	(1,675,082,737)	(2,279,359,092)
Property and equipment	9	(52,027,672)	(4,381,113)	(9,474,793)
Investment property	11	-	-	12,068,103
Net Cash From (Used in) Investing Activities		(228,964,750)	50,222,303	(1,808,489,085)
CASH FLOWS FROM FINANCING ACTIVITIES				
Acquisitions/payments of:				
Dividends	18	(86,387,104)	(436,390,920)	(152,736,822)
Treasury shares	18	-	(40,081,811)	(103,430,976)
Proceeds from issuance/reissuance of:				
Common shares		-	-	2,337,678,218
Treasury shares		-	-	358,070,611
Net Cash From (Used in) Financing Activities		(86,387,104)	(476,472,731)	2,439,581,031
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS				
		(14,367,486)	2,454,642	(47,045,007)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		(465,899,128)	(197,354,364)	900,078,307
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		1,149,558,287	1,346,912,651	446,834,344
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	P	683,659,159	P 1,149,558,287	P 1,346,912,651

See Notes to Financial Statements.

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 General

National Reinsurance Corporation of the Philippines (the Company) was incorporated in 1978 by virtue of Presidential Decree No. 1270, as a domestic professional reinsurance firm to provide life and non-life reinsurance capacity to the Philippines and neighboring insurance markets. Under the Decree, it became the vehicle for the Philippine insurance industry's participation in the Asian Reinsurance Corporation (Asian Re), a multi-government-initiated reinsurance entity, based in Bangkok, Thailand, which was established to foster regional cooperation among insurance companies doing business in Asia.

The Company's registered office, which is also its principal place of business, is located at 18th Floor, Philippine AXA Life Center, Sen. Gil J. Puyat Avenue corner Tindalo Street, Makati City.

The financial statements of the Company for the year ended December 31, 2009 (including the comparatives for the years ended December 31, 2008 and 2007) were authorized for issue by the Company's Board of Directors (BOD) on April 21, 2010.

1.2 Initial Public Offering

On February 20, 2007, the BOD authorized the issuance and sale of unsubscribed and unissued authorized capital stock equivalent to 489,493,700 shares of common stock and the reissuance of 148,506,300 shares of common stock which were then in the treasury of the Company. These shares of stock were actually issued through an initial public offering (IPO) after the Company's application for registration and listing was approved by the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE). The underwriters were also given the option to purchase additional shares equivalent to 103,902,600 shares from the unissued capital stock at the offering price range of P3.36 to P4.62. The underwriters exercised the option to purchase all 103,902,600 shares at P3.80 per share. The IPO increased the balance of Additional Paid-in Capital by P1,744,281,918 after underwriting and other IPO-related expenses.

On March 20, 2007, the Company filed the Registration Statement and Listing Application with the SEC and the PSE, for the IPO of its common shares. The IPO was held on April 27, 2007 whereby the Company was able to raise net IPO proceeds of P2.8 billion for the 741,902,600 shares issued at P3.80 per share. The 741,902,600 issued shares consist of new shares totalling 593,396,300 shares and those previously held in treasury totalling 148,506,300 shares with a total cost of P358,070,611.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Company presents the statement of comprehensive income in two statements: a statement of income and a statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Company applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

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

In 2009, the Company adopted the following new revisions and amendments to PFRS that are relevant to the Company effective for financial statements for the annual period beginning on or after January 1, 2009.

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures
Various Standards	:	2008 Annual Improvements to PFRS

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Philippine Pesos)

Discussed below are the effects on the financial statements of these amended accounting standards.

- (i) PAS 1 (Revised 2007), *Presentation of Financial Statements*, requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate statement of income and a statement of comprehensive income. Income and expense recognized in profit or loss is presented in the statement of income in the same way as the previous version of PAS 1. The statement of comprehensive income includes the profit or loss for the period and each component of income and expense recognized outside of profit or loss or the "non-owner changes in equity," which are no longer allowed to be presented in the statements of changes in equity, classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). A statement showing an entity's financial position at the beginning of the previous period is also required when the entity retrospectively applies an accounting policy or makes a retrospective restatement, or when it reclassifies items in the financial statements.

The Company's adoption of PAS 1 (Revised 2007) did not result in any material adjustments in its financial statements as the change in accounting policy only affects presentation aspects. The Company has elected to present the statement of comprehensive income in two statements: statement of income and statement of comprehensive income (see Note 2.1).

- (ii) PFRS 7 (Amendment), *Financial Instruments: Disclosures*. The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of financial position. These fair value measurements are categorized into a three-level fair value hierarchy, which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows. The change in accounting policy only results in additional disclosures (see Note 3.2).
- (iii) 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to International Financial Reporting Standards 2008* which became effective for the annual periods beginning on or after January 1, 2009. Among those improvements the following are the amendments relevant to the Company:

- PAS 36 (Amendment), *Impairment of Assets*. Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The amendment has no significant effect on the 2009 financial statements as there were no impairment losses on assets recognized using discounted cash flows approach.
- PAS 40 (Amendment), *Investment Property*. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value. The adoption had no material effect on its 2009 financial statements as the Company has no property under construction or development for future use as investment property.

(b) *Effective in 2009 but not Relevant to the Company*

The following amendments, interpretations and improvements to published standards are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to the Company's financial statements:

PAS 23 (Revised 2007)	:	Borrowing Cost
PAS 32 and PAS 1 (Amendments)	:	Financial Instruments: Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
PFRS 1 and PAS 27 (Amendments)	:	PFRS 1 – First Time Adoption PFRS and PAS 27 – Consolidated and Separate Financial Statements
PFRS 2 (Amendment)	:	Share-based Payment
PFRS 8	:	Operating Segments
Philippine Interpretations International Financial Reporting Interpretations Committee (IFRIC) 13	:	Customer Loyalty Programmes
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation

(c) *Effective Subsequent to 2009*

There are new revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2009. Among those, management initially determined the following, which the Company will apply in accordance with their transitional provisions, to be relevant to its financial statements:

- (i) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective on or before January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepaays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19 surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its financial statements because it does not usually make substantial advance contribution to its retirement fund.

(ii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective on or after July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;
- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on its financial statements as it does not normally extinguish financial liabilities through equity swap.

(iii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *2009 Improvements to Philippine Financial Reporting Standards*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009 or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Company’s financial statements:

- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not have a material impact on the financial statements since only recognized assets are classified by the Company as cash flow from investing activities.
- PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. Management has initially determined that this will not have material impact on the financial statements since the Company does not enter into a lease agreement that includes both land and building.
- PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The Amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment prospectively but expects to have no significant effects in its 2010 financial statements.

2.3 Financial Assets

Financial assets, which are recognized when the Company becomes a party to the contractual terms of the financial instrument, include cash and cash equivalents and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs related to it are recognized in statement of income.

The categories of financial instruments that are relevant to the Company are more fully described below.

(a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables.

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

The Company’s financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Reinsurance Balances Receivable and Loans and Receivables in the statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(b) Available-for-sale Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Philippine Pesos)

All available-for-sale financial assets are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from revaluation reserve to statement of income and presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in statement of income only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses relating to financial assets that are recognized in statement of income are presented as part of Investment and Other Income in the statement of income, except for impairment losses which are presented as part of General and Administrative Expenses.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash of the underlying net asset base of the investment.

Non-compounding interest, dividend income and other cash flows resulting from holding the financial assets are recognized in statement of income when earned, regardless of how the related carrying amount of financial assets is measured.

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

2.4 Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

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

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

Condominium units	40 years
Office improvements	10 years
Office furnitures and equipment	5 years
Transportation equipment	5 years
EDP equipment	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.14).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 statement of income in the year the item is derecognized.

2.5 Investment Property

Investment property (included as part of Other Assets), is measured initially at acquisition cost. Subsequently, investment property is stated at cost less accumulated depreciation and any impairment in value. Depreciation is computed on the straight-line basis over the estimated useful life of 30 years.

The cost of the investment property comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense when incurred.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in statement of income in the year of retirement or disposal.

2.6 Financial Liabilities

Financial liabilities include Reinsurance Balances Payable and Accounts Payable and Accrued Expenses.

Financial liabilities are recognized when the Company becomes a party to the contractual terms of the agreement. All interest related charges are recognized as an expense in the statement of income.

