



2010  
Annual  
Report

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## 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 Philippine and neighboring insurance markets. The Company's head office is located at the 18th floor, Philippine AXA Life Centre, Sen. Gil Puyat Avenue corner Tindalo Street, Makati City. The Company is listed on the Philippine Stock Exchange with stock symbol NRCP.

## financial highlights

(amounts in million pesos except book value per share)

	2010	2009	2008	2007	2006
Gross Premiums	4,279	3,538	4,494	4,317	3,782
Net Premiums	1,598	1,352	1,580	1,227	954
Underwriting Income (Loss)	(658)	31	(73)	391	187
Investment & Other Income	491	467	449	460	304
Net Profit (Loss)	(480)	103	94	609	275
Total Assets	12,553	11,096	12,272	11,518	9,116
Stockholders' Equity	5,948	6,155	5,950	6,677	3,831
Book Value Per Share	2.75	2.85	2.75	3.06	2.58
Return on Average Equity	-7.90%	1.70%	1.50%	11.60%	9.20%
Expense Ratio	15.06%	24.04%	13.40%	11.82%	22.98%
Loss Ratio	113.75%	70.20%	79.73%	51.82%	59.76%
Combined Ratio	156.08%	124.33%	117.64%	77.92%	102.29%

# message to stockholders



“

As a responsible member of the business community and consistent with our stature as a publicly listed Company, we reiterate our unwavering commitment to the pursuit of the highest ideals and best practices of good governance.

”

HELEN Y. DEE  
Chairperson of the Board

**R**iding on the strength of sound macroeconomic fundamentals, the Philippine economy withstood the rigors of the past two years. A financial crisis that started in the U.S. in 2008 quickly spread and gained magnitude of global proportion until 2009. Two super typhoons (Ondoy and Pepeng) that battered the country in late 2009 inflicted widespread and massive devastation to life, property, infrastructure, and domestic agriculture. While the Philippines barely escaped recession, GDP growth rate nonetheless slowed down to 1.1% in 2009, from 3.7% in 2008.

By 2010, the worst was over and despite lingering concern over debt crises in the European Union, clear signs of global economic recovery had begun. Against this unfolding scenario, the Philippine economy posted a GDP growth rate of 7.3% in 2010. This was the strongest performance, thus far, during the last 25 years, exceeding even the government's own target of 5% to 6%. The successful May 2010 elections and the subsequent peaceful transition to a new government gave rise to renewed trust in government as well as high levels of consumer and investor confidence. Practically all subsectors of the economy rebounded in 2010, including agriculture which, for four prior consecutive quarters, had suffered decline due to the El Nino dry spell and abnormal weather conditions.

The Philippine insurance industry benefitted from improved business conditions resulting from recent trends and developments. In the aftermath of typhoons Ondoy and Pepeng, heightened awareness on natural perils and the need for adequate protection from such perils had led to corrective pricing adjustments and a written agreement among the major property underwriters to faithfully comply with the insurance commission circulars with respect to minimum tariff rates and applicable commissions on such perils. Although recent violations to the written agreement have been noted, collaborative efforts are currently being exerted by both the nonlife association and the insurance commission to address the problem and hopefully sustain market discipline and vigilance. In the final analysis, we all share in the view that it is in the best interest of the nonlife sector to uphold sound underwriting practices and long term financial viability over immediate or short term gain. The Life sector, on the other hand, is expected to show good results and growth rates in 2010, in the light of R.A. 10001 which reduced premium tax on life insurance and which led industry officials to predict double-digit growth rate of possibly up to 30% in 2010.

However, the foregoing favorable trends and developments have not translated into an advantage for PhilNaRe in 2010. Due to the adverse results of our nonlife operations brought about by the combined effects of delayed receipt of 2009-related typhoon losses, late reporting of claims from a foreign source, and additional reserve provisions necessitated by a review of outstanding claims, your Company ended the year with a net loss of almost P480 million, despite underwriting gains from the Life reinsurance operations of P128 million, substantial investment income of over P491 million, and a 26% drop in GAE from P325 million in 2009 to P240 million in 2010.

Notwithstanding the unfavorable results from main operations, your Company's financial position remains strong with total resources reaching P12.55 billion in 2010, up from P11.1 billion in 2009, and with total equity or net worth amounting to P5.95 billion as of 31 December 2010. PhilNaRe's financial strength rating of B++ by the U.S. based global rating agency A.M. Best for 2010, is but an affirmation of your Company's solid and stable financial condition.

Even as determined efforts and focus are being brought to bear on the conduct and quality of our underwriting policies and procedures to help facilitate realization of our business goals and objectives, equal priority and attention are likewise being devoted to other fronts of your Company's operations. The Company continues to review and monitor the enterprise-wide risk management framework which was first adopted in late 2009, with the view of enhancing risk management processes while implementing an ongoing review of the top 10 prioritized risks (out of 20 identified risks). In 2010, your Company initiated an overall "Change Management" program which involved a comprehensive organizational review that resulted in the revised Table of Organization, redeployment of personnel, revised job leveling, updating/enhancement of personnel policies affecting employee benefits and compensation structure, all of which measures are meant to improve HR management and insure that your Company maintains its competitiveness. Phase 2 of your company's ongoing computerization project is expected to be fully implemented in 2011. The completion of

the computerization project will, needless to say, not only bring up your Company's levels of productivity, efficiency, and information management, it will also considerably improve the speed and quality of service to our clients. We provide continuing opportunity for personal and professional growth in the organization, hand in hand with our permanent commitment of providing quality service to all our clients. Our steadfast belief and recognition of our manpower resources as the Company's greatest asset is the very cornerstone of your Company's training and development program, aimed at skills and knowledge enhancement, leading to sustained levels of competence and service excellence. In 2010, various officers and staff from practically all units of the organization attended training courses, conferences, and seminars both here and abroad, covering a wide and diverse array of subjects ranging from Corporate Governance, Advance Medical Underwriting, Leadership Excellence, A Review of the Law & Supreme Court Decisions on insurance claims, Principles and Best Practices in Reinsurance, to Best Practices in Expense Management.

Likewise, in its continuing effort to contribute to the industry's growth and development, PhilNaRe embarked on a series of seminars and workshops aimed at further enhancement of knowledge and skills of its clients. In the second quarter of the year, it held the "Pricing/Catastrophe Modeling" Seminar in coordination with Willis Re. Another followed a few months later entitled "Directors and Officers Liability Insurance" with the help of Guy Carpenter. And in the last quarter of the year, PhilNaRe hosted the "Treaty Renewal Workshop" in cooperation with Swiss Re.

As a responsible member of the business community and consistent with our stature as a publicly listed Company, we reiterate our unwavering commitment to the pursuit of the highest ideals and best practices of good governance. Your company has consistently ranked high in the annual survey of the Institute of Corporate Directors on "Corporate Governance Scorecard for Insurance Companies in the Philippines", with an actual score in 2010 of 68% versus the 33% average score for all companies (Life and Non Life) and the 30% average for Non Life companies.

Looking ahead, we view 2011 with continuing caution. Certain bright spots may provide opportunity and further impetus for economic growth, such as sustained investor confidence as evidenced by FDIs or hot money inflows, sustained OFW remittances, increased demand for BPO services, increased tourism, vibrant energy and mining investments, and the much touted Public-Private Partnership (PPP) program for infrastructure of the present government. In addition, the Personal Equity and Retirement Act (PERA Law), mandatory coverages for migrant Filipino workers, the promotion of microinsurance, and amendments to the Insurance Code such as the 6-year term for the insurance commissioner, expanded list of allowable investments, expeditious licensing, among others, are all encouraging to the insurance industry. But on the other hand, expectations may be severely curtailed by dark spots looming in the horizon: growing unrest in the Middle East, spiraling costs of food and fuel, relative economic stagnation in the U.S. and Japan (hard hit by the recent calamities of earthquake and tsunami) – two of the Philippines' major trading partners, and a projected La Niña weather phenomenon. The full implementation of the Asean Free Trade Agreement (AFTA) in 2015, and the capitalization build-up program for the insurance companies, are likewise two pressing and related issues presently confronting the insurance industry.

To complement your Company's financial strength and stability, certain policies and measures have been put in place to insure stricter and more selective underwriting and acceptance of risks, proper enforcement of business terms and conditions, all under adequate pricing levels and conservative reserving methods. We are confident that with all the measures and safeguards in place, your Company's operating results will rebound and meet expectations in 2011.

In closing, we would like to thank once again the members of our Board of Directors for the guidance and wisdom they provide, our management and staff for their cooperation and efficiency, and our clients and business partners, for their continuing trust and support for PhilNaRe.

