

COVER SHEET

SEC Registration Number

NATIONAL REINSURANCE
CORPORATION OF THE
PHILIPPINES

(Company's Full Name)

18th FLOOR PHILIPPINE AXA LIFE
CENTRE SEN. GIL PUYAT CORNER
TINDALO STREET MAKATI CITY

(Business Address: No., Street City / Town / Province)

Atty. Zenaida L. Salipsip
Atty. Ma. Pilar Pilares-Gutierrez
Contact Person

817-6791 to 95

Company Telephone Number

(Last Wednesday of July)

1 2 3 1
Month Day
Fiscal Year

SEC Form 20-IS
Definitive Information Statement
FORM TYPE

0 7 2 3
Month Day
Annual Meeting

N.A.
Secondary License Type, If Applicable

C F D
Dept Requiring this Doc

Amended Articles Number / Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
☐ Preliminary Information Statement
☒ **Definitive Information Statement**
2. Name of Corporation as specified in its charter:
National Reinsurance Corporation of the Philippines, doing business under the names and styles of Philippine National Reinsurance Company; PhilNaRe
3. Province, country or other jurisdiction of incorporation or organization: **Philippines**
4. SEC Identification Number: **80118**
5. BIR Tax Identification Code: **000-480-869**
6. Address of principal office Postal Code: **18th Floor, Philippine AXA Life Centre
Sen. Gil Puyat Avenue corner Tindalo Street
Makati City 1200 Philippines**
7. Corporation's telephone number, including area code: **(632) 759-5801 to 06**
8. Date, time and place of the meeting of security holders:
**July 23, 2007, Monday
3:00 P.M.
Carlos P. Romulo Auditorium
Podium 4, Tower II, RCBC Plaza
6819 Ayala Avenue, Makati City**
9. Approximate date on which the Information Statement is first to be sent or given to security holders: **July 2, 2007**
10. In case of Proxy Solicitations:
Name of Person Filing the Statement/Solicitor: **The Management of the Corporation**
Address and Telephone No.: **18th Floor, Philippine AXA Life Centre
Sen. Gil Puyat Avenue corner Tindalo Street
Makati City 1200 Philippines**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

<u>Title of Each Class</u>	<u>No. of Shares Outstanding</u>	<u>Amount</u>
Common Shares	741,902,600	Php741,902,600.00
Preferred Shares	0	0
TOTAL	741,902,600	Php741,902,600.00

12. Are any or all of Corporation's Securities Listed with the Philippine Stock Exchange?

Yes (☒)

No (☐)

PART I
INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, Time and Place of Meeting

The enclosed proxy is solicited for and on behalf of the Management of **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**, *doing business under the names and styles of Philippine National Reinsurance Company; PhilNaRe* (hereinafter called the "Corporation") for use in connection with the annual meeting of the stockholders to be held on July 23, 2007 (Monday), at 3:00 P.M. at the Carlos P. Romulo Auditorium, Podium 4, Tower II, RCBC Plaza, 6819 Ayala Avenue, Makati City.

The information statement and form of proxy will be sent to the stockholders of record as of June 15, 2007 (the "Record Date") on or before July 2, 2007.

The matters to be considered and acted upon at such meeting are referred to in the Notice and are more fully discussed in this statement.

The complete mailing address of the Corporation is:

18th Floor, Philippine AXA Life Centre
Sen. Gil Puyat Avenue corner Tindalo Street
Makati City 1200 Philippines.
Telephone Number (632) 759-5801 to 06

Item 2. Dissenter's Right of Appraisal

The dissenter's right of appraisal under Section 81 of the Corporation Code of the Philippines is not applicable in any of the matters to be submitted to the stockholders.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

No director, officer, nominee for director, or associate of any of the foregoing, has any substantial interest, direct or indirect, by security holdings or otherwise, on any matter to be acted upon, other than election to office. No director has informed the Corporation in writing of any intention to oppose any action to be taken during the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders thereof

- (a) As of the Record Date, which shall be the date to determine the stockholders entitled to notice and to vote at the annual stockholders meeting on July 23, 2007, the Corporation has the following outstanding shares:

Common shares (voting)

- 2,181,954,600 shares

- (b) Only holders of Common Shares as of the Record Date shall be entitled to vote in the election of directors in the manner provided hereunder. On the approval of the minutes of the previous meetings, ratification of the stock dividend declaration, ratification of all acts of the Board of Directors and officers during the previous year, and appointment of the independent auditor, each share of outstanding common stock is entitled to one vote.
- (c) In the election of directors, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of common shares of stock standing in his name at record date. A stockholder entitled to vote may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast by a stockholder shall not exceed the number of shares owned by him as shown in the books of the Corporation multiplied by the whole number of directors to be elected.
- (d) **Security Ownership of Certain Record and Beneficial Owners**

The following table sets forth as of **May 31, 2007**, the record and/or beneficial owners of more than 5% of the outstanding Common Shares of the Corporation and the amount of such record and/or beneficial ownership.

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name and Address of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares Held	Percent of Class
Common	PCIB Securities ¹ 16/F Equitable PCI Bank Tower Building, Makati Ave., corner H.V. dela Costa Street, Makati City	Bank of Philippine Islands Ayala Avenue corner Paseo de Roxas, Makati <i>Person authorized to Direct the Voting of the Shares: Mr. Emilio S. De Quiros, President of Ayala Life Assurance, Inc.</i>	Filipino	290,795,600 ²	13.33%

¹ PCIB Securities, as escrow agent, holds the NRCP shares owned by BPI, GSIS and MICO Equities, Inc., pursuant to Section 17 of the PSE Revised Listing Rules. There is no relation between PCIB Securities and the Corporation.

² The 290,795,600 shares of BPI form part of the PCD nominee account which constitute 80.34% of the Company's outstanding capital stock.

Common	PCIB Securities 16/F Equitable PCI Bank Tower Building, Makati Ave., corner H.V. dela Costa Street, Makati City	Government Service Insurance System New GSIS Headquarters, Financial Center, Pasay <i>Person authorized to Direct the Voting of the Shares: Mr. Winston F. Garcia, President and General Manager of GSIS</i>	Filipino	358,544,000 ³	16.43%
Common	PCIB Securities 16/F Equitable PCI Bank Tower Building, Makati Ave., corner H.V. dela Costa Street, Makati City	MICO Equities Inc. Yuchengco Bldg., 484 Quintin Paredes Street Manila <i>Person authorized to Direct the Voting of the Shares: Ms. Yvonne S. Yuchengco, President of Malayan Insurance Company, Inc.</i>	Filipino	260,448,000 ⁴	11.94%
Common	PCD Nominee Corporation. ⁵ 37th Floor Enterprise Building Tower I Ayala Avenue corner Paseo de Roxas, Makati	See attached Schedule 1 ⁶ <i>Person authorized to Direct the Voting of the Shares: Ms. Mary Ann Malicdem, Assistant Manager/Operations of PCD Nominee Corporation</i>	Filipino	1,753,024,300	80.34%

(e) Security Ownership of Management

The table sets forth as of **May 31, 2007**, the record or beneficial stock ownership of each Director of the Corporation and all Officers and Directors as a group.

³ The 358,544,000 shares of GSIS form part of the PCD nominee account which constitute 80.34% of the Company's outstanding capital stock.

⁴ The 260,448,000 shares of MICO Equities form part of the PCD nominee account which constitute 80.34% of the Company's outstanding capital stock.

⁵ PCD Nominee Corporation is a stockholder of the Corporation.

⁶ They are the registered owners of shares held by participants in the Philippine Depository and Trust Company or PDTC, a private company which implements the automated book system of handling securities transactions.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Winston F. Garcia	442,300 Record	Filipino	0.020271%
Common	GSIS (assigned to Winston F. Garcia as nominee director)	100 Beneficial	Filipino	-
Common	Adelita Vergel de Dios	171,500 Record	Filipino	0.00786%
Common	Wilfrido C. Bantayan	1,053,000 Record	Filipino	0.04826%
Common	Alfonso Salcedo	1,316,000 Record	Filipino	0.06031%
Common	FGU Insurance Corporation (assigned to Alfonso L. Salcedo, Jr. as nominee director)	100 Beneficial	Filipino	-
Common	Yvonne Yuchengco	26,000 Record	Filipino	0.00119%
Common	Malayan Insurance Company, Inc. (assigned to Yvonne S. Yuchengco as nominee director)	100 Beneficial	Filipino	-
Common	Manuel U. Co	341,600 Record	Filipino	0.01566%
Common	Pioneer Insurance & Surety Corporation (assigned to Manuel U. Co as nominee director)	100 Beneficial	Filipino	-
Common	Rafael C. Gallaga	3,013,500 Record	Filipino	0.13811%
Common	Mapfre Asian Insurance Corporation (assigned to Rafael C. Gallaga as nominee director)	100 Beneficial	Filipino	-
Common	Sterling Insurance Co., Inc. (assigned to Rafael C. Gallaga as nominee director)	100 Beneficial	Filipino	-
Common	Emilio S. De Quiros	100,000 Record	Filipino	0.00458
Common	Bank of Philippine Islands (assigned to Emilio S. de Quiros as nominee director)	100 Beneficial	Filipino	-
Common	GSIS (assigned to Josefina L. Valera as nominee director)	100 Beneficial	Filipino	-
Common	Romeo L. Bernardo	264,000 Record	Filipino	0.01209%
Common	Joli C. Wu	694,100	Filipino	0.03181%

		Record		
Common	Seaboard-Eastern Insurance Company, Inc. (assigned to Joli C. Wu as nominee director)	100 Beneficial	Filipino	-
	TOTAL FOR DIRECTORS	7,422,900		0.34019%
Common	Armando Malabanan	660,000 Record	Filipino	0.03025%
Common	Raymundo T. Bautista	606,500 Record	Filipino	0.02779%
Common	Rodolfo Nayve	53,000 Record	Filipino	0.00242%
Common	Danilo J. Cabero	57,200 Record	Filipino	0.00262%
Common	Buenaventura P. Duran	698,000 Record	Filipino	0.03199%
Common	Amerfil V. Basco	161,800 Record	Filipino	0.00741%
Common	Theresa Lorna M. Legaspi	33,600 Record	Filipino	0.00154%
Common	Regina S. Ramos	23,700 Record	Filipino	0.00109%
Common	Ma. Lourdes M. Santos	7,200 Record	Filipino	0.00033%
Common	Vicente B. Villarama	12,800 Record	Filipino	0.00059%
	TOTAL FOR OTHER OFFICERS	2,313,800		0.10604%
	GRAND TOTAL	9,736,700		0.44624%

All the above named directors and officers of the Corporation are the record and beneficial owners of the shares of stock set forth opposite their respective names.