Reinsurance Balances Payable and Accounts Payable and Accrued Expenses are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

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

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.7 Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using pretax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.8 Revenue Recognition

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

- (a) *Reinsurance premiums* – Revenue is recognized for revenue premiums from short duration insurance contracts over the period of the contracts using the 24th method except for revenues from marine cargo risks wherein the premiums written during the first ten months of the current year and the last two months of the preceding year are recognized as revenue in the current year. The “24th method” assumes that the average date of issue of all policies written during any one month is the middle of that month. Accordingly, 1/24th of the net premiums are considered earned in the month the reinsurance contracts are issued and 2/24th for every month thereafter (or 1/24th for every 15-day period after the issue month). The portion of the reinsurance premiums retained that relate to the unexpired periods of the policies at the end of the reporting period are accounted for as Reserve for Unearned Reinsurance Premiums and presented in the liability section of the statement of financial position. The net changes in the account Reserve for Unearned Reinsurance Premiums between statement of financial position dates are recognized in statement of income.
- (b) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).
- (c) *Dividends* – Revenue is recognized when the Company's right to receive the payment is established.

2.9 Claim Costs Recognition

Share in claims and losses relating to insurance contracts are accrued when insured events occur.

The share in claims (including those for incurred but not reported) are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverables. Recoveries on settled claims are recognized in statement of income in the period the recoveries are made while estimated recoveries are presented as part of Reinsurance Balances Receivable in the statement of financial position.

2.10 Acquisition Costs

Costs that vary with and are primarily related to the acquisition of new and renewal reinsurance contracts such as commissions, certain underwriting costs and inspection fees, are deferred and charged to expense in proportion to reinsurance premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as Deferred Acquisition Costs.

2.11 Commissions on Retrocessions

Commissions on retrocessions are deferred and are subjected to the same amortization method as the related acquisition costs. Deferred portion are presented in the statement of financial position as Deferred Reinsurance Commissions.

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

2.12 Leases

The Company accounts for its leases as follows:

(a) Company as Lessee

Leases, which do not transfer to the Company substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognized as expense in the statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) Company as Lessor

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in the statement of income on a straight-line basis over the lease term.

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.13 Foreign Currency Transactions

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income as part of profit or loss from operations.

2.14 Impairment of Non-financial Assets

The Company's property and equipment and investment property are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal evaluation of discounted cash flow.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.15 Employee Benefits

(a) Post-employment Benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution plan.

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to statement of income over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in statement of income, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in the statements of financial position.

(b) *Compensated Absences*

Short-term employee benefits are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in current pension and other employee obligations at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.16 Income Taxes

Tax expense recognized in statement of income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

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

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

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in statement of income. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

2.17 Equity

Capital stock represents the nominal value of shares that have been issued or reissued.

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

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

Revaluation reserves comprise of gains and losses due to the revaluation of available-for-sale financial assets.

Retained earnings include all current and prior period results as disclosed in profit or loss in the statement of income.

2.18 Earnings Per Share

Earnings per share is determined by dividing net income by the weighted average number of shares issued, adjusted for stock dividends and stock split, less shares held in treasury during the period.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. 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 reasonable under circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) *Impairment of Available-for-sale Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. Based on the recent evaluation of information and circumstances affecting the Company's available-for-sale financial assets, management concluded that no assets are impaired as of December 31, 2009 and 2008. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

(b) *Distinction Between Investment Property and Owner-occupied Property*

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

Some properties comprise a portion that is held to earn rental and another portion that is held for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Company accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment.

(c) *Operating and Finance Leases*

The Company has entered into various lease agreements as either a lessor or a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgement will result in either overstatement or understatement of assets and liabilities.

(d) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.7 and relevant disclosures are presented in Note 23.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) *Useful Lives of Property and Equipment and Investment Property*

The Company estimates the useful lives of property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment and investment property are analyzed in Notes 9 and 11, respectively. Based on management's assessment as at December 31, 2009, there is no change in estimated useful lives of property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by the changes in factors mentioned above.

(b) *Allowance for Impairment of Reinsurance Balances Receivable and Loans and Receivables*

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

Impairment losses on reinsurance balances receivable amounted to P128,325,407 and P32,795,155 (nil in 2007) in 2009 and 2008, respectively. The allowance for impairment on reinsurance balances receivable amounted to P267,920,033 and P139,594,626 as of December 31, 2009 and 2008, respectively (see Note 6).

(c) *Valuation of Financial Assets Other than Loans and Receivables*

The Company carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

Fair value gains (net of taxes) on available-for-sale financial assets amounted to P188,255,431 in 2009. Fair value losses (net of taxes) on available-for-sale financial assets amounted to P345,325,081 and P202,931,460 in 2008 and 2007, respectively (see Note 7).

(d) *Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of non-financial assets is discussed in Note 2.14. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses were recognized on non-financial assets in 2009, 2008 and 2007.

(e) *Fair Value of Financial Assets and Liabilities*

The Company adopted the amendments to PFRS 7, *Improving Disclosures about Financial Instruments*, effective January 1, 2009. These amendments require the Company to present certain information about financial instruments measured at fair value in the statement of financial position. In the first year of application, comparative information need not be presented for the disclosures required by the amendment.

Accordingly, the disclosure for the fair value hierarchy is only presented for December 31, 2009.

In accordance with this amendment, financial assets and liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e. as prices or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

As of December 31, 2009, the available-for-sale financial assets are the only financial assets (nil for liabilities) measured at fair value in the statement of financial position. The fair values of available-for-sale financial assets amounted to P5,971,774,190 and P76,961,974 determined using Level 1 and Level 3 of the fair value hierarchy, respectively.

(f) *Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at each reporting period and reduces the carrying amount to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. As of December 31, 2009, no deferred tax assets were recognized by the Company since management believes that there will not be able to utilize the amount prior to its expiration (see Note 17).

(g) *Retirement and Other Benefits*

The determination of the Company's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 16.2 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods.

The net retirement benefit obligation amounted to P22,016,459 and P28,897,908 as of December 31, 2009 and 2008, respectively, while the fair value of plan assets as of those dates amounted to P56,468,323 and P32,808,081, respectively (see Note 16.2).

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's main risk mitigation strategies generally include adoption of underwriting and investment policies and guidelines, annual budget provision and internal audit checks and assessments.

The Company's risk management, in close cooperation with the respective duly constituted Board Committees on Underwriting, Investment and Budget, Risk Management and Audit, focuses on implementing risk control measures addressing underwriting acceptances, claims control, securing short- to-medium term cash flows by minimizing exposure to financial markets while managing long-term financial investments to generate lasting returns.

The most significant financial risks to which the Company may be exposed to are described below.

4.1 Reinsurance Risk

As a professional reinsurer, the Company underwrites reinsurance business from life and non-life insurance companies and brokers, with the objective of realizing profits and being a dependable partner to its clients. To attain this objective, it is essential for the Company to have a balanced portfolio, wherein there is diversification of risks. For non-life business, each risk that is accepted or treaty arrangement entered into is carefully evaluated based on the Company's underwriting guidelines, such as maximum limits per type of risk, existing exposures, premium adequacy, financial condition of the client and the like.

The Company's retention on the larger risks that the Company accepts, or possible accumulation of the same in a given area, including losses that could arise from catastrophes such as earthquakes and typhoons, is protected by an excess of loss coverage to limit the Company's exposure up to a specified amount. Significant risk concentrations may result in potential losses not only in certain areas but also within a particular type of business such as property, motor car and casualty. The Company therefore always monitors and controls its exposures in various lines.

The Company's reinsurance and retroceded premiums per line of risk for the years ended are shown below.

		Reinsurance Premiums		Retroceded Premiums		Retention
December 31, 2009						
Casualty	P	1,651,954,464	P	1,211,491,631	P	440,462,833
Fire		971,167,470		578,473,322		392,694,148
Marine and aviation		384,081,749		168,934,964		215,146,785
Life		531,171,628		227,081,793		304,089,835
	P	<u>3,538,375,311</u>	P	<u>2,185,981,710</u>	P	<u>1,352,393,601</u>

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Philippine Pesos)

		Reinsurance Premiums		Retroceded Premiums		Retention
December 31, 2008						
Casualty	P	2,254,804,278	P	1,823,281,187	P	431,523,091
Fire		944,039,580		593,294,587		350,744,993
Marine and aviation		784,010,071		262,731,015		521,279,056
Life		510,650,466		234,240,131		276,410,335
	P	<u>4,493,504,395</u>	P	<u>2,913,546,920</u>	P	<u>1,579,957,475</u>
December 31, 2007						
Fire	P	1,387,159,988	P	1,034,189,507	P	352,970,481
Marine and aviation		439,163,859		197,208,733		241,955,126
Casualty		2,042,102,760		1,660,547,509		381,555,251
Life		448,155,846		197,281,824		250,874,022
	P	<u>4,316,582,453</u>	P	<u>3,089,227,573</u>	P	<u>1,227,354,880</u>

Retrocession or reinsuring what the Company had earlier accepted as reinsurance is resorted to enable the Company to write risk whose amounts are in excess of its retention, and to reduce the volatility of its results and protect its capital. In doing so, the Company also sets minimum requirements and standards in determining with whom it wishes to reinsure with, foremost of which is the rating of the particular security by international rating agencies such as Standard and Poor's and A.M. Best.