  
HELEN Y. DEE  
Chairperson of the Board

  
ROBERTO B. CRISOL  
President and CEO

“

Your company's financial position remains strong with total resources reaching P12.55 billion in 2010, up from P11.1 billion in 2009, and with total equity or net worth amounting to P5.95 billion as of 31 December 2010.

”



ROBERTO B. CRISOL  
President and CEO

# board of directors



**Helen Y. Dee**  
*Chairperson of the Board*



**Romeo L. Bernardo**  
*Director*



**Primitivo C. Cal**  
*Director*



**Rizalino S. Navarro**  
*Director*



**Gregorio T. Yu**  
*Director*



**Robert G. Vergara**  
*Vice Chairman*



**Roberto B. Crisol**  
*President and CEO*



**Alfonso L. Salcedo, Jr.**  
*Director and Treasurer*



**Jose Teodoro K. Limcaoco**  
*Director*



**Consuelo D. Manansala**  
*Director*



**Yvonne S. Yuchengco**  
*Director*

*Advisers:*

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

*Corporate Secretary*  
Noel A. Laman

*Assistant Treasurer*  
John E. Huang

*Assistant Corporate Secretary*  
Ma. Pilar M. Pilares-Gutierrez

*External Auditors*  
Punongbayan & Araullo

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

# management



Office of the President

ROBERTO B. CRISOL  
ARMANDO S. MALABANAN  
REGINA S. RAMOS  
RENE O. DE GUZMAN  
JEFFREY R. LACSON, JR.

President & CEO  
Executive Vice President & COO  
Vice President  
Vice President  
Senior Manager

Finance Division

JOHN E HUANG  
MARISSA P. ALDEANO  
AMERFIL V. BASCO  
VICENTE B. VILLARAMA JR.  
HONORATA S. LUCOS  
ROWENA S. PANGILINAN

Senior Vice President & CFO  
Vice President  
Vice President  
Vice President  
Assistant Vice President  
Assistant Vice President

Corporate Services Division

EDGAR B. VILLASEÑOR  
REGINA LOURDES D. PAPA  
NORMANDO ANTONIO S. AGUILAR  
ALLAN L. FONG

First Vice President  
Senior Assistant Vice President  
Assistant Vice President  
Senior Manager

Life Division

AUGUSTO C. CIPRIANO  
ROSARIO V. ENGRACIA  
FRANCISCO B. KABIGTING  
VICENTE R. SANJOY JR.  
ARIEL G. MARTINEZ

First Vice President  
Assistant Vice President  
Assistant Vice President  
Assistant Vice President  
Senior Manager

Non-Life Division

ROBERTO S. DE LEON II  
MA. LOURDES M. SANTOS  
EDITHA B. GERONIMO  
RONNIERICK E. GUERA  
GLENN JOSEPH B. AQUINO

First Vice President  
Vice President  
Assistant Vice President  
Senior Manager  
Senior Manager

# Statement of Management's Responsibility for Financial Statements

The management of National Reinsurance Corporation of the Philippines is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2010, 2009 and 2008 in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls 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.

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

Punongbayan & Araullo, the independent auditors and appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and in its report to the Board of Directors and stockholders has expressed its opinion on the fairness of presentation upon completion of such examination.

Signed under oath by the following:



Helen Y. Dee  
*Chairperson of the Board*



Roberto B. Crisol  
*President & Chief Executive Officer*



John E. Huang  
*Chief Financial Officer*

# Report of Independent Auditors

## Report on the Financial Statements

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, 2010 and 2009, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

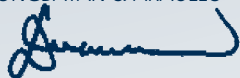
### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Reinsurance Corporation of the Philippines as at December 31, 2010 and 2009, and of its financial performance and its cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

## Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2010 required by the Bureau of Internal Revenue on taxes, duties and license fees disclosed in Note 26 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



By: Leonardo D. Cuaresma, Jr.  
Partner

CPA Reg. No. 0058647  
TIN 109-227-862  
PTR No. 2641858, January 3, 2011, Makati City  
Partner's SEC Accreditation No. 007-AR-2 (until Feb. 1, 2012)  
BIR AN 08-002511-7-2008 (until Nov. 24, 2011)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)  
Firm's SEC Accreditation No. 0002-FR-2 (until Feb. 1, 2012)

March 17, 2011

# Statements of Financial Position

DECEMBER 31, 2010 AND 2009  
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
<u>A S S E T S</u>			
CASH AND CASH EQUIVALENTS	5	P 613,287,054	P 683,659,159
REINSURANCE BALANCES RECEIVABLE - Net	6	4,210,444,502	2,874,413,754
AVAILABLE-FOR-SALE FINANCIAL ASSETS	7	6,297,135,567	6,048,736,164
LOANS AND RECEIVABLES	8	360,688,116	253,464,887
PROPERTY AND EQUIPMENT - Net	9	154,407,065	130,034,934
DEFERRED ACQUISITION COSTS	2	198,420,037	165,674,472
DEFERRED REINSURANCE PREMIUMS	10	514,257,825	771,688,546
OTHER ASSETS	11	<u>204,444,166</u>	<u>168,190,642</u>
TOTAL ASSETS		<u>P 12,553,084,332</u>	<u>P 11,095,862,558</u>
<u>LIABILITIES AND EQUITY</u>			
REINSURANCE BALANCES PAYABLE	6	P 5,462,712,883	P 3,587,881,996
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	12	108,631,841	76,741,137
RESERVE FOR UNEARNED REINSURANCE PREMIUMS	10	902,887,425	1,179,075,555
DEFERRED REINSURANCE COMMISSIONS	2	<u>130,486,488</u>	<u>97,541,765</u>
TOTAL LIABILITIES		6,604,718,637	4,941,240,453
EQUITY	18	<u>5,948,365,695</u>	<u>6,154,622,105</u>
TOTAL LIABILITIES AND EQUITY		<u>P 12,553,084,332</u>	<u>P 11,095,862,558</u>

See Notes to Financial Statements.

# Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(Amounts in Philippine Pesos)

	Notes	2010	2009	2008
<b>REINSURANCE PREMIUM INCOME</b>				
Reinsurance premiums - net of returns	19	P 4,279,413,638	P 3,538,375,311	P 4,493,504,395
Retroceded premiums	19	<u>2,681,594,564</u>	<u>2,185,981,710</u>	<u>2,913,546,920</u>
Reinsurance premiums retained		1,597,819,074	1,352,393,601	1,579,957,475
Decrease (increase) in reserve for unearned reinsurance premiums	10	<u>18,757,409</u>	<u>118,471,598</u>	<u>(28,617,613)</u>
		<u>1,616,576,483</u>	<u>1,470,865,199</u>	<u>1,551,339,862</u>
<b>UNDERWRITING DEDUCTIONS</b>				
Share in claims and losses	14	1,838,825,037	1,032,572,094	1,236,916,617
Commissions - net	14	<u>435,697,462</u>	<u>406,973,774</u>	<u>387,202,440</u>
		<u>2,274,522,499</u>	<u>1,439,545,868</u>	<u>1,624,119,057</u>
<b>NET UNDERWRITING INCOME (LOSS)</b>		<b>( 657,946,016)</b>	<b>31,319,331</b>	<b>( 72,779,195)</b>
<b>INVESTMENT AND OTHER INCOME - Net</b>	13	<u>491,221,340</u>	<u>466,656,885</u>	<u>449,195,685</u>
<b>PROFIT (LOSS) AFTER INVESTMENT AND OTHER INCOME</b>		<b>( 166,724,676)</b>	<b>497,976,216</b>	<b>376,416,490</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	15	<u>240,641,480</u>	<u>325,072,508</u>	<u>211,654,086</u>
<b>PROFIT (LOSS) BEFORE TAX</b>		<b>( 407,366,156)</b>	<b>172,903,708</b>	<b>164,762,404</b>
<b>TAX EXPENSE</b>	17	<u>72,611,644</u>	<u>69,864,351</u>	<u>70,318,983</u>
<b>NET PROFIT (LOSS)</b>		<b>( P 479,977,800)</b>	<b>P 103,039,357</b>	<b>P 94,443,421</b>
<b>Earnings(Losses) Per Share</b>	22	<u>( P 0.22)</u>	<u>P 0.05</u>	<u>P 0.04</u>

See Notes to Financial Statements.

# Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(Amounts in Philippine Pesos)

	Note	2010	2009	2008
NET PROFIT (LOSS)		( P 479,977,800 )	P 103,039,357	P 94,443,421
OTHER COMPREHENSIVE INCOME (LOSS)				
Fair value gains (losses) - net of taxes	7	<u>375,226,237</u>	<u>188,255,431</u>	( <u>345,325,081</u> )
TOTAL COMPREHENSIVE INCOME (LOSS)		<u>( P 104,751,563 )</u>	<u>P 291,294,788</u>	<u>( P 250,881,660 )</u>

See Notes to Financial Statements.

# Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(Amounts in Philippine Pesos)

	Notes	Capital Stock		Additional Paid-in Capital	Treasury Shares - At Cost	Revaluation Reserves	Retained Earnings		Total Equity
		No. of Shares	Amount				Appropriated	Unappropriated	
Balance as of January 1, 2010		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	P 6,154,622,105
Cash Dividends	18	-	-	-	-	-	-	( 101,504,847)	( 101,504,847)
Total comprehensive income for the year	7	-	-	-	-	375,226,237	-	( 479,977,800)	( 104,751,563)
Total equity as of December 31, 2010		<u>2,181,954,600</u>	<u>P 2,181,954,600</u>	<u>P 3,019,218,458</u>	<u>(P 40,081,811)</u>	<u>P 393,670,095</u>	<u>P 231,638,713</u>	<u>P 161,965,640</u>	<u>P 5,948,365,695</u>
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 211,334,777)	P 737,099,970	P 5,949,714,421
Cash dividends	18	-	-	-	-	-	-	( 86,387,104)	( 86,387,104)
Appropriated for contingencies	18	-	-	-	-	-	10,303,936	( 10,303,936)	-
Total comprehensive income for the year	7	-	-	-	-	188,255,431	-	103,039,357	291,294,788
Total equity as of December 31, 2009		<u>2,181,954,600</u>	<u>P 2,181,954,600</u>	<u>P 3,019,218,458</u>	<u>(P 40,081,811)</u>	<u>(P 18,443,858)</u>	<u>P 231,638,713</u>	<u>P 743,448,287</u>	<u>P 6,154,622,105</u>
Balance as of January 1, 2008		2,181,954,600	P 2,181,954,600	P 3,019,218,458	-	P 175,513,508	P 211,890,495	P 1,088,491,811	P 6,677,068,812
Shares reacquired	18	-	-	-	( 40,081,811)	-	-	-	( 40,081,811)
Cash dividends	18	-	-	-	-	-	-	( 436,390,920)	( 436,390,920)
Appropriated for contingencies	18	-	-	-	-	-	9,444,342	( 9,444,342)	-
Total comprehensive income (loss) for the year	7	-	-	-	-	( 345,325,081)	-	94,443,421	( 250,881,660)
Total equity as of December 31, 2008		<u>2,181,954,600</u>	<u>P 2,181,954,600</u>	<u>P 3,019,218,458</u>	<u>(P 40,081,811)</u>	<u>P 169,811,573</u>	<u>P 221,334,777</u>	<u>P 737,099,970</u>	<u>P 5,949,714,421</u>

See Notes to Financial Statements.

# Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008  
(Amounts in Philippine Pesos)

	Notes	2010	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit (loss) before tax		( P 407,366,156 )	P 172,903,708	P 164,762,404
Adjustments for:				
Interest income	13	( 378,361,661 )	( 382,426,619 )	( 375,001,848 )
Impairment losses	6, 7	21,607,076	128,325,407	32,795,155
Increase (decrease) in reserve for unearned reinsurance premiums	10	( 18,757,409 )	( 118,471,598 )	28,617,613
Dividend income	13	( 33,790,441 )	( 29,972,727 )	( 27,078,150 )
Unrealized foreign exchange loss (gain)		15,539,295	25,264,356	( 71,027,129 )
Depreciation and amortization	9, 11	20,057,975	10,765,008	11,136,989
Operating loss before working capital changes		( 781,071,321 )	( 193,612,465 )	( 235,794,966 )
Decrease (increase) in reinsurance balances receivable		( 1,366,154,947 )	1,330,812,182	( 1,471,828,939 )
Decrease (increase) in loans and receivables		( 117,321,107 )	66,534,371	4,355,111
Decrease (increase) in deferred acquisition costs		199,158	24,184,633	( 8,773,478 )
Decrease (increase) in other assets		( 37,947,877 )	3,119,365	27,947,637
Increase (decrease) in reinsurance balances payable		1,884,541,144	( 1,219,616,664 )	2,027,975,256
Increase (decrease) in accounts payable and accrued expenses		31,890,704	( 78,101,287 )	( 44,374,145 )
Cash generated from (used in) operations		( 385,864,246 )	( 66,679,865 )	299,506,476
Cash paid for income taxes		( 72,611,644 )	( 69,499,923 )	( 73,065,054 )
Net Cash From (Used in) Operating Activities		( 458,475,890 )	( 136,179,788 )	226,441,422
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from disposal/maturities of:				
Available-for-sale financial assets	7	1,809,273,516	3,747,134,327	1,333,353,912
Property and equipment	9	1,250,605	-	355,500
Interest received		388,459,537	373,618,987	371,547,597
Dividends received		33,790,441	29,972,727	24,429,144
Acquisitions of:				
Available-for-sale financial assets	7	( 1,698,465,088 )	( 4,327,663,119 )	( 1,675,082,737 )
Property and equipment	9	( 43,986,361 )	( 52,027,672 )	( 4,381,113 )
Net Cash From (Used in) Investing Activities		490,322,650	( 228,964,750 )	50,222,303
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Acquisitions/payments of:				
Dividends	18	( 101,504,847 )	( 86,387,104 )	( 436,390,920 )
Treasury shares	18	-	-	( 40,081,811 )
Net Cash Used in Financing Activities		( 101,504,847 )	( 86,387,104 )	( 476,472,731 )
<b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>				
		( 714,018 )	( 14,367,486 )	2,454,642
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		( 70,372,105 )	( 465,899,128 )	( 197,354,364 )
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		683,659,159	1,149,558,287	1,346,912,651
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		P 613,287,054	P 683,659,159	P 1,149,558,287

See Notes to Financial Statements.

# Notes to Financial Statements

DECEMBER 31, 2010, 2009 AND 2008

(Amounts in Philippine Pesos)

## 1. CORPORATE INFORMATION

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 shares are listed in the Philippine Stock Exchange (PSE).

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, 2010 (including the comparatives for the years ended December 31, 2009 and 2008) were authorized for issue by the Company's Board of Directors (BOD) on March 17, 2011.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These 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 (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense. 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 and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

### 2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

#### (a) Effective in 2010 that are Relevant to the Company

In 2010, the Company adopted the **2009 Annual Improvements to PFRS** adopted by FRSC. 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 but which did not have any material impact on its financial statements:

- (i) 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 cash flow from investing activities. Under its current policies, only recognized assets are classified by the Company as cash flow from investing activities.
- (ii) 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.
- (iii) 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 believes that this amendment have no significant effects in its 2010 financial statements
- (iv) Presently, the Company is the principal in all of its business undertakings.

# Notes to Financial Statements

DECEMBER 31, 2010, 2009 AND 2008

(Amounts in Philippine Pesos)

## (b) Effective in 2010 but not Relevant to the Company

The following new PFRS and, and new amendments, revisions, and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Company's financial statements:

PAS 27 (Revised)	:	Consolidated and Separate Financial Statements
PFRS 3 (Revised 2008)	:	Business Combination
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 1 (Amendment)	:	Additional Exemptions for First-time Adopters
PFRS 2 (Amendment)	:	Company Cash-settled Share-based Payment Transactions
PFRS for SMEs	:	PFRS for Small-Medium Entities
Philippine Interpretations		
International Financial Reporting Interpretations Committee (IFRIC) 9	:	Embedded Derivatives – Amendments to IFRIC 9 and PAS 39
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	:	Distribution of Non-cash Assets to Owners
IFRIC 18	:	Transfers of Assets from Customers

## (c) Effective Subsequent to 2010

There are new PFRS and new revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Management has initially determined the following pronouncements, which the Company will apply in accordance with its transitional provisions, to be relevant to its financial statements.

- (i) PAS 12 (Amendment), **Income Taxes** (effective from January 1, 2013). An entity is required to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. However, when the asset is measured using the fair value model in PAS 40, **Investment Property**, it can be difficult and subjective to assess whether recovery will be through use or through sale; accordingly, an amendment to PAS 12 was made.