(f) Voting Trust Holders of 5% or more

The Corporation is not aware of any person holding more than 5% of the shares of the Corporation under a voting trust or similar agreement which may result in a change in control of the Corporation.

(g) Changes in Control

From January 1, 2007 to date, there has been no change in control of the Corporation. Neither is the Corporation aware of any arrangement which may result in a change in control of it.

Item 5. Directors and Executive Officers

(a) Incumbent directors and Executive Officers.

The Corporation's Articles of Incorporation provide for an 11-seat Board of Directors. The following is the list of the members of the Board:

Name	Position	Age	Citizenship
Winston F. Garcia	Chairman	49	Filipino
Adelita A. Vergel De Dios	Vice Chairman	62	Filipino
Wilfrido C. Bantayan	Director/President/Chief Executive Officer	59	Filipino
Alfonso L. Salcedo, Jr.	Director/Treasurer	52	Filipino
Yvonne S. Yuchengco	Director	54	Filipino
Manuel U. Co	Director	67	Filipino
Rafael C. Gallaga	Director	65	Filipino
Emilio S. De Quiros	Director	59	Filipino
Josefina L. Valera	Director	50	Filipino
Romeo L. Bernardo	Independent Director	53	Filipino
Joli Co Wu	Independent Director	41	Filipino

The following is the list of the Corporation's key executive officers as of the date of this Information Statement:

Name	Position	Age	Citizenship
Wilfrido C Bantayan	President and Chief Executive	59	Filipino
Armando S. Malabanan	Executive Vice President and Chief Operating Officer	58	Filipino
Raymundo T. Bautista	Senior Vice-President, Head of the Life Division and Corporate Services Division	57	Filipino
John E. Huang	Senior Vice President, Head of Finance Division and Assistant Treasurer	49	Filipino
Rodolfo M. Nayve	Senior Vice President, Head of Non-life Division	55	Filipino
Alfonso L. Salcedo, Jr.	Treasurer	52	Filipino
Zenaida L. Salipsip	Corporate Secretary	65	Filipino
Ma. Pilar Pilares-Gutierrez	Assistant Corporate Secretary	30	Filipino
Danilo J. Cabrero	Vice President for Underwriting and Claims – Facultative	49	Filipino
Buenaventura P. Duran	Vice President for Special Accounts	52	Filipino
Amerfil V. Basco	Vice President for Reinsurance Accounting	47	Filipino
Theresa Lorna M. Legaspi	Vice President for Management Information Systems	49	Filipino
Regina S. Ramos	Vice President for Internal Audit	45	Filipino

Ma. Lourdes M. Santos	Vice President for Underwriting and Claims – Treaty	51	Filipino
Vicente B. Villarama	Vice President for General Accounting	50	Filipino
Marissa P. Aldeano	Vice President for Treasury and Investments	46	Filipino
Noel M. Juan	Vice President for Special Product Lines	49	Filipino

(b) Term of office.

The term of office of the Directors and executive officers is one (1) year from their election as such until their successors are duly elected and qualified.

(c) Business experience of the Directors and Officers during the past five (5) years.

Winston F. Garcia, Chairman of the Board, Director of the Corporation since June 2002. Atty. Winton F. Garcia also holds the following positions: President and General Manager of GSIS from January, 2001 to date; For the past five years, he was Vice-Chairman of the Board of Trustees of the GSIS; Chairman of GSIS Mutual Fund, Inc.; Director of the Philippine Health Insurance Corporation; Treasurer of the Philippine Social Security Association, Inc.; Vice-Chairman of Equitable PCI Bank, Inc.; Chairman of Equitable Card Network, Inc.; Chairman of the Equitable Savings Bank, Inc.; Chairman of the PCIB Securities, Inc.; Director of EBC Investments, Inc.; Director of PCI Capital Corporation; Director of ASEAN Forum, Inc.; Director of San Miguel Corporation; Director of the Manila Hotel Corporation; and Director of the Philippine National Construction Corporation. He graduated with an AB Philosophy from the University of Santo Tomas Central Seminary in 1978 and Bachelor of Laws from the San Beda College of Law in 1982. He also holds an Associate in Arts degree from the Southwestern University, U.S.A.

Adelita A. Vergel De Dios, Vice Chairman of the Board, Director of the Corporation since June 2002. Ms. Adelita A. Vergel De Dios has also held the following positions for the past five years: Chairman of the Board of Malayan Insurance Co., Inc.; Member of the Board of Great Pacific Life Assurance Corporation. Past positions include directorships in Grepalife Fixed Income Fund; Grepalife Dollar Bond Fund; Pacific Plans, Inc.; President and chief operating officer of Philippine Savings Bank; and Chairman of the Board of Philippine Charter Insurance Corporation. She served as the Insurance Commissioner from June 1987 to April 1995. She graduated with a Bachelor of Business Administration degree from the University of the East in 1964, and Bachelor of Laws from the University of the East in 1973.

Wilfrido C. Bantayan, Director, President and Chief Executive Officer since 1998. Mr. Wilfrido C. Bantayan joined the Corporation in 1981 as Assistant General Manager and moved up to General Manager and Chief Operating Officer in 1987. Previously, he worked as Assistant Vice-President of Rizal Empire Insurance Group. He graduated with a Bachelor of Science in Commerce-Accounting degree from Jose Rizal University in 1967. He is a Certified Public Accountant.

Alfonso L. Salcedo, Jr., Director and Treasurer since June 2002. He is also the Director of BPI/MS Insurance Corporation; the President and Director of BPI Family Savings Bank, Inc. since May, 2004. He served as President of Allstate Director Life Insurance (Phils.); Country Marketing Director of Citibank, N.A. (Manila); Marketing Manager of Nippon Vicks KK (Japan); and Richardson Vicks Philippines. He

graduated with a degree in AB Economics from the Ateneo de Manila University in 1977. He also took an Advanced Management Program course at the Harvard Business School in 2006.

Manuel U. Co, Director since 1994. He is also the Executive Vice President of Pioneer Insurance & Surety Corporation since January 1, 1989. He graduated with a degree in Bachelor of Business Administration from the University of the East in 1963.

Rafael C. Gallaga, Director since 2005. He also served as Director of the Corporation from June 1995 until June 2004. Mr. Rafael Gallaga is also the President of Sterling Insurance Co., Inc. since November, 2001. He served as President and Chief Operating Officer of Mapfre Asian Insurance Corporation. He graduated with a degree in Bachelor of Science, Major in Business Management from San Beda College in 1964.

Emilio S. De Quiros, Jr., Director since June 2006. After the merger of UMRe with the Corporation, he was nominated Director of the Corporation in June 2006. He is also the Director and President of Ayala Life Assurance, Inc. since April, 2004, Ayala Plans, Inc., FGU Insurance Corporation, FEB Insurance Brokers, Inc.; and Director of BPI/MS Insurance Corporation, Philippine Life Insurance Association, Philippine Federation of Pre-Need Plan Companies, Inc., ALFM Peso Bond Fund, ALFM Euro Bond Fund, ALFM Dollar Bond Fund and the Philippine Stock Index Fund. He graduated with a degree in AB Economics from Ateneo de Naga in 1969.

Josefina L. Valera, Director since 2004. She is also the Senior Vice President of the GSIS since July, 2004. She graduated with a degree in BSBA Accountancy from the Ateneo de Manila University in 1986.

Yvonne S. Yuchengco, Director since June 2006. She is also the President and Director of Malayan Insurance Company, Inc. since 1995, and MICO Equities, Inc. since 1995. She is currently the Chairman of the Board of RCBC Capital Corporation and Tokio Marine Malayan Insurance Company; Treasurer and Director of Pan Malayan Management & Investment Corporation and Honda Cars Kalookan; Senior Executive Vice President and Director of Great Pacific Life Assurance Corporation; Director of Pan Malayan Realty Corporation, Malayan Insurance (U.K.), Malayan Insurance (H.K.), Malayan International Insurance Corporation, Manila Memorial Park, Inc., La Funeraria Paz, Inc., Nippon Life Phils., Inc., Mapua Institute of Technology, La Funeraria Paz Sucat, Inc., iPeople, Inc., Seafront Resources Corporation, Malayan High School of Science, Inc., Yuchengco Museum, Inc., Bankers Assurance Corporation and Luisita Industrial Park Corporation; and Advisory Board Member of Rizal Commercial Banking Corporation. She graduated with a degree in AB Communication Arts from the Ateneo de Manila University in 1975.

Joli Co Wu, Independent Director, since August 2004. She is also the President and Chief Executive Officer of Seaboard-Eastern Insurance since August, 2004. She graduated with a degree in Bachelor of Arts, Major in Financial Management from the Catholic University of America, Washington D.C., U.S.A. in 1987.

Romeo L. Bernardo, Independent Director since April 2006. He is also the President of Lazaro Bernardo Tiu & Associates, Inc.; Independent Director of Bank of the Philippine Islands and Ayala Life Assurance, Inc.; Chairman of the Board of ALFM Peso Bond Fund, Inc., ALFM Dollar Bond, Inc., and ALFM Euro Bond Fund, Inc.; Director of Globe Telecom, Inc., RFM Corporation, Philippine Investment Management, Inc., PSi Technologies, Inc., Philippine Institute for Development Studies, Ayala Plans, Inc., BPI Family Savings Bank, Inc., BPI Capital Corporation, BPI Direct Savings Bank, BPI Rental Corporation, and BPI Leasing Corporation; and Vice Chairman and Founding Fellow of the Foundation for Economic Freedom and Member of the Board of Trustees of the UP School of Economics Alumni

Association. He graduated with a degree in BS Business Economics from the University of the Philippines in 1974, and Masters in Development Economics from the Williams College, Massachusetts, U.S.A. in 1977.