On the other hand, life business, which constitutes about 15% of gross premium written, follows a schedule of retention per life or group life as determined by the actuarial department. Any amount in excess of this is retroceded or reinsured with reputable foreign reinsurers whose ratings from the same rating agencies are above par and meet the Company's standards.

The Company has implemented an Enterprise Risk Management Process, which is an organization-wide approach to the identification, assessment, communication and management of enterprise risk, defined as issues which may prevent the Company from achieving its strategic objectives. This process has been fully integrated into the Company's operations and is overseen by a Risk Management Council, comprised of members of senior management. At the same time, a Risk Management Committee has been established by the Company's Board of Directors to assist the Board in the development and oversight of the Company's risk management program. The Risk Management Council is required to provide the Board with a comprehensive enterprise risk assessment at least annually and to establish plans to ensure that risks are being managed and monitored effectively. The Risk Management Committee's main task is to oversee that risk management is an integral part of the planning and operations of the Company in order to meet corporate goals and objectives.

Also, the Company continues to practice prudent underwriting with the objective of attaining underwriting profits. In evaluating a claim, the Company follows set guidelines such as setting up of reserves upon its receipt of a preliminary loss advice, and requiring the cedant-claimant to submit other necessary documents such as the adjuster's report, affidavits and proof of loss, among others.

The Company's outstanding claims and the retrocessionaires' share in such claims per line of risk are shown below.

		Outstanding Claims		Retrocessionaires' Share in Claims		Net
December 31, 2009						
Fire	P	1,371,288,710	P	848,145,301	P	523,143,409
Marine and aviation		782,941,752		282,565,060		500,376,692
Casualty		837,043,779		615,604,278		221,439,501
Life		56,823,130		13,914,915		42,908,215
	P	<u>3,048,097,371</u>	P	<u>1,760,229,554</u>	P	<u>1,287,867,817</u>
December 31, 2008						
Marine and aviation	P	1,214,932,522	P	708,955,720	P	505,976,802
Casualty		1,142,332,966		946,099,332		196,233,634
Fire		1,112,747,503		735,371,100		377,376,403
Life		46,223,606		12,873,227		33,350,379
	P	<u>3,516,236,597</u>	P	<u>2,403,299,379</u>	P	<u>1,112,937,218</u>
December 31, 2007						
Fire	P	396,152,818	P	269,838,565	P	126,314,253
Marine and aviation		438,462,914		136,536,567		301,926,347
Casualty		743,433,231		613,561,645		129,871,586
Life		50,264,817		16,522,560		33,742,257
	P	<u>1,628,313,780</u>	P	<u>1,036,459,337</u>	P	<u>591,854,443</u>

The Company ensures that all valid claims are settled promptly and judiciously, as part of its commitment to its clients.

Most of the risks reinsured by the Company are situated in the domestic market with only a small portion coming from overseas.

4.2 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below:

	Notes	2009	2008
Cash and cash equivalents		P 683,624,091	P 1,149,523,219
Reinsurance balances receivable - net	6	2,874,413,754	4,353,404,620
Available-for sale financial assets	7	5,272,721,479	4,775,833,605
Loans and receivables	8	253,464,887	195,738,148
		<u>P 9,084,224,211</u>	<u>P 10,474,499,592</u>

The Company continuously monitors defaults of ceding companies and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on ceding companies and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

The Company's management considers that all the above financial assets that are not impaired or past due for each reporting period are of good credit quality.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. For the determination of credit risk, cash and cash equivalents do not include cash on hand amounting to P35,068 as of December 31, 2009 and 2008.

Financial assets amounting to P99,852,205 and P686,668,863 as of December 31, 2009 and 2008, respectively, are past due but not impaired.

4.3 Liquidity Risk

The Company manages its cash and investment position to meet its obligations arising from reinsurance agreements and other financial liabilities. Currently, the Company's excess cash is invested in available-for-sale financial assets.

As of December 31, 2009, the Company's obligations arising from reinsurance agreements and other financial liabilities have contractual maturities which are presented below.

	Current	Non-current
Reinsurance balances payable	P 2,928,815,618	P 659,066,378
Accounts payable and accrued expenses	9,198,755	-
	<u>P 2,938,014,373</u>	<u>P 659,066,378</u>

This compares to the maturity of the Company's financial liabilities as of December 31, 2008 as follows:

	Current	Non-current
Reinsurance balances payable	P 3,841,246,415	P 864,389,122
Accounts payable and accrued expenses	14,699,460	-
	<u>P 3,855,945,875</u>	<u>P 864,389,122</u>

4.4 Market Risk

The market risks to which the Company may be exposed are as follows:

(a) Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the dollar-denominated investments, receivables and payables. The Company recognized net foreign exchange losses of P24,337,582 in 2009, net foreign exchange gains of P115,273,826 in 2008 and net foreign exchange losses of P179,320,898 in 2007 (see Note 13).

Exposures to currency exchange rates arise from the Company's foreign currency reinsurance transactions, which are primarily denominated in US dollars, Indonesian rupiah, South Korean won, Pakistan rupee, Japanese yen, Thailand baht, China yuan, Nepalese rupee, Euro, Indian rupee, Malaysian ringgit, Myanmar kyat, Singaporean dollars, Hong Kong dollars, Sri Lankan rupee, British pound, Australian dollars and Swiss franc. The Company also holds US dollar-denominated cash and cash equivalents and investment in equity securities.

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Philippine Pesos)

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign-currency denominated financial assets and liabilities, translated into Philippine pesos at the closing rate are as follows:

	2009		2008	
	US Dollar	Other Currencies	US Dollar	Other Currencies
Financial assets	P 1,327,682,834	P 154,883,306	P 1,529,236,678	P 180,140,323
Financial liabilities	(448,921,801)	(11,274,471)	(729,842,749)	(22,751,723)
Total net exposure	<u>P 878,761,033</u>	<u>P 143,608,835</u>	<u>P 799,393,929</u>	<u>P 157,388,600</u>

The following table illustrates the sensitivity of the Company's profit before tax with respect to changes on Philippine peso against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	2009			2008		
	Reasonably possible change in rate	Effect in profit before tax	Effect in equity	Reasonably possible change in rate	Effect in profit before tax	Effect in equity
PhP - US Dollars	20.36%	(P 178,951,223)	(P 125,265,856)	26.13%	(P 201,134,707)	(P 130,737,560)
PhP - Indonesian Rupiah	33.86%	(15,038,404)	(10,526,883)	46.19%	(15,590,914)	(10,134,094)
PhP - Euro	31.23%	(9,751,136)	(6,825,795)	41.68%	(5,454,359)	(3,545,333)
PhP - North Korean Won	47.83%	(8,623,630)	(6,036,541)	-	-	-
PhP - Thailand Baht	17.33%	(3,271,786)	(2,290,250)	51.58%	(13,785,763)	(8,960,746)
PhP - Malaysian Ringgit	13.15%	(1,722,289)	(1,205,602)	23.39%	(1,562,330)	(1,015,515)
PhP - Singaporean Dollars	15.42%	(948,966)	(664,276)	25.71%	(1,086,978)	(706,536)
PhP - South Korean Won	47.83%	(918,441)	(642,909)	71.88%	(5,696,305)	(3,702,598)
PhP - Indian Rupee	23.40%	(529,838)	(370,887)	39.79%	(665,062)	(432,290)
PhP - Pakistan Rupee	20.37%	(156,951)	(109,866)	34.15%	(701,509)	(455,981)
PhP - Hong Kong Dollars	19.49%	(100,093)	(70,065)	26.10%	(124,564)	(80,966)
PhP - New Zealand Dollars	53.41%	64,237	(44,966)	-	-	-
PhP - Japanese Yen	44.67%	(34,688)	(24,282)	49.16%	(24,792,536)	(16,115,148)
PhP - Canada Dollar	33.40%	(12,601)	(8,821)	-	-	-
PhP - British Pound	39.22%	1,323	(926)	43.16%	(12,054)	(7,835)
PhP - Australian Dollar	39.81%	(59)	(41)	54.91%	(111)	(72)
PhP - China Yuan	-	-	-	45.50%	(2,278,914)	(1,481,294)
PhP - Myanmar Kyat	-	-	-	28.13%	(1,485,741)	(965,732)
PhP - Nepalese Rupee	-	-	-	33.98%	(319,671)	(2,007,786)
PhP - Sri Lankan Rupee	-	-	-	29.03%	(18,364)	(11936)
Total		<u>(P 220,125,665)</u>	<u>(P 154,087,966)</u>		<u>(P 274,709,882)</u>	<u>(P 180,361,422)</u>

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's currency risk.