As a practical solution to the problem, the amendment introduces a presumption that recovery of the carrying amount will be or normally be through sale. Consequently, Standards Interpretation Committee (SIC) - 21 **Income Taxes – Recovery of Revalued Non-Depreciable Assets** would no longer apply to investment properties carried at fair value. The amendments also incorporate into PAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

Since the amendment is related to the issuance of PFRS 9 in 2009, management is still evaluating the effect of this amendment to the Company's financial statements in conjunction with its adoption of PFRS 9 in 2013 (see PFRS 9).

- (ii) Philippine Interpretation IFRIC 14, **Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14** (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays 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, **Employee Benefits**, 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 the Company's financial statements because it does not usually make substantial advance contributions to its retirement fund.
- (iii) Philippine Interpretation IFRIC 19, **Extinguishing Financial Liabilities with Equity Instruments** (effective from 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. 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, **Financial Instruments: Recognition and Measurement**;
- 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 the Company's financial statements as management does not anticipate to extinguish financial liabilities through equity swap in the subsequent periods.

- (iv) PFRS 7 (Amendment), **Financial Instruments: Disclosures** (effective for annual periods beginning on or after July 1, 2011). This amendment will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Company believes that adoption of the amendment in 2012 will not have any significant effect on its financial statements as the amendment only affect disclosures and the Company usually provides adequate information on its financial statements in compliance with disclosure requirements.

- (v) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):
  - o Phase 1: Classification and Measurement
  - o Phase 2: Impairment Methodology
  - o Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being finalized.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Company. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Company expects it can comprehensively assess the impact of the revised standard.

- (vi) 2010 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to Philippine Financial Reporting Standards 2010* (the 2010 Improvements). Most of these amendments will become or become effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. The 2010 Improvements amend certain provisions of PAS 1 (effective from July 1, 2010), clarify presentation of the reconciliation of each of the components of other comprehensive income, and clarify certain disclosure requirements for financial instruments. The Company's preliminary assessments indicate that the 2010 Annual Improvements will not have a material impact on its financial statements.

### 2.3 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments 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 any directly attributable 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 the statement of income.

The categories of financial assets that are currently relevant to the Company are 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 profit or loss. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the 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.

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 the 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 profit or loss 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 profit or loss 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 flows of the underlying net asset base of the investment.

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Non-compounding interest, dividend income and other cash flows resulting from holding 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
Electronic data processing (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 the 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 the 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 (excluding deferred output value-added tax (VAT), defined benefit liability and withholding taxes payable).

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 and Contingencies

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

- (a) **Reinsurance premiums** – Premiums from short duration insurance contracts over the period of the contracts using the “24<sup>th</sup> 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 “24<sup>th</sup> method” assumes that the average date of issue of all policies written during any one month is the middle of that month. Accordingly, 1/24<sup>th</sup> of the net premiums are considered earned in the month the reinsurance contracts are issued and 2/24<sup>th</sup> for every month thereafter (or 1/24<sup>th</sup> 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 the end of the reporting periods are recognized in the statement of income.
- (b) **Interest income** – This 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 in 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.

## **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.

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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 annually 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 the 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 the 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 the 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 Related Party Transactions**

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close member of the family of any such individual. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

### **2.18 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 the statement of income.

### **2.19 Earnings (Losses) Per Share**

Earnings (losses) per share is determined by dividing net profit(loss) 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 the 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 its investment in equity securities for a certain company is impaired by P6,397,150 as of December 31, 2010 (nil as of December 31, 2009) (see Note 7). Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

#### **(b) Distinction Between Investment Properties and Owner-occupied Properties**

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 properties generate 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.

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**(c) Operating and Finance Leases**

The Company has entered into various lease agreements as either a lessor or a lessee. Critical judgment is 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 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, 2010, there is no change in estimated useful lives of property and equipment and investment property 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 P15,209,926, P128,325,407 and P32,795,155 in 2010, 2009 and 2008, respectively. The allowance for impairment on reinsurance balances receivable amounted to P283,129,959 and P267,920,033 as of December 31, 2010 and 2009, 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.

In 2010 and 2009, fair value gains (net of taxes) on available-for-sale financial assets amounted to P375,226,237 and P188,255,431, respectively; in 2008, fair value losses (net of taxes) amounted to P345,325,081 reported under other comprehensive income (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 2010, 2009 and 2008.

**(e) Realizable Amount of Deferred Tax Assets**

The Company reviews its deferred tax assets at the end of 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, 2010 and 2009, no deferred tax assets were recognized by the Company since management believes that they will not be able to utilize the amount prior to its expiration (see Note 17).

**(f) 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 P13,273,056 and P22,016,459 as of December 31, 2010 and 2009, respectively, while the fair value of plan assets as of those dates amounted to P63,156,618 and P56,468,323, 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, 2010			
Casualty	P 2,134,742,451	P 1,586,590,665	P 548,151,786
Fire	1,096,036,855	647,741,964	448,294,891
Marine and aviation	557,194,786	293,290,280	263,904,506
Life	491,439,546	153,971,655	337,467,891
	<b>P 4,279,413,638</b>	<b>P 2,681,594,564</b>	<b>P 1,597,819,074</b>
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
	<b>P 3,538,375,311</b>	<b>P 2,185,981,710</b>	<b>P 1,352,393,601</b>
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
	<b>P 4,493,504,395</b>	<b>P 2,913,546,920</b>	<b>P 1,579,957,475</b>

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 11% 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

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of senior management. At the same time, a Risk Management Committee has been established by the Company's BOD 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, 2010			
Fire	P 1,812,741,166	P 1,180,636,029	P 632,105,137
Marine and aviation	1,257,352,299	417,572,467	839,779,832
Casualty	1,561,882,859	1,121,225,029	440,657,830
Life	<u>32,405,329</u>	<u>6,247,616</u>	<u>26,157,713</u>
	<b>P 4,664,381,653</b>	<b>P 2,725,681,141</b>	<b>P 1,938,700,512</b>
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	<u>56,823,130</u>	<u>13,914,915</u>	<u>42,908,215</u>
	<u>P 3,048,097,371</u>	<u>P 1,760,229,554</u>	<u>P 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	<u>46,223,606</u>	<u>12,873,227</u>	<u>33,350,379</u>
	<u>P 3,516,236,597</u>	<u>P 2,403,299,379</u>	<u>P 1,112,937,218</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 market.

## 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	2010	2009
Cash and cash equivalents	5	<b>P 613,252,054</b>	P 683,624,091
Reinsurance balances receivable - net	6	<b>4,210,444,502</b>	2,874,413,754
Available-for-sale financial assets	7	<b>5,363,752,653</b>	5,272,721,479
Loans and receivables	8	<b>360,688,116</b>	<u>253,464,887</u>
		<b>P 10,548,137,325</b>	<u>P 9,084,224,211</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 P35,000 and P35,068 as of December 31, 2010 and 2009, respectively.

Reinsurance balances receivables amounting to P471,978,082 and P99,852,205 as of December 31, 2010 and 2009, 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, 2010, 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 4,479,424,564	P 983,288,319
Accounts payable and accrued expenses	46,516,252	-
	P 4,525,940,816	P 983,288,319

This compares to the maturity of the Company's financial liabilities as of December 31, 2009 as follows:

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

#### 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 P21,092,442 and P24,337,582 in 2010 and 2009, respectively, and net foreign exchange gains of P115,273,826 in 2008 (see Note 13).

Exposures to currency exchange rates arise from the Company's foreign currency reinsurance transactions, which are primarily denominated in United States dollars, Indonesian rupiah, Thailand baht, Malaysian ringgit, Euro, Singaporean dollars, North Korean won, Indian rupee, Japanese yen, South Korean won, Pakistan rupee, New Zealand dollars, Hongkong dollars, British pound and Australian dollar. The Company also holds US dollar-denominated cash and cash equivalents and investment in equity securities.