Zenaida L. Salipsip, Corporate Secretary since June 2002. She is a former Partner of Castillo Laman Tan Pantaleon San Jose Law Offices, and is currently a consultant for special projects of the same law firm. She is also the Corporate Secretary of D.M. Consunji, Inc., DMCI Project Developers, Inc., Eco Process & Equipment Phils., Inc., Bachy Solentanche Philippine Corporation, Pricon Microelectronics, Inc., Dacon Insurance Brokers, Inc., Nihon Garter Philippines, Inc., Software AG (Philippines), Inc., Sony Life Insurance (Philippines) Corporation, Singtel (Philippines) Inc., Wire Rope Corporation of the Philippines, IMS Health, Incorporated, and Boehringer Ingelheim Medical Science Foundation, Inc. She graduated with a degree in Bachelor of Science in Commerce-Major in Economics from the Far Eastern University in 1962, Bachelor of Laws from the Far Eastern University in 1967, and Masters in National Security Administration from the National Defense College of the Philippines in 1984.

Raymundo T. Bautista, Jr., Senior Vice President, Head of Life and Corporate Services Division. He joined the Corporation in 1998 as Senior Manager, and has worked in Life, Claims, Human Resources, Corporate Planning, Finance and Administration Departments. He previously worked as Vice President for Corporate Planning, Business Development, Actuarial Services and Commercial Operations for Philippine Crop Insurance Corporation; Project Officer of the World Bank-funded Agricultural Loan Fund; and Vice Chairman of the Board of Pool of Livestock Insurers. He graduated with a degree in Mathematics, Minor in Physics from the Mapua Institute of Technology in 1971, and obtained a Masters degree in Business Administration from the Polytechnic University of the Philippines in 1980.

Armando S. Malabanan, Executive Vice President and Chief Operating Officer. He joined the Corporation on March 1, 2007. Prior to joining the Corporation, he was the General Manager and CEO of Asian Reinsurance Corporation and Chief Accountant of the Charter Insurance Co. (now Philippine Charter Insurance Co.). He earned his Masters in Management from Sasin GIBA-Chulalongkorn University, Bangkok, and his Bachelor of Science in Business Administration from the Mapua Institute of Technology. Mr. Malabanan is a Certified Public Accountant.

John E. Huang, Senior Vice President, Head of Finance Division. He joined UMRe in 2004 as its Chief Finance Officer. Prior to joining UMRe, he held the positions Chief Financial Officer of C&P Homes, Inc., Senior Vice President of Urban Bank, and Vice President of First National Bank of Boston. He graduated with a degree in AB Economics from the Ateneo de Manila University in 1978, and obtained his Masters degree in Business Administration from the Harvard Business School, Boston, U.S.A., in 1982.

Rodolfo M Nayve, Senior Vice President, Head of Non-Life Division. He joined UMRe as its Vice President in 1996. He graduated with a degree in Bachelor of Science Business Administration from the Philippine School of Business Administration in 1979. He earned units in Masters in Business Administration from the Ateneo de Manila Graduate School in 1981, and attended an Advanced Insurance Management Course from the Asian Institute of Management in 1998.

Danilo J. Cabero, Vice President for Underwriting and Claims – Facultative. Prior to his position as Vice President of the Corporation, Mr. Cabero was the Manager for the Underwriting Department from 1996 to 2000. He obtained his Bachelor of Science in Commerce, major in Accounting from the Far Eastern University.

Buenaventura P. Duran, Vice President for Special Accounts. Mr. Duran was the Reinsurance Manager of Philippine First Insurance from 1986 to 1996. He obtained his Bachelor of Science in Business Administration, major in Accounting from the University of the East.

Amerfil V. Basco, Vice President for Reinsurance Accounting. Ms. Basco has served in various capacities in the Corporation for over 15 years. She is a Certified Public Accountant and has obtained her Bachelor of Science in Commerce, Major in Accounting from the Far Eastern University.

Theresa Lorna M. Legaspi, Vice President for Management Information Systems. Ms. Legaspi has held this position since 2000. She has been with the Corporation since 1982. She obtained her AB Liberal Arts from St. Paul College Manila, her Programming and Systems Analysis Courses from Impact Center-De La Salle University, and her Networking courses from the Ateneo Computer Training Center.

Regina S. Ramos, Vice President for Internal Audit. Prior to joining the Corporation in 2000, Ms. Ramos worked with Development Insurance and Surety Corporation and SGV and Co. She is a Certified Public Accountant and a Certified Internal Auditor as well. She obtained her Bachelor of Science in Commerce, major in Accounting from the St. Paul College Manila.

Ma. Lourdes M. Santos, Vice President for Underwriting and Claims – Treaty. Ms. Santos has been with the Corporation since 1994. She was previously employed with the former Rizal Empire Insurance Co., and the Cologne Reinsurance Company (Manila Representative Office). She obtained her Bachelor of Commercial Science degree from the Jose Rizal University.

Vicente P. Villarama, Jr., Vice President for General Accounting. Mr. Villarama has been with the Corporation since 1983. He was the Manager for the General Accounting Department since 2000. He is a Certified Public Accountant and has obtained his Bachelor of Science in Commerce, major in Accounting from the Baliuag University.

Marissa P. Aldeano, Vice President for Treasury and Investments. Prior to the merger, Ms. Aldeano has been with Universal Malayan Reinsurance Corp., since 1982. She is a Certified Public Accountant and has obtained her Bachelor of Science in Commerce, major in Accounting from the University of Santo Tomas.

Noel M. Juan, Vice President for Special Products Line. Mr. Juan was a former Consultant for Bellwether Advisory, Inc., and Assistant Vice President of Generali Pilipinas Insurance Co., and FGU Insurance Corporation. He is a licensed Mechanical Engineer and obtained his Bachelor of Science in Mechanical Engineering from the Mapua Institute of Technology.

(d) Independent Directors.

Mr. Romeo L. Bernardo and Ms. Joli Co Wu are currently the Corporation's Independent Directors since June 2006.

Under its By-Laws, the Corporation is required to have at least two (2) Independent Directors or such number of Independent Directors as shall be required under the applicable rules and regulations of the Insurance Commission and the Securities and Exchange Commission. The Final List of Candidates for Independent Directors (Schedule 2) include:

- I. Mr. Romeo L. Bernardo who was nominated by Ms. Flaviana C. Garces;

2. Mr. Primitivo Cal⁷ who was nominated by Mr. Edgar B. Villasenor; and
3. Mr. Rizalino Navarro⁸ who was nominated by Ms. Mylene A. Evangelista.

The three (3) nominees for Independent Directors were selected by the Board Nomination Committee in accordance with the guidelines in the Manual of Corporate Governance, the Insurance Commission Circular No. 31-2005 dated September 26, 2005, the Code of Corporate Governance (SEC Memorandum Circular No. 2, Series of 2002), and the Guidelines on the nomination and election of Independent Directors (SRC Rule 38). Ms. Flaviana C. Garces, Mr. Edgar B. Villasenor, and Ms. Mylene A. Evangelista do not have any family and/ or business relationships or affiliations with the three nominees for independent directors.

(e) Other directorships held in reporting companies naming each company.

Winston F. Garcia	President and General Manager of GSIS; Vice-Chairman of the Board of Trustees of the GSIS; Chairman of GSIS Mutual Fund, Inc.
Adelita A. Vergel De Dios	Chairman of the Board of Malayan Insurance Co., Inc.
Alfonso L. Salcedo, Jr.	Director of BPI/MS Insurance Corporation; the President and Director of BPI Family Savings Bank, Inc.
Emilio S. De Quiros, Jr.	Director and President of Ayala Life Assurance, Inc., Ayala Plans, Inc., FGU Insurance Corporation
Josefina L. Valera	Senior Vice President of the GSIS
Yvonne S. Yuchengco	President and Director of Malayan Insurance Company, Inc., and MICO Equities, Inc.
Joli Co Wu	President and Chief Executive Officer of Seaboard-Eastern Insurance

⁷ Mr. Primitivo Cal is a civil engineer and lawyer. He is a full professor at the School of Urban and Regional Planning (SURP), University of the Philippines. He recently completed his term as dean of SURP. He served as Undersecretary of the Department of Transportation and Communication from December 1993 to June 1998. He has held several scholarly positions in the past as Foreign Professor at the University of Tsukuba, Japan; Research assistant in the Department of Civil Engineering, University of Dundee in Scotland and in the Asian Institute of Technology in Bangkok, Thailand. He also served as a Board member of the Philippine National Railways from November 2001 to December 2004.

⁸ Mr. Rizalino S. Navarro is presently a director of the Rizal Commercial Banking Corporation since 1999 and the Chairman of several companies including EEI Corporation, Upline Food Corporation, and Phil. Fuji Xerox Corp. He is at present a director of House of Investments, Inc., Pacific Plans, Inc., Bankard, Inc., Great Pacific Life Assurance Corp., Mapua Institute of Technology, Seafront Resources Corp., Malayan Insurance Co., Inc., YGC Computer Services, Inc., Petroenergy Corp., an Honda Cars Phil., Inc. He served as the Executive Vice Chairman of RCBC from June 28, 2004 to January 2005.

Ms. Wu and Mr. Romeo Bernardo of Lazaro, Bernardo, Tiu & Associates, are the current independent directors in the Corporation. To be considered independent directors under IC Circular Letter No. 31-2005, one: (i) has not been an officer or employee of the company for the last three years immediately preceding his term or incumbency; (ii) is not related by consanguinity or affinity to an officer in a senior management position in the company; and (iii) does not provide services, and receives no income for other professional services to the company. The Corporation has no transactions with Lazaro, Bernardo, Tiu & Associates. The Corporation has transactions with Seaboard-Eastern Insurance, which are done in the ordinary course of business, conducted on an arm's length basis and negotiated based on prevailing competitive commercial terms and approved by the Corporation's Underwriting Committee. Some of its business is pursuant to the compulsory cessions provided under P.D. 1270.