(b) Market Price Risk

The Company's investments are regulated under the pertinent provisions of Presidential Decree No. 1460 (as amended), otherwise known as The Insurance Code of the Philippines. The Insurance Code generally requires all insurance companies to obtain prior approval of the Insurance Commission (IC) for any and all of their investments. It further requires companies to submit to the IC a monthly report on all investments made during the previous month. The IC reviews the investments and may require the immediate sale or disposal of investments deemed too risky.

In the area of equity investments, Section 200 of the Insurance Code further provides, among other things, that insurance companies may only invest in common stock of Philippine corporations which have a prior three-year dividend payment record. Moreover, the same section limits exposure to any one institution to 10% of an insurer's total admitted assets.

Beyond the provisions of the Insurance Code, the Company, through its Investment Committee, has established additional guidelines to control the risks inherent in equity investments. The Company's own investment policy requires that the Company invest only in shares of common stock of companies that are listed on the PSE. Furthermore, these listed companies must have profitable business operations and market capitalizations which are on a scale that would qualify them as blue chips.

The Investment Committee regularly reviews and approves a list of publicly traded stocks authorized for investments on the basis of the foregoing considerations. Furthermore, the Investment Committee seeks to avoid unwarranted concentration of funds in a single asset class by regularly monitoring and limiting the proportion of equity investments to the Company's total investment portfolio. As of December 31, 2009 and 2008 investments in listed equities amounted to 9% and 6%, respectively, of the Company's total investment portfolio.

The observed volatility rates of the fair values of the Company's investments held at fair value and their impact on the Company's profit and other comprehensive income as of December 31, 2009 and 2008 are summarized as follows:

	2009		2008	
	Observed Volatility Rates	Effect in Other Comprehensive Income	Observed Volatility Rates	Effect in Other Comprehensive Income
Government bonds	3.01%	P 93,126,342	7.17%	P 227,177,263
Equity securities listed in the Philippines:				
Common shares	22.84%	118,654,696	35.15%	138,365,343
Preferred shares	1.82%	1,808,541	1.84%	1,829,990
Mutual funds	6.90%	5,702,525	16.5%	8,420,360
Corporate bonds	0.01%	109,115	0.89%	29,216
		<u>P 219,401,219</u>		<u>P 375,822,172</u>

(c) *Interest Rate Risk*

The Company is exposed to interest rate risk because of its fixed income investments which amounted to approximately 85% and 92% of the Company's total investment portfolio as of December 31, 2009 and 2008, respectively. The Company attempts to limit interest rate risk by establishing limits on the duration and average maturity of its fixed income portfolio. As a general rule, the Company does not attempt to speculate (i.e., profit from short term changes or volatility in market conditions). Investments in fixed income securities are made primarily to ensure adequate cash flow from investments to meet cash requirements, both anticipated and unanticipated. Consequently, the investment portfolio is structured so that instruments mature concurrently with cash needs. Moreover, the investments in fixed income securities are limited to those with active secondary or resale markets to allow for transparent valuation and immediate liquidation in the event of market turmoil.

5. CASH AND CASH EQUIVALENTS

This account consists of:

	2009	2008
Time deposits	P 619,827,323	P 998,613,936
Cash on hand and in banks	63,831,836	150,944,351
	<u>P 683,659,159</u>	<u>P 1,149,558,287</u>

Time deposits were made for varying periods of between one day and one month depending on the liquidity requirements of the Company. Peso time deposits earn annual interest rates ranging from 1.5% to 4.5% in 2009 and 3.5% to 7.5% in 2008 while dollar time deposits earn interest rates with rates ranging from 0.05% to 1.5% in 2009 and 1.75% to 4.5% in 2008. Cash in banks generally earn interest at rates based on daily bank deposit rates. The Cash and Cash Equivalents account includes foreign currency denominated cash of US\$6,300,936 (P292,086,185) as of December 31, 2009 and US\$5,147,515 (P244,429,766) as of December 31, 2008.

6. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

	2009	2008
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	P 1,760,229,554	P 2,403,299,379
Due from ceding companies	912,656,154	1,668,805,661
Reinsurance recoverable on paid losses	349,601,459	308,841,014
Funds held by ceding companies	119,846,620	112,053,192
	3,142,333,787	4,492,999,246
Allowance for impairment	(267,920,033)	(139,594,626)
	<u>P 2,874,413,754</u>	<u>P 4,353,404,620</u>

(Forward)

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Philippine Pesos)

	2009	2008
Reinsurance balances payable:		
Claims payable	P 3,048,097,371	P 3,516,236,597
Due to retrocessionaires	468,815,645	1,105,595,785
Funds held for retrocessionaires	70,968,980	83,803,155
	<u>P 3,587,881,996</u>	<u>P 4,705,635,537</u>

All of the Company's reinsurance balances receivable have been reviewed for indicators of impairment. Certain reinsurance balances receivable were found to be impaired and provisions have been recorded accordingly.

A reconciliation of the allowance for impairment at beginning and end of 2009 and 2008 is shown below:

	Note	2009	2008
Balance at beginning of year		P 139,594,626	P 106,799,471
Impairment losses during the year	15	128,325,407	32,795,155
Balance at end of year		<u>P 267,920,033</u>	<u>P 139,594,626</u>

The fair values of these short-term financial assets and liabilities are not individually determined as the carrying amount is a reasonable approximation of fair value.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The amounts in the statements of financial position comprise of the following financial assets:

	2009	2008
Bonds	P 5,187,509,694	P 4,720,548,819
Equity securities	699,052,711	424,397,280
Investment in Asian Re shares	76,961,974	84,355,004
Various funds	85,211,785	55,284,786
	<u>P 6,048,736,164</u>	<u>P 5,284,585,889</u>

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting P159,000,000 and P105,996,443 in 2009 and 2008, respectively, which are on deposit with the IC as security for the benefit of policyholders and creditors of the Company in accordance with the provisions of the Insurance Code of the Philippines.

Bonds earn interest at annual rates ranging from 5.00% to 15.00% in 2009 and 2008. Interest income recognized are presented as part of Investment and Other Income in the statements of income (see Note 13).

The following presents the fair values of investments in bonds by contractual maturity dates:

	2009	2008
Due within one year	P 167,282,197	P 440,727,669
Due after one year through five years	2,855,765,781	3,280,497,907
Due after five years through ten years	2,126,627,642	762,610,423
Due after ten years	37,834,074	236,712,820
	<u>P 5,187,509,694</u>	<u>P 4,720,548,819</u>

The balance of equity securities classified as available-for-sale financial assets consists of:

	2009	2008
Cost:		
Quoted in the stock exchange	P 530,478,088	P 454,979,337
Not quoted in the stock exchange	194,543,557	135,608,314
	<u>725,021,645</u>	<u>590,587,651</u>
Fair value losses:		
Quoted in the stock exchange	(8,420,047)	(159,205,907)
Not quoted in the stock exchange	(17,548,887)	(6,984,464)
	<u>(25,968,934)</u>	<u>(166,190,371)</u>
	<u>P 699,052,711</u>	<u>P 424,397,280</u>

Equity securities mainly consist of investments in companies listed in the PSE.

The shares of Asian Re have been issued in the name of the Government of the Philippines (GoP) as the Philippine government's participation in the joint undertaking of Asian countries to organize a reinsurance company that will service the needs of the region. The GoP assigned such shares, including any interest accruing thereon, to the Company. The GoP designated the Company as the national institution authorized to subscribe and pay for the said shares of stock. The shares of stock of Asian Re, while not for sale, were classified under this category since these do not qualify for inclusion in any other categories of financial assets. These shares of stock are measured at fair values and the changes in the fair values are recognized under Other Comprehensive Income (Loss) in the statement of comprehensive income. The fair value of investment in Asian Re shares amounted to P76,961,974 and P84,355,004, as of December 31, 2009 and 2008, respectively.