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:

	2010		2009	
	US Dollar	Other Currencies	US Dollar	Other Currencies
Financial assets	P 823,041,545	P 132,144,838	P 1,327,682,834	P 154,883,306
Financial liabilities	( 344,746,609)	( 19,284,268)	( 448,921,801)	( 11,274,471)
Total net exposure	P 478,294,936	P 112,860,570	P 878,761,033	P 143,608,835

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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. If the Philippine peso had strengthened against the foreign currencies, the effect would be as follows:

	2010			2009		
	Reasonably Possible Change in Rate	Effect in Loss Before Tax	Effect in Equity	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Effect in Equity
PhP - US Dollars	21.14%	P 85,721,497	P 70,788,367	20.36%	(P 178,951,223)	(P 125,265,856)
PhP - Indonesian Rupiah	27.27%	21,189,848	14,832,893	33.86%	( 15,038,404)	( 10,526,883)
PhP - Thailand Baht	18.73%	3,046,984	2,132,889	17.33%	( 3,271,786)	( 2,290,250)
PhP - Malaysian Ringgit	18.36%	2,650,756	1,855,529	13.15%	( 1,722,289)	( 1,205,602)
PhP - Euro	30.76%	( 2,072,566)	( 1,450,796)	31.23%	( 9,751,136)	( 6,825,795)
PhP - Singaporean Dollars	17.70%	1,856,904	1,299,833	15.42%	( 948,966)	( 664,276)
PhP - North Korean Won	26.99%	( 815,842)	( 571,089)	47.83%	( 8,623,630)	( 6,036,541)
PhP - Indian Rupee	15.94%	323,546	226,482	23.40%	( 529,838)	( 370,887)
PhP - Japanese Yen	39.74%	( 146,029)	( 102,220)	44.67%	( 34,688)	( 24,282)
PhP - South Korean Won	26.99%	115,890	81,123	47.83%	( 918,441)	( 642,909)
PhP - Pakistan Rupee	21.10%	( 56,885)	( 39,820)	20.37%	( 156,951)	( 109,866)
PhP - New Zealand Dollars	35.57%	( 43,823)	( 30,676)	53.41%	64,237	44,966
PhP - Hongkong Dollars	21.75%	1,290	903	19.49%	( 100,093)	( 70,065)
PhP - British Pound	31.63%	( 838)	( 587)	39.22%	1,323	926
PhP - Australian Dollar	38.41%	103	72	39.81%	( 59)	( 41)
PhP - Canadian Dollar						
		-	-	33.40%	( 12,601)	( 8,821)
<b>Total</b>		<b>P 111,770,835</b>	<b>P 89,022,903</b>		<b>(P 219,994,545)</b>	<b>(P 153,996,182)</b>

If the Philippine peso had weakened against the foreign currencies, the effect would be the reverse of the above.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be a 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 listed in 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, 2010 and 2009 investments in listed equities amounted to 10% and 9%, 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 other comprehensive income (loss) as of December 31, 2010 and 2009 are summarized as follows:

	2010		2009	
	Effect in Other Observed Comprehensive Volatility Rates	Observed Loss	Effect in Other Comprehensive Volatility Rates	Income
Government bonds	2.34%	(P 78,436,969)	3.01%	P 93,126,342
Equity securities listed in the Philippines:				
Common shares	16.51%	( 113,205,085)	22.84%	118,654,696
Preferred shares	1.86%	( 3,663,911)	1.82%	1,808,541
Corporate bonds	8.39%	( 15,374,839)	0.01%	109,115
Mutual funds	9.96%	( 7,895,232)	6.90%	5,702,525
		<b>(P 218,576,036)</b>		<b>P 219,401,219</b>

(c) *Interest Rate Risk*

The Company is exposed to interest rate risk because of its fixed income investments which amounted to approximately 85% of the Company's total investment portfolio as of December 31, 2010 and 2009. 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:

	2010	2009
Time deposits	P 582,571,993	P 619,827,323
Cash on hand and in banks	30,715,061	63,831,836
	<b>P 613,287,054</b>	<b>P 683,659,159</b>

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 1.25% to 4.25% in 2010 and 1.50% to 4.50% in 2009 while dollar time deposits earn annual interest rates ranging from 0.20% to 1.63% in 2010 and 0.05% to 1.50% in 2009. 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\$3,824,365 (or P167,832,271) as of December 31, 2010 and US\$6,300,936 (or P292,086,185) as of December 31, 2009.

## 6. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

	2010	2009
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	P 2,725,681,141	P 1,760,229,554
Due from ceding companies	1,180,189,544	912,656,154
Reinsurance recoverable on paid losses	454,499,264	349,601,459
Funds held by ceding companies	133,204,512	119,846,620
	<b>4,493,574,461</b>	<b>3,142,333,787</b>
Allowance for impairment	( 283,129,959)	( 267,920,033)
	<b>P 4,210,444,502</b>	<b>P 2,874,413,754</b>
Reinsurance balances payable:		
Claims payable	P 4,664,381,653	P 3,048,097,371
Due to retrocessionaires	706,510,346	468,815,645
Funds held for retrocessionaires	91,820,884	70,968,980
	<b>P 5,462,712,883</b>	<b>P 3,587,881,996</b>

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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 the beginning and end of 2010 and 2009 is shown below.

	Note	2010	2009
Balance at beginning of year		P 267,920,033	P 139,594,626
Impairment losses during the year	15	<u>15,209,926</u>	<u>128,325,407</u>
Balance at end of year		<u>P 283,129,959</u>	<u>P 267,920,033</u>

The fair values of these short-term financial assets and liabilities are not individually determined as their carrying amounts are reasonable approximation of their fair values.

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2010	2009
Bonds	P 5,293,842,809	P 5,187,509,694
Equity securities - net	860,523,387	699,052,711
Investment in Asian Re shares	72,859,527	76,961,974
Various funds	<u>69,909,844</u>	<u>85,211,785</u>
	<u>P 6,297,135,567</u>	<u>P 6,048,736,164</u>

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting P190,000,000 and P159,000,000 in 2010 and 2009, 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 3.75% to 15.00% and 5.00% to 15.00% in 2010 and 2009, respectively. 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:

	2010	2009
Due within one year	P 321,292	P 167,282,197
Due after one year through five years	2,954,923,197	2,855,765,781
Due after five years through ten years	2,216,792,651	2,126,627,642
Due after ten years	<u>121,805,669</u>	<u>37,834,074</u>
	<u>P 5,293,842,809</u>	<u>P 5,187,509,694</u>

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

	2010	2009
Cost:		
Quoted in the stock exchange	P 572,025,999	P 530,478,088
Not quoted in the stock exchange	<u>192,195,157</u>	<u>194,543,557</u>
	<u>764,221,156</u>	<u>725,021,645</u>
Fair value gains (losses):		
Quoted in the stock exchange	117,160,265	( 8,420,047)
Not quoted in the stock exchange	<u>( 20,858,034)</u>	<u>( 17,548,887)</u>
	<u>96,302,231</u>	<u>( 25,968,934)</u>
	<u>P 860,523,387</u>	<u>P 699,052,711</u>

Equity securities mainly consist of investments in companies listed in the PSEhilippine tock xchange (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 value and 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 P72,859,527 and P76,961,974, as of December 31, 2010 and 2009, respectively.

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

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	<b>P 6,048,736,164</b>	P 5,284,585,889
Additions	<b>1,698,465,088</b>	4,327,663,119
Disposals/maturities	<b>( 1,809,273,516)</b>	( 3,747,134,327)
Fair value gains - net	<b>375,226,237</b>	188,255,431
Foreign currency gains losses	<b>( 9,621,256)</b>	( 4,633,948)
Impairment losses	<b>( 6,397,150)</b>	-
Balance at end of year	<b><u>P 6,297,135,567</u></b>	<u>P 6,048,736,164</u>

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 P375,226,237 and P188,255,431 fair value gains in 2010 and 2009, respectively, and to P345,325,081 fair value loss in 2008.

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in active market. 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>2010</u>	<u>2009</u>
Current:		
Term loans	<b>P 150,000,000</b>	P -
Accrued interest receivable	<b>92,526,029</b>	102,623,905
Others	<b>30,593,197</b>	11,508,018
	<b><u>273,119,226</u></b>	<u>114,131,923</u>
Non-current:		
Term loans	<b>80,000,000</b>	130,000,000
Loans receivable	<b>7,568,890</b>	9,332,964
	<b><u>87,568,890</u></b>	<u>139,332,964</u>
	<b><u>P 360,688,116</u></b>	<u>P 253,464,887</u>

Loans and receivables are usually due within one to ten 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 mainly 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 5.75% to 7.40% in 2010, 6.38% to 7.40% in 2009 and 6.38% to 6.90% in 2008.

Loans receivable, includes housing and car loans, which have annual effective interest rates of 11% to 13%, 10% to 22%, and 7% to 13% both in 2010, 2009 and 2008, respectively.

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

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## 9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2010 and 2009 are shown below.