(f) Family Relationship

None of the Corporation's directors or executive officers is related to each other up to the fourth civil degree either by consanguinity or affinity.

(g) Resignation/Re-election

Since the last annual stockholders' meeting of the Corporation, no Director has resigned or declined to stand for reelection to the Board of Directors of the Corporation because of a disagreement with the Corporation on any matter relating to the Corporation's operations, policies or practices.

(h) Involvement in Legal Proceedings

To the best of the Corporation's knowledge, there has been no occurrence during the past 5 years up to the present date of this Information Statement of any of the following events that are material to an evaluation of the ability and integrity of any director, any nominee for election as director, executive officer, or controlling person of the Corporation:

- Any bankruptcy petition filed by or against any business of which the person was a general partner or executive officer, either at the time of the bankruptcy or within 2 years prior to that time;
- Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, traffic violations and other minor offenses;
- Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

(i) Significant employees

Although the Corporation has and will likely continue to rely significantly on the continued individual and collective contributions of its senior management team, the Corporation is not dependent

on the services of any particular employee. It does not have any special arrangements to ensure that any employee will remain with the Corporation and will not compete upon termination.

(j) Certain Relationships and Related Transactions

The Corporation's principal shareholders include GSIS, the BPI Group and the Malayan Group with ownership stake of 16.43% as of May 31, 2007.⁹ In addition, members of the Board of Directors include Manuel U. Co, the Executive Vice President and Chief Operating Officer of Pioneer Insurance & Surety Corporation; Rafael del Castillo Gallaga, the President of Sterling Insurance Co., Inc.; and Joli Co Wu, the President and Chief Executive Officer of Seaboard-Eastern Insurance. Ms. Wu is also a shareholder of Seaboard-Eastern Insurance.

Ms. Wu and Mr. Romeo Bernardo of Lazaro, Bernardo, Tiu & Associates, are the current independent directors in the Corporation. To be considered independent directors under IC Circular Letter No. 31-2005, one: (i) has not been an officer or employee of the company for the last three years immediately preceding his term or incumbency; (ii) is not related by consanguinity or affinity to an officer in a senior management position in the company; and (iii) does not provide services, and receives no income for other professional services to the company. The Corporation has no transactions with Lazaro, Bernardo, Tiu & Associates. The Corporation has transactions with Seaboard-Eastern Insurance, which are done in the ordinary course of business, conducted on an arm's length basis and negotiated based on prevailing competitive commercial terms and approved by the Corporation's Underwriting Committee. Some of its business is pursuant to the compulsory cessions provided under P.D. 1270.

The following table presents premiums written (inward) and ceded (outward) between the Corporation, its Principal Shareholders and companies represented by other members of the Board of Directors for 2005 and 2006:

SHAREHOLDE R/ DIRECTOR CORPORATIO N	2005				2006				
	In Million PHP	Inward	Outward	Receivable	Payable	Inward	Outward	Receivable	Payable
GSIS	637.9	59.4	295.5	225.2	1,441.4	73.5	678.7	364.5	
Ayala Life Assurance, Inc.	-	-	-	-	10.4	4.0	16.6	18.4	
BPI/MS Insurance Corporation	3.1	-	(0.2)	0.2	74.1	0.7	45.3	(4.2)	
FGU Insurance Corporation	-	-	-	0.9	-	-	-	-	
Total BPI Group	3.1	-	(0.2)	1.1	84.5	4.7	61.9	14.3	
First Nationwide Assurance Corp.	0.3	-	-	0.2	0.7	-	0.2	0.2	
Great Pacific Life Assurance	8.4	-	0.2	1.5	8.0	1.3	2.0	2.4	

⁹ The shares of each of BPI, MICO Equities and GSIS have been lodged with the PDTC upon listing of the shares of the Corporation on the PSE.

Corp.								
Malayan Insurance Company, Inc.	13.7	5.8	5.3	10.5	13.3	319.9	13.8	258.0
Malayan Zurich Insurance Company, Inc.	0.3	-	-	-	0.7	-	0.2	-
MICO Equities Inc.	-	-	-	-	-	-	-	-
Pan Malayan Management & Investment Corporation	-	-	-	-	-	-	-	-
Tokio Marine Malayan Insurance Corporation	7.0	1.3	(0.2)	2.6	13.9	1.0	0.4	4.8
Total Malayan Group	29.7	7.1	5.2	14.7	36.6	322.2	16.8	265.4
Pioneer Insurance & Surety Corp.	58.1	(4.0)	23.2	21.8	62.6	0.7	37.4	44.5
Pioneer Intercontinental Insurance Corporation	2.7	8.0	0.1	3.1	2.5	11.8	5.1	4.1
Pioneer Life Inc.	1.7	-	-	0.1	1.5	-	0.7	-
Sterling Insurance Company, Inc.	6.3	43.9	24.7	45.8	9.2	298.9	25.9	265.5
Seaboard Eastern Insurance	156.6	14.1	34.0	88.7	42.0	71.0	29.3	52.6

In addition, the Corporation has entered into the following agreements with the Bank of Philippine Islands:

1. *Custodianship Agreement:* On December 14, 2006, the Corporation entered into a Custodianship Agreement with BPI for purposes of opening and maintaining a custodianship account with BPI over securities pertaining to the Corporation. BPI acts as a depository of such securities. For services rendered, BPI is entitled to the custodianship fees based on the net asset value of the fund. The Agreement shall continue in full force and effect unless sooner terminated by either of the parties concerned for any reason whatsoever upon giving the other party at least 30 days advance written notice of termination.

2. *Investment Management Agreement.* On December 14, 2006, the Corporation entered into an Investment Management Agreement with BPI for purposes of appointing BPI as Investment Manager and to invest and reinvest the funds deposited in an investment management account with BPI.

As compensation for services, BPI shall be entitled to collect such reasonable compensation to be paid out of the fund. The Agreement shall continue in full force and effect unless sooner terminated by either of the parties concerned for any reason whatsoever upon giving the other party at least 30 days advance written notice of termination.

3. *Retirement Fund Investment Management Agreement.* On July 26, 1985, the Board of Trustees of the National Reinsurance Corporation Employees Retirement Plan entered into an Investment Management Agreement with BPI for purposes of appointing BPI as Investment Manager and to invest and reinvest the funds deposited in an investment management account with BPI. As compensation for services, BPI shall be entitled to collect such reasonable compensation to be paid out of the fund. The Agreement shall continue in full force and effect unless sooner terminated by either of the parties concerned for any reason whatsoever upon giving the other party at least 30 days advance written notice of termination.

There are no other parties, aside from the related parties discussed herein, with whom the Corporation has a relationship that enables the parties to negotiate terms of material transactions, that may not be available to other more clearly independent parties on an arm's length basis.

Item 6. Compensation of Directors and Executive Officers

ANNUAL COMPENSATION IN PHP

<u>Name</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other annual compensation</u>	<u>Total</u>
CEO and key executive officers named	2004	5,690,346	1,599,505	351,723	7,641,574
All other officers and directors as a group unnamed		5,802,468	2,017,078	2,016,249	9,835,795
CEO and key executive officers named	2005	7,090,393	2,337,470	1,150,708	10,578,571
All other officers and directors as a group unnamed		7,090,727	2,434,074	2,857,938	12,341,739
CEO and key executive officers named	2006	10,997,979	3,919,211	1,669,559	16,586,749
All other officers and directors as a group unnamed		9,485,988	3,489,740	2,802,543	15,778,271
CEO and key executive officers named	2007 ¹⁰	12,436,830	3,716,259	364,828	16,517,917
All other officers and directors as a group unnamed		13,470,778	4,601,935	2,849,893	20,922,606

Officers and directors named for 2004 and 2005 include the following:

1. Wilfrido C. Bantayan, President and CEO;
2. Roberto B. Crisol, Executive Vice President and COO; and
3. Raymundo T. Bautista, Senior Vice President.

Officers and directors named for 2006 include the following:

1. Wilfrido C. Bantayan, President and CEO;
2. Roberto B. Crisol, Executive Vice President and COO¹⁰;
3. Raymundo T. Bautista, Senior Vice President;
4. John E. Huang, Senior Vice President; and
5. Rodolfo M. Nayve, Senior Vice President.

The Corporation's By-Laws (Article III, Section 8) provide that such per diem as the Board of Directors may approve shall be paid to each director for attendance at any meeting of the Board; provided however, that nothing herein contained shall be construed to preclude any director from receiving such bonuses, other than per diems, as provided elsewhere in the Corporation's Amended By-Laws, or from serving in any other capacity and receiving compensation therefrom, subject to approval thereof by the vote of stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting. In this connection, Section 30 of the Corporation Code of the Philippines states that "in no case shall the total yearly compensation of directors, as such directors, exceed ten percent (10%) of the net income tax of the corporation during the preceding year."

Each director of the Corporation receives a per diem of ₱12,250.00 for each attendance in a meeting of the Board of Directors. Aside from the above, no other resolution relating to director's remuneration has been adopted by the Board of Directors.

Among the executive officers of the Corporation, the President and Chief Executive Officer, Mr. Wilfrido C. Bantayan, and the current Executive Vice President and Chief Operating Officer, Mr. Armando S. Malabanan have employment contracts. The contract with Mr. Bantayan has a term of three years, which will expire on June 30, 2008. The contract with Mr. Malabanan has a term of five years, which will expire on 2012.

As of date, none of the Corporation's common shares are subject to outstanding options or warrants to purchase, or securities convertible into common shares of the Corporation.

Item 7. Independent Public Accountant

- (a) The auditing firm of Punongbayan & Araullo will be recommended to the stockholders for appointment as the Corporation's principal accountant for the ensuing fiscal year. Conformably with SRC Rule 68(3)(b)(iv), the Corporation's independent public accountant shall be rotated, or the handling partner shall be changed, every 5 years. Ms. Lilian S. Linsangan, audit partner of Punongbayan & Araullo, has been on the engagement for less than 5 years.