The reconciliation of the carrying amounts of available-for-sale financial assets are as follows:

	<u>2009</u>		<u>2008</u>	
Balance at beginning of year	P	5,284,585,889	P	5,217,539,378
Additions		4,327,663,119		1,675,082,737
Disposals	(	3,747,134,327)	(	1,333,353,912)
Fair value gains (losses) - net		188,255,431	(	346,460,349)
Foreign currency gains (losses)	(	4,633,948)		71,778,035
Balance at end of year	P	6,048,736,164	P	5,284,585,889

Changes in fair value of available-for-sale financial assets, net of taxes, recognized as Fair Value Gains (Losses) account under Other Comprehensive Income (Loss) in the statements of comprehensive income amounted to P188,255,431 fair value gain in 2009, and P345,325,081, and P202,931,460 fair value losses in 2008 and 2007, respectively.

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in active market. For the equity securities without market values, book value per share, based on the audited financial statements of the investee company, were used as an alternative. For some investments where fair value is not reliably determinable either through reference of similar instruments or valuation techniques, these are carried at cost.

8. LOANS AND RECEIVABLES

This account includes the following:

	<u>2009</u>		<u>2008</u>	
Current:				
Accrued interest receivable	P	102,623,905	P	93,816,273
Others		11,508,018		10,134,828
		<u>114,131,923</u>		<u>103,951,101</u>
Non-current:				
Term loans		130,000,000		80,000,000
Loans receivable		9,332,964		11,787,047
		<u>139,332,964</u>		<u>91,787,047</u>
	P	253,464,887	P	195,738,148

Loans and receivables are usually due within one to twenty years. These financial assets are subject to credit risk exposure. However, the Company does not identify specific concentrations of credit risk with regard to loans and receivables since most of the loans and receivables are secured by collaterals.

Term loans pertain to the Company's participation in syndicated loans of other Companies. These loans are unsecured interest-bearing loans with a term of 2 to 5 years. The annual effective interest rate on these loans ranges from 6.38% to 7.40% in 2009, 6.38% to 6.90% in 2008 and 6.38% to 9.95% in 2007.

Loans receivable includes mortgage, housing and car loans which have annual effective interest rates of 11% to 13%, 10% to 22%, and 7% to 13%, respectively, both in 2009 and 2008, and 14% to 28%, 10% to 22%, and 7% to 13%, respectively, in 2007.

The fair value of these financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value since the interest rates are approximately the same as the market interest rate.

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation at the beginning and end of 2009 and 2008 are shown below.

	<u>Condominium Units</u>	<u>Office Improvements</u>	<u>Office Furnitures and Equipment</u>	<u>Transportation Equipment</u>	<u>EDP Equipment</u>	<u>Total</u>
December 31, 2009						
Cost	P 104,227,734	P 14,284,102	P 9,590,930	P 13,300,379	P 67,630,761	P 209,033,906
Accumulated depreciation and amortization	(37,032,968)	(12,003,316)	(9,081,416)	(7,417,098)	(13,464,174)	(78,998,972)
Net carrying amount	<u>P 67,194,766</u>	<u>P 2,280,786</u>	<u>P 509,514</u>	<u>P 5,883,281</u>	<u>P 54,166,587</u>	<u>P 130,034,934</u>
December 31, 2008						
Cost	P 104,227,734	P 14,284,102	P 9,524,897	P 12,921,777	P 16,151,264	P 157,109,774
Accumulated depreciation and amortization	(34,005,147)	(11,009,512)	(8,822,876)	(4,691,013)	(12,034,509)	(70,563,057)
Net carrying amount	<u>P 70,222,587</u>	<u>P 3,274,590</u>	<u>P 702,021</u>	<u>P 8,230,764</u>	<u>P 4,116,755</u>	<u>P 86,546,717</u>
January 1, 2008						
Cost	P 104,227,734	P 14,284,102	P 9,524,897	P 12,720,170	P 14,978,758	P 155,735,661
Accumulated depreciation and amortization	(30,977,327)	(9,870,207)	(8,553,973)	(4,337,959)	(10,668,149)	(64,407,615)
Net carrying amount	<u>P 73,250,407</u>	<u>P 4,413,895</u>	<u>P 970,924</u>	<u>P 8,382,211</u>	<u>P 4,310,609</u>	<u>P 91,328,046</u>

A reconciliation of the carrying amounts at the beginning and end of 2009 and 2008, of property and equipment is shown below.

	<u>Condominium Units</u>	<u>Office Improvements</u>	<u>Office Furnitures and Equipment</u>	<u>Transportation Equipment</u>	<u>EDP Equipment</u>	<u>Total</u>
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 70,222,587	P 3,274,590	P 702,021	P 8,230,764	P 4,116,755	P 86,546,717
Additions	-	-	66,033	482,143	51,479,496	52,027,672
Depreciation charge for the year	(3,027,821)	(993,804)	(258,540)	(2,829,626)	(1,429,664)	(8,539,455)
Balance at December 31, 2009, net of accumulated depreciation and amortization	<u>P 67,194,766</u>	<u>P 2,280,786</u>	<u>P 509,514</u>	<u>P 5,883,281</u>	<u>P 54,166,587</u>	<u>P 130,034,934</u>
Balance at January 1, 2008, net of accumulated depreciation and amortization	P 73,250,407	P 4,413,895	P 970,924	P 8,382,211	P 4,310,609	P 91,328,046
Additions	-	-	-	3,208,607	1,172,506	4,381,113
Disposals	-	-	-	(355,500)	-	(355,500)
Depreciation charge for the year	(3,027,820)	(1,139,305)	(268,903)	(3,004,554)	(1,366,360)	(8,806,942)
Balance at December 31, 2008, net of accumulated depreciation and amortization	<u>P 70,222,587</u>	<u>P 3,274,590</u>	<u>P 702,021</u>	<u>P 8,230,764</u>	<u>P 4,116,755</u>	<u>P 86,546,717</u>

10. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts is as follows:

	Deferred Reinsurance Premiums		Reserve for Unearned Reinsurance Premiums	
	2009	2008	2009	2008
Balance at beginning of year	P 827,251,651	P 1,348,262,605	P 1,353,110,258	P 1,845,503,599
Decrease during the year	(55,563,105)	(521,010,954)	(174,034,703)	(492,393,341)
Balance at end of year	<u>P 771,688,546</u>	<u>P 827,251,651</u>	<u>P 1,179,075,555</u>	<u>P 1,353,110,258</u>

Deferred Reinsurance Premiums pertains to the portion of reinsurance premiums ceded out that relate to the unexpired periods of the policies at the end of each reporting period.

Reserve for Unearned Reinsurance Premiums is the portion of reinsurance premiums assumed that relate to the unexpired periods of the policies at the end of each reporting period.

The difference between the increase in Deferred Reinsurance Premiums and Reserve for Unearned Reinsurance Premiums for the year is presented as Decrease (Increase) in Reserve for Unearned Reinsurance Premiums in the statements of income.

11. OTHER ASSETS

The Other Assets account includes the following:

	2009	2008
Creditable withholding tax	P 40,668,400	P 16,774,651
Investment property	36,349,456	38,575,009
Input value-added tax (VAT)	26,287,002	31,352,419
Deferred withholding VAT	4,783,959	13,382,875
Prepayments	2,023,359	3,196,500
Deposit	577,695	573,907
Security fund	192,888	192,888
Others	2,351,721	5,395,837
	<u>P 113,234,480</u>	<u>P 109,444,086</u>

Investment property consists of a piece of land and building and improvements which are owned for investment purposes only.

The changes to the carrying amounts of the investment property can be summarized as follows as of December 31:

	Note	2009	2008
Balance at beginning of year		P 38,575,009	P 40,905,056
Depreciation and amortization charge for the year	15	(2,225,553)	(2,330,047)
Balance at end of year		<u>P 36,349,456</u>	<u>P 38,575,009</u>

The estimated fair value and the related carrying value of the building and improvements included in investment property amounted to P37,080,000 and P33,488,703, respectively in 2009 and P39,690,000 and P35,177,209, respectively in 2008. Rental income earned from investment property amounted to P1,704,151 in 2009, P1,623,000 in 2008 and P1,163,900 in 2007, and is recorded as part of Dividend and Other Income under Investment and Other Income account in the statements of income (see Note 13). Real estate taxes incurred related to the investment property amounted to P573,773 both in 2009 and 2008 and P791,606 in 2007.

There is no active market or recent market transaction for the investment in land. However, management believes that the carrying amount of this property is a reasonable approximation of its fair value.

Input VAT pertains to input valued-added taxes on commissions paid to ceding companies.

Deferred withholding VAT represents unapplied input taxes resulting from unpaid premiums on ceded out transactions.