	Condominium Units	Office Improvements	Office Furnitures and Equipment	Transportation Equipment	EDP Equipment	Total
December 31, 2010						
Cost	P 104,227,734	P 7,918,239	P 9,700,444	P 10,599,931	P 109,282,250	P 241,728,598
Accumulated depreciation and amortization	( 40,060,789)	( 6,074,523)	( 9,322,464)	( 6,344,233)	( 25,519,524)	( 87,321,533)
Net carrying amount	<b><u>P 64,166,945</u></b>	<b><u>P 1,843,716</u></b>	<b><u>P 377,980</u></b>	<b><u>P 4,255,698</u></b>	<b><u>P 83,762,726</u></b>	<b><u>P 154,407,065</u></b>
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	<b><u>P 67,194,766</u></b>	<b><u>P 2,280,786</u></b>	<b><u>P 509,514</u></b>	<b><u>P 5,883,281</u></b>	<b><u>P 54,166,587</u></b>	<b><u>P 130,034,934</u></b>
January 1, 2009						
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	<b><u>P 70,222,587</u></b>	<b><u>P 3,274,590</u></b>	<b><u>P 702,021</u></b>	<b><u>P 8,230,764</u></b>	<b><u>P 4,116,755</u></b>	<b><u>P 86,546,717</u></b>

A reconciliation of the carrying amounts at the beginning and end of 2010 and 2009, of property and equipment is shown below.

	Condominium Units	Office Improvements	Office Furnitures and Equipment	Transportation Equipment	EDP Equipment	Total
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 67,194,766	P 2,280,786	P 509,514	P 5,883,281	P 54,166,587	P 130,034,934
Additions	-	-	109,515	2,225,358	41,651,488	43,986,361
Disposal	-	-	-	( 1,250,605)	-	( 1,250,605)
Depreciation and amortization charges for the year	( 3,027,821)	( 437,070)	( 241,049)	( 2,602,336)	( 12,055,349)	( 18,363,625)
Balance at December 31, 2010, net of accumulated depreciation and amortization	<b><u>P 64,166,945</u></b>	<b><u>P 1,843,716</u></b>	<b><u>P 377,980</u></b>	<b><u>P 4,255,698</u></b>	<b><u>P 83,762,726</u></b>	<b><u>P 154,407,065</u></b>
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	51,479,497	52,027,672
Depreciation and amortization charges for the year	( 3,027,821)	( 993,804)	( 258,540)	( 2,829,626)	( 1,429,665)	( 8,539,455)
Balance at December 31, 2009, net of accumulated depreciation and amortization	<b><u>P 67,194,766</u></b>	<b><u>P 2,280,786</u></b>	<b><u>P 509,514</u></b>	<b><u>P 5,883,281</u></b>	<b><u>P 54,166,587</u></b>	<b><u>P 130,034,934</u></b>

## 10. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts follows:

	Deferred Reinsurance Premiums		Reserve for Unearned Reinsurance Premiums	
	2010	2009	2010	2009
Balance at beginning of year	P 771,688,546	P 827,251,651	P 1,179,075,555	P 1,353,110,258
Decrease during the year	( 257,430,721)	( 55,563,105)	( 276,188,130)	( 174,034,703)
Balance at end of year	P 514,257,825	P 771,688,546	P 902,887,425	P 1,179,075,555

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:

	Note	2010	2009
Deferred input VAT	26.2	P 72,128,569	P 54,956,162
Creditable withholding tax		58,147,770	40,668,400
Investment property - net		34,655,106	36,349,456
Input VAT	26.2	24,095,334	26,287,002
Deferred withholding VAT	26.2	9,113,038	4,783,959
Prepayments		332,847,332	2,023,359
Deposit		575,200	577,695
Security fund		192,888	192,888
Others		2,688,929	2,351,721
		P 204,444,166	P 168,190,642

Investment property consists mainly of building with improvements which are owned to earn rentals or for capital appreciation.

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

	Note	2010	2009
Balance at beginning of year		P 36,349,456	P 38,575,009
Depreciation and amortization charge for the year	15	( 1,694,350)	( 2,225,553)
Balance at end of year		P 34,655,106	P 36,349,456

The estimated fair value and the related carrying value of the building with improvements included in investment property amounted to P37,080,000 both in 2010 and 2009. Rental income earned from investment property amounted to P1,639,653 in 2010, P1,704,151 in 2009 and P1,623,000 in 2008, and is recorded as part of Other income (loss) under Investment and Other Income account in the statements of income (see Note 13). Real estate taxes incurred on investment property amounted to P146,837 in 2010, 2009 and 2008.

Deferred input VAT relates to the value-added tax on unpaid commission to ceding companies.

Input VAT pertains to input VAT 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.

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## 12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	Notes	2010	2009
Deferred output VAT	26.1	<b>P 41,793,329</b>	P 42,315,325
Accrued expenses		<b>36,204,807</b>	6,028,049
Defined benefit liability	16.2	<b>13,273,056</b>	22,016,459
Accounts payable and other liabilities		<b>10,311,445</b>	3,170,706
Withholding taxes payable		<b>7,049,204</b>	3,210,598
		<b><u>P 108,631,841</u></b>	<b><u>P 76,741,137</u></b>

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

## 13. INVESTMENT AND OTHER INCOME

The details of this account follow:

	Notes	2010	2009	2008
Interest	5, 7	<b>P 378,361,661</b>	P 382,426,619	P 375,001,848
Gain (loss) on sale of stocks		<b>88,938,727</b>	17,076,148	( 69,305,125)
Dividend income		<b>33,790,441</b>	29,972,727	27,078,1509
Foreign exchange gains (losses)	4.4	<b>( 21,092,442)</b>	( 24,337,582)	115,273,826
Trading gain		<b>10,389,776</b>	33,028,642	2,121,968
Other income (charges)	11, 16, 19	<b>833,1778</b>	28,490,331	( 974,982)
		<b><u>P 491,221,340</u></b>	<b><u>P 466,656,885</u></b>	<b><u>P 449,195,685</u></b>

## 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:

	2010	2009	2008
Commission expense	<b>P 740,628,810</b>	P 700,650,988	P 755,748,687
Reinsurance revenues	<b>( 304,931,348)</b>	( 293,677,214)	( 368,546,247)
	<b><u>P 435,697,462</u></b>	<b><u>P 406,973,774</u></b>	<b><u>P 387,202,440</u></b>

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	2010	2009	2008
Salaries and employee benefits	16.1	P 129,999,226	P 123,769,484	P 120,973,281
Impairment losses	6, 7	21,607,076	128,325,407	32,795,155
Depreciation and amortization	9, 11	20,057,975	10,765,008	11,136,989
Professional fees		14,674,465	24,507,265	12,514,848
Repairs and maintenance		11,991,196	1,378,522	1,265,954
Taxes, licenses and fees	26.6	7,770,853	8,072,682	6,186,789
Transportation and traveling		5,375,887	3,957,312	3,667,552
Light and water		4,992,256	2,670,166	2,585,523
Representation and entertainment		4,275,446	4,369,158	4,529,918
Contract labor		4,162,207	3,963,964	2,047,780
Association and pool expense		2,950,579	2,932,945	3,048,624
Rental expense	23.1	2,689,750	1,653,628	953,418
Communication and postages		2,187,891	2,278,551	2,175,849
Printing and office supplies		1,893,060	1,628,058	1,366,681
Advertising and publicity		1,329,174	1,313,182	2,591,942
Insurance		1,069,919	1,048,442	1,000,891
Miscellaneous		3,614,520	2,438,734	2,812,892
		P 240,641,480	P 325,072,508	P 211,654,086

## 16. SALARIES AND EMPLOYEE BENEFITS

### 16.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below.

	2010	2009	2008
Salaries and wages	P 79,808,512	P 75,396,452	P 69,435,531
Retirement	18,572,302	21,161,197	9,049,330
Allowances and bonus	18,257,052	17,411,916	32,863,235
Compensated absences	6,139,945	2,888,230	3,780,157
Social security costs	1,766,296	1,791,675	1,743,830
Others	5,455,119	5,120,014	4,101,198
	P 129,999,226	P 123,769,484	P 120,973,281

### 16.2 Employee Retirement Benefit Obligation

The Company maintains a wholly-funded, tax-qualified, non-contributory 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:

	2010	2009	2008
Present value of the obligation	P 167,377,632	P 137,244,682	P 129,757,565
Fair value of plan assets	( 63,156,618)	( 56,468,323)	( 32,808,081)
Deficiency of plan assets	104,221,014	80,776,359	96,949,484
Unrecognized actuarial losses	( 90,947,958)	( 58,759,900)	( 68,051,576)
Defined benefit liability	P 13,273,056	P 22,016,459	P 28,897,908

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance at beginning of year	P <b>137,244,682</b>	P 129,757,565	P 62,132,830
Actuarial (gains) losses	<b>44,765,577</b>	(3,740,728)	65,909,823
Current service cost and interest cost	<b>19,336,815</b>	19,549,243	11,456,596
Benefits paid by the plan	<b>( 33,969,442)</b>	( 8,321,398)	( 9,741,684)
Balance at end of year	<b>P 167,377,632</b>	<b>P 137,244,682</b>	<b>P 129,757,565</b>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance at beginning of year	P <b>56,468,323</b>	P 32,808,081	P 30,090,823
Contributions paid into the plan	<b>27,315,705</b>	28,042,646	14,659,117
Benefits paid by the plan	<b>( 33,969,442)</b>	( 8,321,398)	( 9,741,684)
Actuarial gain (losses)	<b>8,824,566</b>	1,314,347	( 4,607,441)
Expected return on plan assets	<b>4,517,466</b>	2,624,647	2,407,266
Balance at end of year	<b>P 63,156,618</b>	<b>P 56,468,323</b>	<b>P 32,808,081</b>

In 2009, contribution 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 Other Income (Charges) under the Investment and Other Income account (see Note 13) in the 2009 statement of income.