¹⁰ Estimated annual compensation for full year 2007.

¹¹ Mr. Crisol tendered his resignation from the Corporation on December 29, 2006, effective January 31, 2007.

- (b) Punongbayan & Araullo was the same principal accountant of the Corporation for the fiscal year most recently completed (December 31, 2006).
- (c) Representatives of Punongbayan & Araullo are expected to be present at the stockholders' meeting. They will have the opportunity to make a statement if they desire to do so and they are expected to be available to respond to appropriate questions.
- (d) Punongbayan & Araullo has no shareholdings in the Corporation nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Corporation. Punongbayan & Araullo will not receive any direct or indirect interest in the Corporation or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines.
- (e) There are no disagreements on any matter of accounting principle or practices, FS disclosures, etc., between Punongbayan & Araullo and the Corporation.

Item 8. Compensation Plan

There are no items to be taken up with respect to compensation plans.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

There are no issues regarding the issuance of securities other than for exchange.

D. OTHER MATTERS

**Item 10. Action with respect to Reports
Summary of Items to be Submitted for Stockholders' Approval**

- (I) *Approval of the Minutes of the Annual Stockholders' Meeting held on June 26, 2006 and Minutes of the Special Stockholders' Meeting held on December 22, 2006*

The minutes of the annual stockholders' meeting held on June 26, 2006 will be submitted for approval of the stockholders at the annual meeting to be held on July 23, 2007. Below is a summary of the items and/or resolutions approved at the annual stockholders' meeting held on June 26, 2006:

- (a) The Chairman of the Board of Directors of the Corporation called the meeting to order. The Secretary of the meeting certified that a quorum existed for the transaction of business.
- (b) The stockholders approved the minutes of the annual stockholders' meeting held on June 28, 2005.
- (c) The President of the Corporation presented the management report. He presented the highlights of the performance of the Corporation, the details of which were incorporated into the Corporation's annual report as distributed to the stockholders. The management report included a

discussion on underwriting, operations, investment, financial report, outlook and plans. Upon motion duly made and seconded, the management report was approved.

- (d) Upon motion duly made and seconded, the stockholders ratified the acts of the officers and the Board of Directors of the Corporation for the period from July 14, 2005 to June 26, 2006.
- (e) Upon motion duly made and seconded, the accounting firm Punongbayan & Araullo was appointed as external auditors of the Corporation for the then current fiscal year.
- (f) The following were elected as directors of the Corporation for the then current year, to serve as such for a period of one year and until their successors shall have been elected and qualified:
 - (1) Winston F. Garcia
 - (2) Adelita A. Vergel De Dios
 - (3) Wilfrido C. Bantayan
 - (4) Alfonso L. Salcedo, Jr.
 - (5) Yvonne S. Yuchengco
 - (6) Manuel U. Co
 - (7) Rafael C. Gallaga
 - (8) Emilio S. De Quiros, Jr.
 - (9) Josefina L. Valera
 - (10) Romeo L. Bernardo
 - (11) Joli Co Wu
- (g) Upon motion duly made and seconded, the annual stockholders' meeting was adjourned.

The minutes of the special stockholders' meeting held on December 22, 2006 will likewise be submitted for approval of the stockholders at the annual meeting to be held on July 23, 2007. Below is a summary of the items and/or resolutions approved at the special stockholders' meeting held on December 22, 2006:

- (a) The Chairman of the Board of Directors of the Corporation called the meeting to order. The Secretary of the meeting certified that a quorum existed for the transaction of business.
- (b) Upon motion made and duly seconded, the following were approved by the stockholders holding at least 2/3 of the outstanding capital stock of the Corporation:
 - i. Resolution approving the change of name of the Corporation from National Reinsurance Corporation of the Philippines *doing business under the name and style of Philippine National Re*, to National Reinsurance Corporation of the Philippines, *doing business under the names and styles of Philippine National Reinsurance Company; PhilNaRe*.
 - ii. Resolution approving the stock split of the Corporation or the decrease in the par value of the shares of the Corporation, from Thirty Million (30,000,000) shares par value of ₱100.00 each to Three Billion (3,000,000,000) shares, par value of ₱1.00 each.
 - iii. Resolution approving the denial of preemptive rights of the stockholders in Article Seventh of the Amended Articles of Incorporation of the Corporation
 - iv. Resolution approving the amendment of the title page of the Amended By-Laws of the Corporation, to reflect therein the new business names and styles of the Corporation, such

title page shall read: AMENDED BY-LAWS OF NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES, *doing business under the names and styles of Philippine National Reinsurance Company; PhilNaRe.*

(2) *Ratification of the Acts of the Board of Directors and Officers*

Resolutions, contracts, and acts of the board of directors and management for ratification refer to those passed or undertaken by them during the year and for the day to day operations of the Company as contained or reflected in the minute books, annual report and financial statements. These acts are covered by resolutions of the Board of Directors duly adopted in the normal course of trade or business involving approval of the budget for the current year, approval of investments, treasury matters involving opening of accounts and bank transactions, appointment of signatories and amendments thereof, filing of a Registration Statement with the SEC, listing of the Corporation's shares on the PSE, and engagement of consultants and advisors to implement the initial public offering of the shares of the Corporation.

Item 11. **Summary of Voting Matters/Voting Procedures**

(a) **Summary of Matters to be presented to Stockholders**

- (1) Approval/ratification of the minutes of the annual meeting of stockholders held on June 26, 2006 and special stockholders' meeting held on December 22, 2006. Approval of said minutes shall constitute confirmation of all the matters stated in the minutes.
- (2) Resolutions, contracts, and acts of the board of directors and management for ratification refer to those passed or undertaken by them during the year and for the day to day operations of the Company as contained or reflected in the minute books, and attached management report and financial statements. These acts are covered by resolutions of the Board of Directors duly adopted in the normal course of trade or business involving approval of the budget for the current year, approval of investments, treasury matters involving opening of accounts and bank transactions, appointment of signatories and amendments thereof, filing of a Registration Statement with the SEC, listing of the Corporation's shares on the PSE, and engagement of consultants and advisors to implement the initial public offering of the shares of the Corporation.
- (3) Selection of Punongbayan & Araullo as independent auditors.
- (4) Election of Directors

Election of a Board of eleven (11) directors, each of whom will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualified. The nominees for directors are:

For Regular Directors:

Winston F. Garcia
Adelita A. Vergel De Dios
Wilfrido C. Bantayan
Yvonne S. Yuchengco
Alfonso L. Salcedo, Jr.

Emilio S. De Quiros, Jr.
Josefina L. Valera
Rafael C. Gallaga

For Independent Directors:

Romeo L. Bernardo
Primitivo C. Cal
Rizalino Navarro

All of the above nominees are currently directors of the Corporation, except for Mr. Primitivo Cal and Mr. Rizalino Navarro.

The nominees for Independent Directors¹¹ of the Corporation for the Annual Stockholders' Meeting of July 23, 2007 within the purview of SRC Rule 38 are Romeo L. Bernardo, Primitivo C. Cal, and Rizalino Navarro.

(b) Voting Procedures

- (1) Approval/ratification of the minutes of the annual stockholders' meeting held on June 26, 2006 and minutes of the special stockholders' meeting held on December 22, 2006.
 - (A) Vote required: A majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.
 - (B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.
- (2) Ratification of the acts of the Board of Directors and Officers.
 - (A) Vote required: A majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.
 - (B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.
- (3) Appointment of Independent External Auditors
 - (A) Vote required: A majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.
 - (B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.

¹¹ An "Independent Director" shall mean a person other than an officer or employee of the Corporation or its subsidiaries, or any other individual having a relationship with the Corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

(4) Election of Directors

(A) Vote required. The eleven (11) candidates receiving the highest number of votes shall be declared elected, provided that at least two of whom must be independent directors.

(B) Method by which votes will be counted. Cumulative voting applies. Under this method of voting, a stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing in his own name on the stock books of the Corporation as of the Record Date, and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The votes shall be counted by secret ballot.

The eleven nominees obtaining the highest number of votes will be proclaimed as Directors of the Corporation for the ensuing year, provided that at least two of whom must be independent directors.

(5) In the regular meeting of the Board of Directors held on April 24, 2007, PunongBayan & Araullo was appointed as Board of Canvassers. The Board of Canvassers shall have the power to vote; count and tabulate all votes, assents and consents; determine and announce the result; and to do such acts as may be proper to conduct the election or vote with fairness to all stockholders.

PART II
INFORMATION REQUIRED IN A PROXY FORM

Item 1. Identification

This proxy is being solicited for and on behalf of the Management of the Corporation. The Chairman of the Board of Directors or, in his absence, the President of the Corporation will vote the proxies at the annual stockholders' meeting to be held on July 23, 2007.