Prepayments include substantially prepaid insurance on property and equipment and group life insurance.

Security fund represents amount deposited with the IC, as required by the Insurance Code, to be used for the payment of valid claims against insolvent insurance companies. The balance of the fund earns interest at rates determined by the IC annually.

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	Note		2009		2008
Defined benefit liability	16.2	P	22,016,459	P	28,897,908
Accrued expenses			6,028,049		12,175,498
Withholding taxes payable			3,210,598		1,866,518
Accounts payable and other liabilities			3,170,706		2,523,962
		P	<u>34,425,812</u>	P	<u>45,463,886</u>

Management considers the carrying amounts of accounts payable and accrued expenses recognized in the statements of financial position to be a reasonable approximation of fair value due to its short duration.

13. INVESTMENT AND OTHER INCOME

The details of this account follow:

	Notes		2009		2008		2007
Interest	7	P	382,426,619	P	375,001,848	P	340,942,749
Trading gain			33,028,642		2,121,968		155,174,302
Gain (loss) on sale of stocks			17,076,148	(	69,305,125)		96,798,983
Foreign exchange gain (loss)	4.4	(	24,337,582)		115,273,826	(	179,320,898)
Dividend and other income - net	11, 16, 19		58,463,058		26,103,168		46,505,220
		P	<u>466,656,885</u>	P	<u>449,195,685</u>	P	<u>460,100,356</u>

14. UNDERWRITING DEDUCTIONS

14.1 Share in Claims and Losses

This account represents the aggregate amount of the Company's share in net losses and claims relative to its acceptances under treaty and facultative reinsurances.

14.2 Commissions – net

This account consists of the following:

		2009	2008	2007
Commission expense	P	700,650,988	P 755,748,687	P 410,837,745
Reinsurance revenues	(	293,677,214)	(368,546,247)	(235,512,374)
	P	<u>406,973,774</u>	P <u>387,202,440</u>	P <u>175,325,371</u>

Commission expense refers to fees deducted by ceding companies from reinsurance premiums assumed during the period under treaty and facultative agreements.

Reinsurance revenues pertain to fees charged by the Company related to reinsurance premiums retroceded during the period under treaty and facultative agreements.

15. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

	Notes		2009		2008		2007
Impairment losses	6	P	128,325,407	P	32,795,155	P	-
Salaries and employee benefits	16.1		123,769,484		120,973,281		87,159,520
Professional fees			24,507,265		12,514,848		10,317,532
Depreciation and amortization	9, 11		10,765,008		11,136,989		10,157,716
Taxes, licenses and fees			8,072,682		6,186,789		3,023,875
Representation and entertainment			4,369,158		4,529,918		5,937,631
Contract labor			3,963,964		2,047,780		2,717,304
Transportation and traveling			3,957,312		3,667,552		4,395,209
Association and pool expense			2,932,945		3,048,624		3,218,565

(Forward)	Notes	2009	2008	2007
Light and water		2,670,166	2,585,523	2,615,693
Communication and postages		2,278,551	2,175,849	2,417,226
Printing and office supplies		1,628,058	1,366,681	2,147,068
Repairs and maintenance		1,378,522	1,265,954	1,231,964
Advertising and publicity		1,313,182	2,591,942	1,899,738
Insurance		1,048,442	1,000,891	778,035
Miscellaneous	23	4,092,362	3,766,310	7,025,857
		<u>P 325,072,508</u>	<u>P 211,654,086</u>	<u>P 145,042,933</u>

16. SALARIES AND EMPLOYEE BENEFITS

16.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below.

	2009	2008	2007
Salaries and wages	P 75,396,452	P 69,435,531	P 55,788,137
Retirement	21,161,197	9,049,330	4,124,115
Allowances and bonus	17,411,916	32,863,235	21,081,790
Compensated absences	2,888,230	3,780,157	1,952,436
Social security costs	1,791,675	1,743,830	1,648,059
Others	5,120,014	4,101,198	2,564,983
	<u>P 123,769,484</u>	<u>P 120,973,281</u>	<u>P 87,159,520</u>

16.2 Employee Retirement Benefit Obligation

The Company maintains a wholly-funded, tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made regularly to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit obligation (presented as part of Accounts Payable and Accrued Expenses – see Note 12) recognized in the statements of financial position are determined as follows:

	2009	2008	2007
Present value of the obligation	P 137,244,682	P 129,757,565	P 62,132,830
Fair value of plan assets	(56,468,323)	(32,808,081)	(30,090,823)
Deficiency of plan assets	80,776,359	96,949,484	32,042,007
Unrecognized actuarial gains (losses)	(58,759,900)	(68,051,576)	2,465,688
Defined benefit liability	<u>P 22,016,459</u>	<u>P 28,897,908</u>	<u>P 34,507,695</u>

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	2009	2008	2007
Balance at beginning of year	P 129,757,565	P 62,132,830	P 51,174,809
Actuarial (gains) losses	(3,740,728)	65,909,823	-
Current service cost and interest cost	19,549,243	11,456,596	10,958,021
Benefits paid by the plan	(8,321,398)	(9,741,684)	-
Balance at end of year	<u>P 137,244,682</u>	<u>P 129,757,565</u>	<u>P 62,132,830</u>

The movement in the fair value of plan assets is presented below.

	2009	2008	2007
Balance at beginning of year	P 32,808,081	P 30,090,823	P 19,836,800
Contributions paid into the plan	28,042,646	14,659,117	1,611,044
Benefits paid by the plan	(8,321,398)	9,741,684	-
Actuarial losses	1,314,347	(4,607,441)	-
Expected return on plan assets	2,624,647	2,407,266	6,833,906
Actuarial adjustment	-	-	1,809,073
Balance at end of year	<u>P 56,468,323</u>	<u>P 32,808,081</u>	<u>P 30,090,823</u>

In 2009, contributions paid into the plan includes P19,794,747 representing funds transferred from common trust fund of Universal Malayan Reinsurance Corporation (merged with Company in 2006). The same amount is recognized as part of Dividend and Other Income under the Investment and Other Income account (see Note 13) in the 2009 statement of income.

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

The plan assets as of December 31, 2009 and 2008 consist of cash and cash equivalents amounting P3,392,517 and P10,960,386, respectively; government securities amounting P52,208,248 and P21,170,950, respectively; loans and receivables amounting P425,729 and P278,357, respectively and; equity securities amounting P441,829 and P398,388, respectively.

The amounts recognized as retirement expense are as follows:

	<u>2009</u>		<u>2008</u>		<u>2007</u>
Current service costs	P 7,871,062	P	7,107,298	P	5,150,951
Interest costs	11,678,181		4,349,298		5,807,070
Expected return on plan assets	(2,624,647)	(	2,407,266)	(	6,833,906)
Net actuarial gain recognized during the year	4,236,601		-		-
	<u>P 21,161,197</u>	P	<u>9,049,330</u>	P	<u>4,124,115</u>

For determination of the retirement benefit obligation, the following actuarial assumptions were used:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Discount rates	8%	9%	7%
Expected rate of return on plan assets	8%	8%	8%
Expected rate of salary increase	6%	8%	6%

Assumptions regarding future mortality and disability are based on published statistics and mortality and disability tables. The discounts rates assumed are based on the yield of long-term government bonds as of the valuation dates as published by the Philippine Dealing and Exchange Corporation (PDEX), approximating the average expected future working lifetime of employees.

The overall expected long-term rate of return on plan assets assumed at 8% is based on a reputable fund trustee's indicative yield rate for a risk portfolio similar to that of a fund with consideration to the fund's past performance.

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and excess or deficit in the plan.