The plan assets as of December 31, 2010 and 2009 consist of:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	P <b>5,651,395</b>	P 3,392,517	P 10,960,386
Government securities	<b>37,850,827</b>	52,208,248	21,170,950
Loans and receivables	<b>302,351</b>	425,729	278,357
Equity securities	<b>19,352,045</b>	441,829	398,388
Balance at end of year	<b>P 63,156,618</b>	<b>P 56,468,323</b>	<b>P 32,808,081</b>

The amounts recognized as retirement expense are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current service costs	P <b>8,357,240</b>	P 7,871,062	P 7,107,298
Interest costs	<b>10,979,575</b>	11,678,181	4,349,298
Expected return on plan assets	<b>( 4,517,466)</b>	( 2,624,647)	( 2,407,266)
Net actuarial loss recognized during the year	<b>3,752,953</b>	4,236,601	-
	<b>P 18,572,302</b>	<b>P 21,161,197</b>	<b>P 9,049,330</b>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Discount rates	<b>5.5%</b>	8%	9%
Expected rate of return on plan assets	<b>8%</b>	8%	8%
Expected rate of salary increase	<b>6%</b>	6%	8%

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>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Present value of the obligation	<b>P 167,377,632</b>	P 137,244,682	P129,757,565	P 62,132,830	P 51,174,809
Fair value of the plan assets	<b><u>63,156,618</u></b>	<u>56,468,323</u>	<u>32,808,081</u>	<u>30,090,823</u>	<u>19,836,800</u>
Deficit in the plan	<b><u>P 104,221,014</u></b>	<u>P 80,776,359</u>	<u>P 96,949,484</u>	<u>P 32,042,007</u>	<u>P 31,338,009</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>2010</u>	<u>2009</u>	<u>2008</u>
<i>Reported in statements of income</i>			
Current tax expense:			
Final tax at 20% and 7.5%	<b>P 72,611,644</b>	P 69,499,923	P 73,065,054
Minimum corporate income tax (MCIT)	<u>-</u>	<u>364,428</u>	<u>-</u>
	<b><u>72,611,644</u></b>	<u>69,864,351</u>	<u>73,065,054</u>
Deferred tax income:			
Deferred tax relating to origination and reversal of temporary differences	-	-	( 12,827,858)
Deferred tax resulting from in reduction in tax rate	<u>-</u>	<u>-</u>	<u>10,081,787</u>
	<b><u>P 72,611,644</u></b>	<u>P 69,864,351</u>	<u>P 70,318,983</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	<b>P -</b>	P -	P 3,570,766
Deferred tax resulting from reduction in tax rate	<u>-</u>	<u>-</u>	<u>( 2,435,498)</u>
	<b><u>P -</u></b>	<u>P -</u>	<u>P 1,135,268</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>2010</u>	<u>2009</u>	<u>2008</u>
Tax on pretax income (loss) at 30% in 2010 and 2009 and 35% in 2008	<b>(P 122,209,846)</b>	P 51,871,112	57,666,841
Adjustment for income subjected to lower tax rates	<b>( 68,154,437)</b>	( 42,956,335)	( 55,935,271)
Tax effects of:			
Unrecognized deferred tax assets	<b>270,828,789</b>	90,394,884	42,491,935
Non-taxable income	<b>9,772,007)</b>	( 29,883,565)	( 9,805,399)
Non-deductible expenses	<b>1,919,145</b>	438,255	25,819,090
Reduction in deferred tax rate	<u>-</u>	<u>-</u>	<u>10,081,787</u>
Tax expense reported in statements of income	<b><u>P 72,611,644</u></b>	<u>P 69,864,351</u>	<u>P 70,318,983</u>

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The components of deferred tax expense (income) for the year ended December 31, 2008 as reported in statements of income and other comprehensive income follows:

**Reported in 2008 statement of income**

Net operating loss carryover (NOLCO)	( P59,665,559)
Unrealized foreign exchange loss	47,469,507
Excess of reserves for unearned reinsurance premiums per books over tax basis	14,924,581
Allowance for impairment	( 6,277,873)
Past service cost	1,285,940
Deferred acquisition costs	( 395,612)
Accrued leave benefits	( 87,055)
	<u>(P 2,746,071)</u>

**Reported in 2008 statement of comprehensive income**

Revaluation reserves on available-for-sale financial asset	<u>P 1,135,268</u>
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In accordance with the applicable accounting standards, the Company has taken a conservative position by not recognizing the net deferred tax assets on the following temporary differences as of December 31, 2010 and 2009:

	2010		2009	
	Tax Base	Tax Amount	Tax Base	Tax Amount
Deferred tax assets:				
NOLCO	<b>P 1,541,722,303</b>	<b>P 462,516,691</b>	P 451,469,054	P 135,440,716
Allowance for impairment	<b>283,129,959</b>	<b>84,938,988</b>	267,920,033	80,376,010
Unamortized past service cost	<b>17,602,819</b>	<b>5,280,846</b>	664,371	199,311
Retirement benefit obligation	<b>13,273,056</b>	<b>3,981,917</b>	22,016,459	6,604,938
Accrued leave benefits	<b>3,421,065</b>	<b>1,026,319</b>	3,472,176	1,041,653
MCIT	<b>364,428</b>	<b>364,428</b>	364,428	364,428
Unrealized foreign exchange loss	-	-	5,250,309	1,575,093
Deferred tax liabilities:				
Excess of reserves for unearned reinsurance premiums per books over tax basis	<b>(399,904,804)</b>	<b>(119,971,441)</b>	( 198,021,728)	( 59,406,518)
Revaluation reserves on available for sale financial assets	<b>(50,917,027)</b>	<b>(15,275,108)</b>	(53,783,974)	(16,135,192)
Deferred acquisition costs	<b>(44,942,794)</b>	<b>(13,482,838)</b>	(45,141,952)	(13,542,586)
Unrealized foreign exchange gain	<b>(3,910,251)</b>	<b>(1,173,075)</b>	-	-
Net Unrecognized Deferred Tax Assets	<b><u>P 1,359,838,754</u></b>	<b><u>P 408,206,727</u></b>	<b><u>P 454,209,176</u></b>	<b><u>P 136,517,853</u></b>

The details of the unrecognized NOLCO is shown below.

Year	Amount	Valid Until
2010	P 1,090,253,249	2013
2009	110,944,075	2012
2008	<u>340,524,979</u>	2011
	<u>P 1,541,722,303</u>	

The Company is subject to MCIT which is computed at 2% of gross income, or regular corporate income tax (RCIT), whichever is higher. No RCIT and MCIT was recognized in 2010 due to the taxable loss position of the Company. In 2009, the Company recognized MCIT amounting to P364,428 as there is also no RCIT because of the taxable loss position of the Company. The 2009 MCIT can be applied against future RCIT until 2012.

## 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 2010, 2009 and 2008, the Company opted to continue claiming itemized deductions.

## 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 Treasury Shares

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.

### 18.3 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 as of December 31, 2010 and 2009, and P221,334,777 as of December 31, 2008.