Item 2. Instruction

- (a) The proxy must be duly accomplished by the stockholder of record as of Record Date. A proxy executed by a corporation shall be in the form of a board resolution duly certified by the Corporate Secretary or in a proxy form executed by a duly authorized corporate officer accompanied by a Corporate Secretary's Certificate quoting the board resolution authorizing the said corporate officer to execute the said proxy.
- (b) Duly accomplished proxies shall be submitted to the Corporate Secretary of the Corporation not later than July 13, 2007 (not less than 5 calendar days prior to the date of the stockholders' meeting) at the following address:

The Corporate Secretary
National Reinsurance Corporation of the Philippines
18th Floor, Philippine AXA Life Centre
Senator Gil Puyat corner Tindalo Street
Makati City 1200 Philippines.
- (c) In case of shares of stock owned jointly by two or more persons, the consent of all co-owners must be necessary for the execution of the proxy. For persons owning shares in an "and/or" capacity, any one of them may execute the proxy.
- (d) Validation of proxies will be held by the Corporate Secretary and/or Stock Transfer Agent on July 16, 2007 at 2:00 p.m. at the principal office of the Corporation at the 18th Floor, Philippine AXA Life Centre Senator Gil Puyat Avenue corner Tindalo Street, Makati City, Philippines.
- (e) Unless otherwise indicated by the stockholder, a stockholder shall be deemed to have designated the Chairman of the Board of Directors, or in his absence, the President of the Corporation, as his proxy for the annual stockholders meeting to be held on July 23, 2007.
- (f) If the number of shares of stock is left in blank, the proxy shall be deemed to have been issued for all of the stockholder's shares of stock in the Corporation as of Record Date.
- (g) The manner in which this proxy shall be accomplished, as well as the validation hereof shall be governed by the provisions of SRC Rule 20 (11)(b)
- (h) The stockholder executing the proxy shall indicate the manner by which he wishes the proxy to vote on any of the matters in (1), (2) and (3) below by checking the appropriate box. Where the boxes (or any of them) are unchecked, the stockholder executing the proxy is deemed to have authorized the proxy to vote for the matter. (Note: If you intend to submit a proxy, please fill up and submit the enclosed proxy instrument, not the following Item 2(i).)

- (1) Approval/ratification of the minutes of the annual stockholders' meeting held on June 26, 2006 and special stockholders' meeting held on December 22, 2006.
- ☐ FOR ☐ AGAINST ☐ ABSTAIN
- (2) Ratification of the acts of the Board of Directors and Officers
- ☐ FOR ☐ AGAINST ☐ ABSTAIN
- (3) Appointment of Punongbayan & Araullo as Independent External Auditors
- ☐ FOR ☐ AGAINST ☐ ABSTAIN
- (i) Election of Directors. (Note: If you intend to submit a proxy, please fill up and submit the enclosed proxy instrument, not the following Item 2(j).)
- ☐ FOR all nominees listed below, except those whose names are stricken out
- ☐ WITHHOLD authority to vote for all nominees listed below.

(Instruction: To strike out a name or withhold authority to vote for any individual nominee, draw a line through the nominee's name in the list below).

For Regular Directors:

Winston F. Garcia
 Adelita A. Vergel De Dios
 Wilfrido C. Bantayan
 Yvonne S. Yuchengco
 Alfonso L. Salcedo, Jr.
 Emilio S. De Quiros, Jr.
 Josefina L. Valera
 Rafael C. Gallaga

For Independent Directors:

Romeo L. Bernardo
 Primitivo C. Cal
 Rizalino Navarro

Item 3. Revocability of Proxy

Any stockholder who executes the proxy enclosed with this statement may revoke it at any time before it is exercised. The proxy may be revoked by the stockholder executing the same at any time by submitting to the Corporate Secretary a written notice of revocation not later than the start of the meeting,

or by attending the meeting in person and signifying his intention to personally vote his shares. Shares represented by an unrevoked proxy will be voted as authorized by the stockholder.

Item 4. Persons Making the Solicitation

The solicitation is made by the Management of the Corporation. No director of the Corporation has informed the Corporation in writing that he intends to oppose an action intended to be taken up by the Management of the Corporation at the annual meeting. Solicitation of proxies shall be made through the use of mail or personal delivery by its regular employees. The Corporation shall not engage the services of special employees or proxy solicitors in the proxy solicitation. The Corporation will shoulder the cost of solicitation, which is estimated to be ₱10,000.00.

Item 5. Interest of Certain Persons in Matters to be Acted Upon

No director, officer, nominee for director, or associate of any of the foregoing, has any substantial interest, direct or indirect, by security holdings or otherwise, on any matter to be acted upon at the annual stockholders' meeting to be held on July 23, 2007, other than election to office.

**PART III
SIGNATURE**

Management does not intend to bring any matter before the meeting other than those set forth in the Notice of the annual meeting of stockholders and does not know of any matters to be brought before the meeting by others. If any other matter does come before the meeting, it is the intention of the persons named in the accompanying proxy to vote the proxy in accordance with their judgment.

ACCOMPANYING THIS INFORMATION STATEMENT ARE COPIES OF THE (1) NOTICE OF THE ANNUAL STOCKHOLDERS' MEETING CONTAINING THE AGENDA THEREOF; (2) PROXY INSTRUMENT; AND (C) THE CORPORATION'S MANAGEMENT REPORT PURSUANT TO SRC RULE 20 (4).

UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE CORPORATION WILL PROVIDE, WITHOUT CHARGE, A COPY OF THE CORPORATION'S LATEST QUARTERLY REPORT IN SEC FORM 17-Q DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.

ALL REQUESTS MAY BE SENT TO THE FOLLOWING:

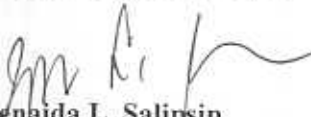
National Reinsurance Corporation of the Philippines
18th Floor, Philippine AXA Life Centre
Senator Gil Puyat corner Tindalo Street
Makati City 1200 Philippines.

Attention: The Corporate Secretary

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati June 21, 2007.

NATIONAL REINSURANCE
CORPORATION OF THE PHILIPPINES

By:


Zenaida L. Salipsip
Corporate Secretary

MANAGEMENT REPORT

DESCRIPTION OF BUSINESS

As prescribed by Presidential Decree No. 1270, the Company was incorporated under the name National Reinsurance Corporation of the Philippines in 1978 as a domestic professional reinsurance firm to provide life and non-life reinsurance to the Philippine and neighboring insurance markets. On January 15, 2007, it received approval from the Securities and Exchange Commission to change its name to "National Reinsurance Corporation of the Philippines, doing business under the names and styles of Philippine National Reinsurance Company; PhilNaRe" to enhance its image as the country's national reinsurer.

The primary mandate of PhilNaRe is to assist in the development of the Philippine insurance industry by providing reinsurance capacity and support to Philippine insurance companies, by serving as a market vehicle in the regional and international cooperation or arrangement in insurance as well as by contributing towards higher retention of business within the country. It became a 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 established to foster regional cooperation among insurance companies doing business in Asia.

PhilNaRe has grown over a span of three decades to become the sole professional reinsurance company in the Philippines, following its merger with Universal Malayan Reinsurance Corporation on March 6, 2006.

The Company writes both life and non-life reinsurance. Major business lines under the non-life segment include fire, marine & aviation, and casualty & others. Marine & aviation covers insurance on aircraft, marine vessels and marine cargo. The casualty & others line covers various business and personal insurance risks, the biggest of which are motor car & industrial all risk. Industrial all risk is a blanket policy that protects a business establishment from various perils such as fire, machinery breakdown and loss of property.

The Company offers reinsurance both on treaty ("wholesale") and facultative ("retail") arrangements or contracts. Typically, in treaty arrangements, reinsurance is offered to cover more than one policy or entire, precisely defined portfolios while facultative arrangements provide cover on a per policy basis. Facultative reinsurance is individually written by the reinsurer. Each facultative reinsurance policy is negotiated separately, with the pricing and other terms established at the time the policy is underwritten. Under a facultative arrangement, the ceding company is under no obligation to reinsure any particular risk and the reinsurer to whom an offer is made is likewise under no obligation to accept any particular risk.

In a treaty, the ceding company purchases reinsurance to cover specified blocks of business it has underwritten. The ceding company and the reinsurer enter into a treaty contract which sets out the terms, conditions and limitations which govern the reinsurance arrangements. Both parties are automatically bound in advance with respect to any and all risks that fall within the scope of the contract such that the ceding company would be obliged to cede, and the reinsurer would be obliged to accept all business falling under the scope of the agreement. Reinsurance treaties specify the ceding company's binding limit, which is the maximum amount of risk that can be ceded automatically and that the reinsurer must accept. In contrast to facultative reinsurance, the reinsurer does not approve each individual risk under a treaty arrangement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2006 vs. 2005

Results of Operations

Reinsurance premiums – net of returns or Gross Premiums Written

Reinsurance premiums (net of returns) in 2006 increased by P1,191.7 million, or 46%, to P3,781.5 million from P2,589.8 million in 2005. The increase in reinsurance premiums was mainly due to increases in the fire and life businesses which more than doubled. Reinsurance premium from fire rose by 111% to P1,175.3 million from P558 million in 2005, while reinsurance premium from casualty and other lines went up by 40% to P1,682 million from P1,202 million in 2005. Reinsurance premium from the life business increased by 152% to P384 million from P153 million in 2005. These increases were partially offset by the decline in reinsurance premium from marine and aviation which went down by 20% to P540 million from P677 million the previous year.

Net premiums retained

Net premiums retained in 2006 increased by P130 million or 16% to P954 million from P824 million in 2005. However, retention ratio dropped to 25% compared to 32% in 2005. The fire business experienced the highest drop in retention ratio, down to 20% from 36% in 2005. Retention ratio for casualty and others line also went down to 14% from 20% in 2005. The reason for the decline in retention ratios was the rapid growth in facultative business for which the average retention is lower compared to the treaty business.

Premiums Earned

Premiums earned in 2006 increased by 23% to P928 million from P756 million in 2005 mainly due to the decline in overall retention rate. Reserve for unexpired risk rose by P26 million in 2006 and by P68 million in 2005.

Share in claims and losses

Share in claims and losses in 2006 increased by P48 million or 9.6% to P555 million from P506 million in 2005. Claims and losses of the fire business registered a significant drop, down by 37% to P83.2 million from P132.0 million in 2005 due to overall improvement in loss experience. The loss ratio dropped to 59.8% from 67.0% in 2005. The loss ratio of the fire business went down to 36.4% compared to 63.4% in 2005. Marine and aviation business had the highest loss ratio of 95.0% due to a number of marine claims brought about by typhoons which occurred in the country during the year.

Commissions - net

Commission expense (net) in 2006 increased by P12 million or 7% to P186 million from P175 million in 2005. Commission ratio declined to 19.60% in 2006 from 21.1% in 2005. The drop in commission expense was mainly due to lower commission expense on the non-life treaty business. The drop in commission expense can also be attributable to the increase in commission income as the Company increased the amount of its retroceded business.