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Present value of the obligation	P 137,244,682	P 129,757,565	P 62,132,830	P 51,174,809	P 24,158,148
Fair value of the plan assets	<u>56,468,323</u>	<u>32,808,081</u>	<u>30,090,823</u>	<u>19,836,800</u>	<u>18,955,928</u>
Deficit in the plan	<u>P 80,776,359</u>	<u>P 96,949,484</u>	<u>P 32,042,007</u>	<u>P 31,338,009</u>	<u>P 5,202,220</u>

17. TAXES

17.1 Current and Deferred Tax

The components of tax expense as reported in statements of income and other comprehensive income follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<i>Reported in statements of income</i>			
Current tax expense:			
Final tax at 20% and 7.5%	P 69,499,923	P 73,065,054	P 59,193,182
Minimum corporate income tax (MCIT)	364,428	-	-
Regular corporate income tax (RCIT)	-	-	9,754,774
	<u>69,864,351</u>	73,065,054	68,947,956
Deferred tax expense (income):			
Deferred tax relating to origination and reversal of temporary differences	-	(12,827,858)	27,608,157
Deferred tax resulting from in reduction in tax rate	-	10,081,787	-
	<u>-</u>	<u>(2,746,071)</u>	<u>27,608,157</u>
	<u>P 69,864,351</u>	<u>P 70,318,983</u>	<u>P 96,556,113</u>

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<i>Reported in statements of other comprehensive income [netted against related fair value gains (losses)]</i>			
Deferred tax relating to origination and reversal of temporary difference	P -	P 3,570,766	P 2,200,803
Deferred tax resulting from reduction in tax rate	-	(2,435,498)	-
	<u>P -</u>	<u>P 1,135,268</u>	<u>P 2,200,803</u>

The reconciliation of the tax on pretax income computed at the applicable statutory rates to tax expense attributable to continuing operations is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Tax on pretax income at 30% in 2009 and 35% in 2008	P 51,871,112	P 57,666,841	P 247,089,314
Adjustment for income subjected to lower tax rates	(42,956,335)	(55,935,271)	(57,362,083)
Tax effects of:			
Unrecognized deferred tax assets	90,394,884	42,491,935	-
Non-taxable income	(29,883,565)	(9,805,399)	(93,771,726)
Non-deductible expenses	438,255	25,819,090	1,233,784
Reduction in deferred tax rate	-	10,081,787	-
Separation pay	-	-	(633,176)
Tax expense reported in statements of income	<u>P 69,864,351</u>	<u>P 70,318,983</u>	<u>P 96,556,113</u>

The net deferred tax liabilities as of December 31, 2008 and 2007 relate to the following:

	<u>Statements of Financial Position</u>		<u>Statements of Income</u>		<u>Statements of Comprehensive Income</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Deferred tax assets:						
Allowance for impairment	P 31,202,588	P 24,924,715	(P 6,277,873)	P -	P -	P -
Net operating loss carryover (NOLCO)	59,665,559	-	(59,665,559)	131,284	-	-
Unrealized foreign exchange (gain) loss	(26,399,756)	21,069,751	47,469,507	(397,850)	-	-
Past service cost	11,627,720	12,913,660	1,285,940	(851,877)	-	-
Accrued leave benefits	851,818	764,763	(87,055)	198,482	-	-
MCIT	184,964	184,964	-	4,160,338	-	-
Deferred tax liabilities:						
Excess of reserves for unearned reinsurance premiums per books over tax basis	(38,151,166)	(23,226,585)	14,924,581	14,049,782	-	-
Deferred acquisition costs	(20,797,975)	(21,193,587)	(395,612)	10,317,998	-	-
Revaluation reserves on available-for sale investments	(18,183,752)	(17,048,484)	-	-	1,135,268	2,200,803
Deferred Tax Expense (Income)			(P 2,746,071)	P 27,608,157	P 1,135,268	P 2,200,803
Net Deferred Tax Liabilities	<u>P -</u>	<u>(P 1,610,803)</u>	<u>(P 2,746,071)</u>	<u>P 27,608,157</u>	<u>P 1,135,268</u>	<u>P 2,200,803</u>

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

In accordance with the applicable accounting standards, the Company has taken a conservative position by not recognizing the net deferred tax assets as of December 31, 2009 and 2008, on the following temporary differences:

	2009		2008	
	Tax Base	Tax Amount	Tax Base	Tax Amount
Deferred tax assets:				
NOLCO	P 451,469,054	P 135,440,716	P 141,639,783	P 42,491,935
Allowance for impairment	267,920,033	80,376,010	-	-
Retirement benefit obligation	22,016,459	6,604,938	-	-
Unrealized foreign exchange loss	5,250,309	1,575,093	-	-
Accrued leave benefits	3,472,176	1,041,653	-	-
Unamortized past service cost	664,371	199,311	-	-
MCIT	364,428	364,428	-	-
Deferred tax liabilities:				
Excess of reserves for unearned reinsurance premiums per books over tax basis	(198,021,728)	(59,406,518)	-	-
Revaluation reserves on available-for sale investments	(53,783,974)	(16,135,192)	-	-
Deferred acquisition costs	(45,141,952)	(13,542,586)	-	-
Net Unrecognized Deferred Tax Assets	<u>P 454,209,176</u>	<u>P 136,517,853</u>	<u>P 141,639,783</u>	<u>P 102,157,494</u>

In 2008, the Company incurred NOLCO amounting to P340,524,979 which can be claimed as deduction against future taxable income until 2011. However, the Company did not fully recognize the deferred tax asset effect amounting to P102,157,494 relating to the 2008 NOLCO. The Company only recognized the deferred tax asset effect to the extent that it expects to have sufficient taxable profit that will be available against which such NOLCO can be utilized. Accordingly, of the total deferred tax asset for the 2008 NOLCO of P102,157,494, only P59,665,559 was recognized in 2008. In 2009, the Company incurred NOLCO amounting to P110,944,075 which can be claimed as deduction from future taxable income until 2012.

The Company is subject to MCIT which is computed at 2% of gross income, or RCIT, whichever is higher. In 2009, the Company recognized MCIT amounting to P364,428 as there is no RCIT due to the taxable loss position of the Company. The MCIT can be applied against future RCIT until 2012. The MCIT recognized in 2006 amounting to P184,964 expired in 2009.

17.2 Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction equivalent to 40% of gross income. Once the option is made, it shall be irrevocable for the taxable year for which the option was made.

In 2009 and 2008, the Company opted to continue claiming itemized deductions.

17.3 Change in Applicable Tax Rate

Effective January 1, 2009, in accordance with RA No. 9337, RCIT rate was reduced from 35% to 30% and nonallowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

18. EQUITY

18.1 Capital Stock

The Company is authorized to issue 3,000,000,000 shares of common stock with a par value of P1 per share.

18.2 Stock Split

On January 15, 2007 the SEC approved the amended articles of incorporation of the Company which includes the reduction of the par value of the Company's shares of stock from P100 to P1 per share. The reduction of the par value effectively increased the number of shares that are issued as of the beginning of the year from 15,885,583 to 1,588,558,300.

18.3 Treasury Shares

In 2007, the Company reacquired additional 46,354,200 of its shares at a total cost of P103,430,976. Included in those shares are the reacquisition of 446,774 shares from dissenting stockholders. As of the end of 2007, all treasury shares held by the Company with a total cost of P318,070,611 were eventually reissued.

In August 2008, the BOD approved the implementation of the Company's Buy-Back Program in order to enhance overall shareholder value and show that it has a strong financial position. In October 2008, the Company reacquired 22,277,000 shares at a total cost of P40,081,811.

18.4 Appropriation for Contingencies

On April 18, 1989, the Company's BOD approved the establishment of a special reserve which will serve as cushion to the paid-up capital in the event

of extraordinarily high loss occurrences or severe catastrophic losses. The amount of P5,000,000 was initially appropriated from retained earnings for this purpose on April 30, 1989. Subsequently, at December 31 of each year where there is profit, 10% of such profit shall be set aside as additional reserve for contingencies. The reserve balance, which is shown as Appropriated under Retained Earnings account in the statements of changes in equity, should not exceed, at any time, the amount of paid-up capital. The balance of appropriation for contingencies amounted to P231,638,713, P221,334,777 and P211,890,435 as of December 31, 2009, 2008 and 2007, respectively.

18.5 Declaration of Cash Dividends

The BOD approved the declaration of cash dividends of P0.04 per share (or a total of P86,387,104) on June 16, 2009, P0.20 per share (or a total of P436,390,920) on March 25, 2008 and P0.07 (or a total of P152,736,822) on June 19, 2007, payable to stockholders of record as of July 3, 2009, April 10, 2008 and July 16, 2007, respectively. The dividends were paid within their respective year of declaration and approval.

19. RELATED PARTY TRANSACTIONS

The Company's related parties include its principal stockholders, the Company's key management personnel and other related parties with which the Company had transactions as described below.

19.1 Reinsurance Contracts with Related Parties

The Company accepts and cedes insurance business under various reinsurance contracts with related parties. The details of which follow:

	2009	2008
Premiums	P 1,313,818,543	P 1,769,510,024
Retrocessions	53,278,609	67,839,767
Commission income	13,525,245	16,649,404
Commission expenses	174,173,857	201,305,754
Losses incurred	316,063,490	118,141,064
Loss recoveries	45,737,776	11,949,042

As a result of the above transactions, reinsurance balances receivable from and payable to related parties are as follows (see Note 6):

	2009	2008
Due from ceding companies	P 304,657,139	P 554,211,494
Reinsurance recoverable on losses	40,967,517	33,196,941
Funds held by ceding companies	41,293,832	45,448,771
Due to retrocessionaires	(35,594,833)	(36,881,959)
Funds held for retrocessionaires	(894,399)	(112,727)

The balance of due from ceding companies pertaining to related parties is presented net of P79,710,908 and P41,204,725 allowance for impairment as of December 31, 2009 and 2008, respectively.