### 18.4 Declaration of Cash Dividends

The BOD approved the declaration of cash dividends of P0.047 per share (or a total of P101,504,847) on May 20, 2010, P0.04 per share (or a total of P86,387,104) on June 16, 2009 and P0.20 (or a total of P436,390,920) on March 25, 2008, payable to stockholders of record as of June 4, 2010, July 3, 2009 and April 10, 2008, 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:

	2010	2009
Premiums	P 1,075,476,870	P 1,313,818,543
Retrocessions	167,442,479	53,278,609
Commission income	24,900,998	13,525,245
Commission expenses	180,043,737	174,173,857
Losses incurred	439,040,794	316,063,490
Loss recoveries	7,199,638	45,737,776

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

	2010	2009
Due from ceding companies	P 383,122,276	P 304,657,139
Reinsurance recoverable on losses	42,822,100	40,967,517
Funds held by ceding companies	51,166,242	41,293,832
Due to retrocessionaires	(42,822,100)	(35,594,833)
Funds held for retrocessionaires	( 895,144 )	( 894,399 )

The balance of due from ceding companies pertaining to related parties is presented net of P67,870,910 and P79,710,908 allowance for impairment as of December 31, 2010 and 2009, 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:

	2010	2009
Time deposits	P 84,000,000	P 23,500,000
Savings and current accounts	2,838,884	2,332,565
	<u>P 86,838,884</u>	<u>P 25,832,565</u>

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## 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:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	P 359	P 22,611,956
Available-for-sale financial assets	1,509,452,819	1,201,491,263
Loans and receivables	<u>100,626,261</u>	<u>80,000,000</u>
	<u>P 1,610,079,439</u>	<u>P 1,304,103,219</u>

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, 2010 and 2009 amounted to P2,880,375 and P2,451,664 respectively, and is charged against Other Income (IChargesL) 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.

## 19.5 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Short-term benefits	P 49,351,635	P 46,766,449	P 61,642,735
Post-employment benefits	<u>3,063,600</u>	<u>2,615,573</u>	<u>2,238,886</u>
	<u>P 52,415,235</u>	<u>P 49,382,022</u>	<u>P 63,881,621</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 PROFIT (LOSS) UNDER PFRS TO STATUTORY NET INCOME

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
PFRS net profit (loss)	( P 479,977,800 )	P 103,039,357	P 94,443,421
Difference in change in reserve for unearned reinsurance premiums – net	( 201,883,076 )	( 70,851,172 )	( 60,808,883 )
Deferred acquisition costs – net	199,158	24,184,634	( 8,773,478 )
Tax effect of reconciling items	-	-	<u>20,874,708</u>
Statutory net profit (loss)	<u>( P 681,661,718 )</u>	<u>P 56,372,819</u>	<u>P 45,735,768</u>

## 22. EARNINGS (LOSSES) PER SHARE

The earnings (losses) per share amounts are as follows:

	2010	2009	2008
Net profit (loss) available to common shareholders	(P 479,977,800)	P 103,039,357	P 94,443,421
Divided by the average number of outstanding common shares	<u>2,159,677,600</u>	<u>2,159,677,600</u>	<u>2,176,922,899</u>
	<u>(P 0.22)</u>	<u>P 0.05</u>	<u>P 0.04</u>

Diluted earnings (losses) per share is not determined since the Company does not have dilutive shares as of December 31, 2010, 2009 and 2008.

## 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:

	2010	2009
Within one year	P 231,728	P 915,874
After one year but not more than five years	-	231,728
	<u>P 231,728</u>	<u>P 1,147,602</u>

Rental expense recognized amounted to P2,689,750, P1,653,628 and P953,418 in 2010, 2009 and 2008, respectively, and is presented in the statements of income as Rental Expense 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, 2010, 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	2010		2009	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial assets</b>					
Loans and receivables:					
Cash and cash equivalents	5	P 613,287,054	P 613,287,054	P 683,659,159	P 683,659,159
Reinsurance balances receivables	6	4,210,444,502	4,210,444,502	2,874,413,754	2,874,413,754
Loans and receivables	8	360,688,116	360,688,116	253,464,887	253,464,887
		<u>P 5,184,419,672</u>	<u>P 5,184,419,672</u>	<u>P 3,811,537,800</u>	<u>P 3,811,537,800</u>
Available-for-sale financial assets:					
Debt securities	7	P 5,293,842,809	P 5,293,842,809	P 5,187,509,694	P 5,187,509,694
Equity securities	7	860,523,387	860,523,387	699,052,711	699,052,711
Investment in Asian Re shares	7	72,859,527	72,859,527	76,961,974	76,961,974
Various funds	7	69,909,844	69,909,844	85,211,785	85,211,785
		<u>P 6,297,135,567</u>	<u>P 6,297,135,567</u>	<u>P 6,048,736,164</u>	<u>P 6,048,736,164</u>

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	Notes	2010		2009	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial liabilities</b>					
Reinsurance balances payable	6	P 5,462,712,883	P 5,462,712,883	P 3,587,881,996	P 3,587,881,996
Accounts payable and other accrued expenses	12	46,516,252	46,516,252	9,198,755	9,198,755
		<b>P 5,509,229,135</b>	<b>P 5,509,229,135</b>	<b>P 3,597,080,751</b>	<b>P 3,597,080,751</b>

## 24.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Company (amounts shown in thousands).

	Level 1	Level 2	Level 3	Total
<b>December 31, 2010</b>				
Available-for-sale financial assets	P 6,224,276	P -	P 72,860	P 6,297,136
<b>December 31, 2009</b>				
Available-for-sale financial assets	P 5,971,774	P -	P 76,962	P 6,048,736

The different levels have been defined as follows:

- 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 asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 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 limitations 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, 2010	December 31, 2009
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

## 26. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS (RR) NO. 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulations 15-2010, which requires certain information on taxes, duties and licenses paid or accrued during the taxable year to be disclosed as part of the notes to financial statements. This supplemental information, which is an addition to the disclosure required under PFRS, is presented as follows:

### 26.1 Output VAT

In 2010, the Company declared output VAT amounting to P39,908,192, which is set off against input VAT (see Note 26.2), based on the following gross receipts:

	<u>Tax Base</u>	<u>Output VAT</u>
Commission earned on retrocession	P 330,928,616	P 39,711,434
Rental income	<u>1,639,653</u>	<u>196,758</u>
	<u>P 332,568,269</u>	<u>P 39,908,192</u>

Pursuant to RR 04-07 effective April 6, 2007, Non-life insurance premiums are subject to VAT whereas non-life reinsurance premiums are not subject to VAT, the latter being already subject to VAT upon receipt of the insurance premiums. For taxable year 2010, the Company's VAT exempt receipts amounted to P722,073,784.

As of December 31, 2010, the Company also has Deferred Output VAT amounting to P41,793,329 pertaining to uncollected commission income from retrocessionaires (see Note 12).

### 26.2 Input VAT

The movements in input VAT in 2010 are summarized below.

Balance at beginning of year	P 26,287,002
Services lodged under other accounts	36,355,319
Goods other than for resale or manufacture	3,427,286
Capital goods subject to amortization	336,795
Capital goods not subject to amortization	241,842
Applied against output VAT	( 39,908,192)
Input VAT on exempt sales	<u>( 2,644,718)</u>
Balance at end of year	<u>P 24,095,334</u>

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The balance of Input VAT as of December 31, 2010 is recorded under Other Assets account in the 2010 statement of financial position.

As of December 31, 2010, the Company has Deferred input VAT amounting to P72,128,569 pertaining to VAT on unpaid commission to ceding companies, and Deferred Withholding VAT amounting to P9,113,038 representing VAT on unapplied input VAT on unpaid premiums on ceded out transactions (see Note 11).

## 26.3 Custom Duties and Tariff Fees

The Company does not have any customs duties or tariff fees for the year ended December 31, 2010 since it does not have any importation.

## 26.4 Excise Tax

The Company does not have excise tax for the year ended December 31, 2010 since it does not have any transactions which are subject to excise tax.

## 26.5 Documentary Stamp Tax

Reinsurance contracts are not subject to documentary stamp tax (DST). The Company is liable to DST when it issue original shares of stocks or transfer certificate of stock. The Company did not issue original shares of stocks nor transfer certificate of stocks for the year ended December 31, 2010.

## 26.6 Taxes, License, and Fees

The details of Taxes, Licenses and Fees account for the year ended December 31, 2010 presented under General and Administrative is broken down as follows (see Note 15):

Municipal license and permits	P	3,592,743
Filing fees		2,285,792
Real estate taxes		573,773
Fringe benefit tax		461,805
SEC registration fee		386,119
Vehicle registration fees		32,813
Residence tax		10,500
Miscellaneous		427,308
	<b>P</b>	<b>7,770,853</b>

## 26.7 Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2010 are shown below.

Compensation and benefits	P	26,235,359
Final		9,535,143
Creditable		2,827,262
	<b>P</b>	<b>38,597,764</b>

## 26.8 Deficiency Tax Assessments and Tax Cases

The Company does not have any deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside the BIR in any of the open years.





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