Investment income and other income

Investment income and other income in 2006 rose to P304 million, up by P195 million or by 179%, from

P109 million in 2005. The increase in interest income by P100 million or by 66% to P253 million from P153 million in 2005 was due to an increase in investible funds and higher trading gains of fixed income securities. A higher capital base resulting from the rights offer made in May and June 2005 helped mitigate the impact of a declining interest rate scenario. Average yield in 2006 for fixed income instruments was approximately 9.2%. Weighing on investment income was the foreign currency loss of P91 million in 2006, 97% higher than the foreign exchange loss of P46 million recorded in 2005.

There was also a one-time booking of gain on acquisition of ₱51.3 million which boosted other income. The gain was a result of the merger between UMRe and PhilNaRe.

General and Administrative Expenses

General and administrative expenses (GAE) in 2006 increased to ₱219 million, up by 170%, from P81 million in 2005. The 2006 GAE included non-recurring expenses amounting to ₱100 million while the 2005 GAE included non-recurring expenses of ₱7.4 million. The breakdown of the non-recurring expenses in 2006 was: provision for doubtful accounts of P58.0 million, alignment of retirement benefits (₱36.0 million), professional fees (₱3.0 million), and documentary stamps (₱3.0 million). The non-recurring expenses in 2005 of P4.7 million were all merger related expenses (professional fees P2.8 million and documentary stamps ₱1.9 million). Excluding the non-recurring expenses, total GAE would have increased to ₱119 million in 2006 from P76.3 million in 2005. The expense ratio in 2006 jumped to 23% compared to 10% the previous year. Excluding the non-recurring expenses, the expense ratio would have been at 12%.

Net Income

As a result of the above mentioned factors, net income for 2006 was up by P176 million, or 179%, at ₱275 million, compared to net income of P99 million for 2005. Without the non-recurring items, net income for 2006 is estimated to be slightly higher by ₱100 million or 264% to ₱374.9 million from P103 million in 2005.

Material changes (increase/decrease of 5% or more) in the financial statements

Income Statement items- 2006 versus 2005

46% increase in reinsurance premiums

Principally due to increases in fire and life business which more than doubled.

60% increase in retroceded premiums

Due to higher volume of business ceded during the year.

16% increase in net premiums retained

Due to higher volume of business accepted during the year.

62% decrease in reserve for unexpired risk

Primarily due to decline in reinsurance premium for marine and aviation.

9% increase in underwriting deductions.

Due to higher number of marine claims brought about by typhoons which occurred in the country during the year.

149% increase in net underwriting income

Due to overall improvement in loss experience.

179% increase in investment and other income

Principally due to higher interest income on investment including a one time booking gain on acquisition as a result of the merger between Universal Malayan Reinsurance Corporation and PhilNare.

170% increase in general and administrative expenses

Principally due to non-recurring expenses, specifically provision for doubtful accounts, retirement benefits, professional fees and documentary stamp tax.

179% increase in net income.

Due to higher underwriting income and increase in investment and other income.

2005 vs. 2004

Results of Operations

Reinsurance premiums

Reinsurance premiums net of returns for 2005 increased by ₱548.2 million, or 26.9%, to ₱2,589.8 million from ₱2,041.6 million in 2004 mainly due to the increase in insurance volume for marine and aviation business. Reinsurance premiums from marine and aviation business went up by 58.9% to ₱677.3 million from ₱426.3 million in 2004. Reinsurance premiums from the life business also registered an increase of 48.9% to ₱152.7 million from ₱102.6 million in 2004. Reinsurance premiums from casualty and others also went up by 25.3% to ₱1,202.2 million from ₱959.8 million the previous year.

Net Premiums Retained

Net premiums retained in 2005 rose by 39.4% to ₱824.1 million from ₱591.3 million in 2004. Retention ratio increased to 31.8% in 2005 from 29.0% in 2004. Accounting for the bulk of the increase of the net premiums retained was both the life and non-life businesses. The life business increased its retention ratio to 43.8% in 2005 from 36.7% in 2004. The retention ratio of the non-life business went up to 31.1% in 2005 from 28.6% in 2004. Retention rate of marine and aviation rose to 46.9% compared to 42.9% in 2004. Retention rate of the fire business went up to 35.8% from 31.1% in 2004. However, the retention rate for casualty and others went down slightly to 20% from 20.7% in 2004.

Premiums Earned

Premiums earned in 2005 increased by ₱183.7 million or 32.1% to ₱755.9 million from ₱572.2 million in 2004. The increase was due primarily to the increase in reinsurance premiums and net retention. The overall retention ratio was up to 31.8% from 29.0% in 2004. Reserve for unexpired risk rose by ₱ 68.3 million in 2005 and by ₱19.1 million in 2004.

Share in claims and losses

Share in claims and losses in 2005 rose ₱170.3 million, or up by 50.7%, to ₱506.2 million from ₱335.9 million in 2004. The loss ratio in 2005 was up at 67.0% compared to 58.7% in 2004 mainly due to higher claims and losses for both the life and non-life businesses. Non-life claims and losses increased 50.5% to ₱482.1 million and life claims and losses rose 54.2% to ₱24.1 million in 2005. Loss ratio of the fire business rose to 63.3% from 47% in 2004 while the loss ratio of marine and aviation went up to 98.3%

from 82.8% in 2004. Loss ratio of casualty and others dropped to 37.6% from 45.6% the previous year. Loss ratio of life also went down to 43.6% from 49.7% in 2004. The increases in fire and marine and aviation claims and losses were due to higher incidents of losses caused by fire.

Commissions - net

Commission expense (net) in 2005 increased by ₱38.8 million, or 28.6%, to ₱174.5 million from ₱135.7 million in 2004. However, the commission ratio in 2005 was lower at 21.2% compared to 23.0% in 2004. The commission ratios of marine and aviation and casualty and others fell to 14.9% and 23.9% from 20.0% and 27.0% respectively. The drop in commission expense was partially offset by the increases in commission ratios on fire to 30% from 24.1% and life to 15.5% from 11%.

Investment income and other income

Investment income and other income in 2005 fell by 10.7% to ₱109.0 million from ₱122.1 million in 2004. Interest income in 2005 increased by ₱40.9 million, or up by 36.5%, to ₱152.9 million from ₱112.0 million in 2004 mainly due to the increase in capitalization as a result of the rights offering in 2005. Weighing on investment income was the foreign currency loss of ₱46.0 million in 2005 which was a reversal of the foreign exchange gain of ₱7.2 million in 2004. Other income in 2005 was down at ₱0.9 million, or by 29.6%, to ₱2.0 million from ₱2.9 million in 2004.

General and Administrative Expenses

General and administrative expenses in 2005 dropped by ₱18.5 million, or by 18.6%, to ₱81.1 million from ₱99.6 million in 2004, which included non-recurring expenses relating to the planned merger with UMRe. The non-recurring expenses in 2005 and 2004 were related to merger expenses amounting to ₱4.7 million and ₱29.6 million respectively. Excluding the non-recurring expenses, total GAE expense would have increased by ₱6.3 million or 9.0% to ₱76.3 million in 2005 from ₱70.0 million in 2004. Despite the rise in GAE expenses, the expense ratio in 2005 fell to 9.8% compared to 16.8% the previous year. Excluding the non-recurring expenses, the expense ratio would drop to 9.3% from 11.8%.

Salaries, wages and employee benefits for 2005 increased by ₱5.9 million or by 14.2% to ₱47.3 million from ₱41.4 million in 2004. The increase was primarily due to regular increases in basic wages due to merit increases.

Professional fees in 2005 decreased by ₱25.92 million, or by 89.9%, to ₱2.9 million from ₱28.8 million for 2004. The decrease in professional fees was primarily due to the drop in pre-merger expenses in 2005. The 2004 professional fees were related to pre-merger expenses of UMRe and PhilNaRe

Depreciation rose ₱0.1 million or by 2.1% to ₱4.7 million in 2005 from ₱4.6 million in 2004.

Documentary stamp rose to ₱1.1 million or 144.2% to ₱1.9 million in 2005 from ₱0.8 million in 2004 mainly due to the stock rights in May and June 2005 which raised ₱776.5 million in new equity.

Provision for doubtful accounts was at ₱0.8 million each in 2005 and in 2004.

Other expenses (which includes representation and entertainment, transportation and traveling, printing and office supplies, repairs and maintenance, communication and postage, light and water, taxes, and others but excluding non-recurring expenses) was slightly higher by ₱0.2 million or 0.7% to ₱21.8 million in 2005 from ₱21.6 million in 2004. The increase in other expenses was due to the increases in light and water, taxes, licenses and fee, and miscellaneous items. These increases were partially offset by

the decrease in representation and entertainment, transportation and traveling, printing and office supplies and repairs and maintenance.

Net Income

As a result of the above mentioned factors, net income slightly decreased by ₱1.3 million or 1.3% to ₱98.7 million in 2005 compared to net income of ₱99.9 million in 2004. Without the non-recurring items, net income for 2005 was lower by ₱26.1 million or 20.2% to ₱103.4 million from ₱129.5 million the previous year.

Material changes (increase/decrease of 5% or more) in the financial statements

Income Statement items- 2005 versus 2004

27% increase in reinsurance premiums

Principally due to increases in marine and aviation and life business.

22% increase in retroceded premiums

Due to higher volume of business in marine and aviation and life business.

39% increase in net premiums retained

Due to higher retention rate for marine and aviation and life business.

258% increase in reserve for unexpired risk

Primarily due to increase in net retained premiums.

44% increase in underwriting deductions

Due to increase in claims incurred for the year.

25% decrease in net underwriting income

Due to higher share in claims and losses in fire and marine and aviation businesses.

11% decrease in investment and other income

Primarily due to higher foreign exchange loss.

19% decrease in general and administrative expenses.

Principally due to extraordinary expenses incurred in 2004 which were no longer present in 2005.

December 31, 2006 Compared to December 31, 2005

Financial Condition

Total resources increased by ₱4,658.2 million or 104.5% to ₱9,116.3 million from ₱4,458.1 million in 2005. Material changes in the Company's resources which contributed to the increase are described below.