19.2 Bank Accounts

The Company maintains several savings and current accounts, and time deposits with Bank of the Philippine Islands (BPI), a stockholder. The details of which follow:

	2009	2008
Time deposits	P 23,500,000	P 205,056,480
Savings and current accounts	2,332,565	3,451,311
	<u>P 25,832,565</u>	<u>P 208,507,791</u>

19.3 Investment Management and Custodianship

The Company has entered into agreements known as "Investment Management Agreement" and "Custodianship Agreement" with BPI for the management and custodianship of certain investible funds of the Company subject to terms and conditions in the said agreements. These investments were presented in their respective statement of financial position accounts as follows:

	2009	2008
Cash and cash equivalents	P 22,611,956	P 9,005,099
Available-for-sale financial assets	1,201,491,263	1,028,945,237
Loans and receivables	80,000,000	80,000,000
	<u>P 1,304,103,219</u>	<u>P 1,117,950,336</u>

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Philippine Pesos)

In consideration for the services rendered, the Company pays BPI service fees equivalent to a certain percentage of the market value of the investments. Total service fees paid for the years ended December 31, 2009 and 2008 amounted to P2,451,664 and P2,569,822, respectively, and is charged against Dividend and Other Income-net under Investment and Other Income account (see Note 13) in the statements of income.

19.4 Retirement Fund Investment Management

In 2006, the Company entered into a "Retirement Fund Investment Management Agreement" with BPI for the management of the investments of the Company's retirement funds subject to the terms and conditions in the said agreement.

In 2007, the Company also entered into a Trust Agreement whereby it designated Rizal Commercial Banking Corporation, another related party, as additional trustee of its employee's retirement plan.

19.5 Key Management Personnel Compensation

	2009	2008	2007
Short-term benefits	P 46,766,449	P 61,642,735	P 43,287,218
Post-employment benefits	<u>2,615,573</u>	<u>2,238,886</u>	<u>1,948,613</u>
	<u>P 49,382,022</u>	<u>P 63,881,621</u>	<u>P 45,235,831</u>

20. MARGIN OF SOLVENCY

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

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

21. RECONCILIATION OF NET INCOME UNDER PFRS TO STATUTORY NET INCOME

The reconciliation of net profit under PFRS and statutory net income follows:

	2009	2008	2007
PFRS net profit	P 103,039,357	P 94,443,421	P 609,413,356
Difference in change in reserve for unearned reinsurance premiums – net	(70,851,172)	(60,808,883)	(40,142,234)
Deferred acquisition costs – net	24,184,634	(8,773,478)	(29,479,995)
Tax effect of reconciling items	-	20,874,708	24,367,780
Statutory net income	<u>P 56,372,819</u>	<u>P 45,735,768</u>	<u>P 564,158,907</u>

22. EARNINGS PER SHARE

The earnings per share amounts after adjustment for the reduction of the par value of the Company's shares of stock on January 15, 2007 (see Note 18.2) are as follows:

	2009	2008	2007
Net income available to common shareholders	P 103,039,357	P 94,443,421	P 609,413,356
Divided by the average number of outstanding common shares	<u>2,176,922,899</u>	<u>2,176,922,899</u>	<u>1,980,809,514</u>
	<u>P 0.05</u>	<u>P 0.04</u>	<u>P 0.31</u>

Diluted earnings per share is not determined since the Company does not have dilutive shares as of December 31, 2009, 2008 and 2007.

23. COMMITMENTS AND CONTINGENCIES

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

23.1 Operating Lease Commitments – Company as Lessee

The Company is a lessee under a non-cancellable operating lease covering one of its offices. This lease was initiated during 2007 and has a term of two years, with renewal options, and includes an annual escalation rate of 8% on the second year. The contract was renewed on February 24, 2009 for a period of two years. The future minimum rentals payable under this non-cancellable operating lease as of December 31 are as follows:

		<u>2009</u>		<u>2008</u>
Within one year	P	915,874	P	882,771
After one year but not more than five years		<u>231,728</u>		<u>1,147,602</u>
	P	<u>1,147,602</u>	P	<u>2,030,373</u>

Rental expense recognized amounted to P1,653,628, P953,418 and P1,021,463 in 2009, 2008 and 2007, respectively, and is presented in the statements of income as part of Miscellaneous account under General and Administrative Expenses (see Note 15).

23.2 Legal Claims

The Company is a defendant in a third party claim filed by a government agency against the Company and other reinsurers. Management believes that the reserve set up relating to this case is adequate to cover any liability that may arise from the ultimate outcome of the case.

23.3 Others

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements. Management believes that losses as of December 31, 2009, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statement.

24. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

24.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the statements of financial position are shown below:

	Notes	2009		2008	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets					
Cash and receivables:					
Cash and cash equivalents	5	P 683,659,159	P 683,659,159	P 1,149,558,287	P 1,149,558,287
Reinsurance balances receivables	6	2,874,413,754	2,874,413,754	4,353,404,620	4,353,404,620
Loans and receivables	8	253,464,887	253,464,887	195,738,148	195,738,148
		<u>P 3,811,537,800</u>	<u>P 3,811,537,800</u>	<u>P 5,698,701,055</u>	<u>P 5,698,701,055</u>
Available-for-sale financial assets:					
Debt securities	7	P 5,187,509,694	P 5,187,509,694	P 4,720,548,819	P 4,720,548,819
Equity securities	7	699,052,711	699,052,711	424,397,280	424,397,280
Investment in Asian Re shares	7	76,961,974	76,961,974	84,355,004	84,355,004
Various funds	7	85,211,785	85,211,785	55,284,786	55,284,786
		<u>P 6,048,736,164</u>	<u>P 6,048,736,164</u>	<u>P 5,284,585,889</u>	<u>P 5,284,585,889</u>
Financial liabilities					
Reinsurance balances payable	6	P 3,587,881,996	P 3,587,881,996	P 4,705,635,537	P 4,705,635,537
Accounts payable and other accrued expenses	12	9,198,755	9,198,755	14,699,460	14,699,460
		<u>P 3,597,080,751</u>	<u>P 3,597,080,751</u>	<u>P 4,720,334,997</u>	<u>P 4,720,334,997</u>

Notes to Financial Statements

DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Philippine Pesos)

25. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders

by complying with the capital requirements and limitation enforced by the IC and by aligning the Company's operational strategy to its corporate goals. The capital requirements and limitation are as follows.

25.1 Minimum Capitalization

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

	December 31, 2009		December 31, 2008	
Minimum statutory net worth	P	1,500,000,000	P	1,250,000,000
Minimum paid-up capital		750,000,000		625,000,000

As defined by DO No. 27-06, statutory net worth represents the Company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings, and revaluation increments as may be approved by the Insurance Commissioner.

The Company has met the minimum capital requirements for both years.

25.2 Risk-Based Capital Requirements

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

25.3 Limitation on Dividend Declaration

The Company's BOD is authorized to declare dividends. A cash dividend declaration does not require any further approval from the stockholders. However, a stock dividend declaration requires further approval of the stockholders holding or representing not less than two-thirds of the Company's outstanding capital stock. Dividends may be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the BOD may determine and in accordance with law.

Section 195 of the Insurance Code provides that a domestic insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

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

The Company is required to report such dividend declaration or distribution to the IC within 30 days from the date of such declaration.

Moreover, the SEC, through its Memorandum Circular 11 dated December 5, 2008 has set guidelines in determining the appropriate amount of Retained Earnings available for dividend distribution. This shall be based on the net profit for the year based on the audited financial statements, adjusted for unrealized items which are considered not available for dividend declaration. These unrealized items consist of the following:

- share/equity in net income of the associate or joint venture
- unrealized foreign exchange gains, except those attributable to cash and cash equivalents
- unrealized actuarial gains arising from the exercise of the option of recognizing actuarial gains or losses directly to the statement of comprehensive income
- fair value adjustment arising only from marked-to-market valuation which are not yet realized the amount of deferred tax asset that reduced the amount of income tax expense
- adjustment due to deviation from PFRS/Generally Accepted Accounting Principles which results to gain
- other unrealized gains or adjustments to the retained earnings



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