Reinsurance balances receivable increased by ₱1,287.5 million or 77.2% to ₱2,955.7 million from ₱1,668.3 million in 2005. This is mainly because of increase in receivables from ceding companies due to the higher volume of business compared to the previous year. At year end 2006, the Company's total receivables from ceding companies amounted to ₱2,072.9 million.

Deferred acquisition costs went up by ₱141.8 million or 106.4% to ₱275.1 million from ₱133.3 million in 2005 due to higher volume of business compared to previous year.

Investments increased by ₱1,651.6 million or 89.3% to ₱3,500.8 million from ₱1,849.2 million in 2005. The increase is largely accounted for by an increase in investments classified as available-for-sale securities which went up by ₱1,788.6 million or 108%. This was partly offset by a reduction of ₱188.3 million in held-to-maturity securities.

Loans and receivables increased by ₱111.7 million or 258.7% to ₱154.9 million from ₱43.2 million in 2005. The increase was due to change in the Company's investment mix.

Deferred reinsurance premium increased to ₱1,371.1 million from ₱543.5 million in 2005. The increase of ₱827.7 million or 152.3% is attributed to the higher volume of business accepted during the year.

Property and equipment – net, increased by ₱40.8 million or 83% to ₱90 million from ₱49.2 million in 2005. This includes properties acquired thru the merger between NRCP and UMRC.

Deferred input value added tax went up to ₱214.2 million from ₱23.8 million in 2005. The increase was due to the imposition of value-added tax on reinsurance premiums which took effect in November 2005. The full year impact was felt in 2006 resulting in higher deferred input value added tax.

Other assets increased by ₱73.7 million or 1272.7% to ₱79.5 million from ₱5.8 million in 2005 due to an increase in deferred taxes on unpaid premiums.

Total liabilities increased by ₱2,957.9 million or 127% to ₱5,285.3 million from ₱2,327.5 million in 2005. This was mainly due to increase in deferred reinsurance commission which went up to ₱221.0 million from ₱82.0 million the previous year and an increase of ₱288.2 million in deferred output value-added tax payable which went up to ₱324.9 million from ₱36.7 million in 2005. Increase in deferred reinsurance commission was due to volume of business ceded while increase in deferred output value-added tax pertains to increase in deferred taxes on uncollected premiums.

Reinsurance balances payable increased by ₱1,531.2 million or 114.9% due to increases in claims payable to ceding companies and premiums payable to retrocessionaires.

Reserve for unexpired risks increased by ₱976.2 million or 116.2.0% to ₱1,816.3 million from ₱840.1 million due to the higher volume of business compared to the previous year.

Accounts payable and accrued expenses increased by ₱43.5 million or 276.8% to ₱59.2 million from ₱15.7 million largely due to increase in accruals of merger related expenses such as retirement and sick leave benefits.

Total equity stood at ₱3,831.0 million, an increase of 79.8% or ₱1,700.4 million from ₱2,130.6 million in 2005. The increase was due to net income of ₱274.9 million in 2006 and an increase of ₱201.5 million in revaluation reserves which went up due to unrealized gains from marking to market of securities at fair value. This was partly offset by the acquisition of treasury shares in the amount of ₱254.5 million representing PhilNaRe shares owned by UMRe.

Material Changes (increase/decrease of 5% or more) in the financial statements

Balance Sheet Items- 2006 vs. 2005

215% increase in cash and cash equivalents

Mainly due to merger.

77% increase in reinsurance balances receivable-net

Largely due to increase in receivables from ceding companies arising out of the higher volume of business accepted during the year.

106% increase in deferred acquisition cost

Due to higher volume of business.

89% increase in investments

Due to increase in investments in available-for-sale securities and investment properties acquired thru merger.

259% increase in loans and receivables

Due to change in Company's investment mix.

83% increase in property and equipment, net

Due to merger with UMRC.

152% increase in deferred reinsurance premiums

Due to higher volume of business

801% increase in deferred input value added tax

Due to imposition of value added tax on reinsurance premiums which took effect in November 2005.

100% increase in deferred tax assets

Due to increase in provision for doubtful accounts.

1273% increase in other assets

Due to increase in deferred taxes on unpaid premiums.

115% increase in reinsurance balances payable

Due to increases in claims payable to ceding companies and premiums payable to retrocessionaires.

116% increase in reserve for unexpired risks

Due to higher volume of business.

169% increase in deferred reinsurance commissions

Due to higher volume of business ceded.

785% increase in deferred output value-added tax

Due to imposition of value added tax which became effective only in November 2005.

277 increase in accounts payable and accrued expenses

Due to increase in accruals of merger related expenses such as retirement benefits and sick leave benefits..

100% decrease in deferred income tax liabilities

Due to increase in deferred tax for provision for doubtful accounts.

80% increase in stockholders' equity

Due to net income derived from operations and increase in revaluation reserves.

December 31, 2005 compared to December 31, 2004

Financial Condition

Total resources increased by ₱1,524.1 million or 52% to ₱4,458.1 million from ₱2,934.0 million in 2004. Material changes in the Company's resources which contributed to the increase are described below.

Cash and cash equivalents increased by ₱73.2 million or 106.3% to ₱142.0 million from ₱68.8 million in 2004. The increase in cash was mainly due to additional capital raised from the rights offering held in May 2005, which involved the issuance of 3,882,352 common shares.

Reinsurance balances receivable increased by ₱364.7 million or 28% to ₱1,668.2 million from ₱1,303.5 million in 2004. This was mainly due to increase in balances due from ceding companies of ₱374.7 million.

Investments increased by ₱986.1 million or 114% to ₱1,849.2 million from ₱863.1 million in 2005. Investments in bonds classified as available-for-sale securities increased by ₱993.3 million. These are largely government securities and include government securities of ₱18.7 million which are deposited with the IC for the benefit of policyholders in accordance with the provisions of the Insurance Code.

Loans and receivables increased by 93.5% to ₱43.2 million from ₱22.3 million in 2004. The increase was due to increase in accrued interest receivable on investments in bonds.

Deferred reinsurance premiums increased by ₱55.1 million or 11.3% to ₱543.5 million from ₱488.4 million due to the higher volume of business compared to 2004.

Other assets increased by ₱2.8 million or 95.5% to ₱5.8 million from ₱3.0 million in 2004 due largely to deferred taxes of ₱3.2 million.

Total liabilities increased by ₱512.4 million or 28% to ₱2,327.5 million from ₱1,815.0 million in 2004. This was mainly due to an increase in reinsurance balances payable which went up by ₱356.2 million or 36.5% to ₱1,332.7 million from ₱976.5 million the previous year. Claims payable increased by ₱118.7 million or 17% while balances due to retrocessionaires went up by ₱250.0 million or 103% due to higher volume of business ceded during the year.

Reserve for unexpired risks went up by 17.2% to ₱840.1 million from ₱716.8 million in 2004 due to higher volume of business in 2005.

The Company had no income tax payable in 2005 compared to a ₱4.8 million income tax payable in 2004. However, the Company recorded ₱36.7 million in deferred output value-added tax in 2005. This pertains to value added tax on uncollected premium receivables.

Accounts payable and accrued expenses increased by ₱6.3 million or 67.1% to ₱15.7 million from ₱9.4 million in 2004 due to the reclassification of certain accounts.

Total equity increased by ₱1,011.7 million to ₱2,130.6 million from ₱1,118.9 million in 2004. The increase was due to the net income of ₱98.7 million in 2005, an increase of ₱136.7 million in revaluation reserves due to unrealized gains from marking to market of securities at fair value and the issuance of new

common shares and reissuance of treasury shares which contributed to an increase in capital of ₱776.3 million.

Material Changes (increase/decrease of 5% or more) in the financial statements

Balance Sheet Items- 2005 vs. 2004

106% increase in cash and cash equivalents

Mainly due to additional capital raised from the stock rights issue.

28% increase in reinsurance balances receivable-net

Largely due to increase in receivables from ceding companies.

114% increase in investments

Due to increase in investments in government securities

93% increase in loans and receivables

Due to increase in accrued interest receivable on investment in bonds.

11% increase in deferred reinsurance premiums

Due to higher volume of business.

100% increase in deferred input value-added tax

Due to the imposition of value-added tax on reinsurance premiums which took effect in November 2005.

95% increase in other assets

Due largely to deferred taxes.

36% increase in reinsurance balances payable

Due to increases in claims payable to ceding companies and premium payable to retrocessionaires.

17% increase in reserve for unexpired risks

Due to higher volume of business accepted.

8% decrease in deferred reinsurance commissions

Due to higher volume of business ceded.

100% decrease in income tax payable

Due to higher creditable tax withheld for the Company which is higher than actual income tax liability for 2005.

100% increase in deferred output value-added tax

Due to the imposition of value added tax which became effective in November 2005.

67% increase in accounts payable and accrued expenses

Due to reclassification of certain accounts.

8% increase in deferred income tax liabilities

Due to increase in deferred taxes for various reserves.

90% increase in stockholders' equity

Due to net income derived from operations, increase in revaluation reserves, issuance of new common shares and re-issuance of treasury shares.

KEY PERFORMANCE INDICATORS

	2006	2005	2004
Net Income	P 275 million	P 99 million	P 100 million
Earnings per share	P .20	P .10	P .16
Retention ratio	25%	32%	29%
Combined ratio*	92%	97%	94%
Return on average equity	9.2%	6.1%	9.5%

*(exclusive of extraordinary expenses)

The company's key performance ratios for the last three years showed an adequate capitalization and continued profitability growth.

Net Income (NI)--Net income for 2006 went up to P275 million in 2006 from P99 million in 2005. Net Income for 2005 is slightly lower by P1 million compared to net income of P100 million in 2004.

Earnings per share (EPS)--EPS are the earnings returned on the initial investment amount, computed by dividing net income by weighted average number of shares issued. The company's EPS are P.20, P.10 and P.16 for the years 2006, 2005 and 2004 respectively.

Retention ratio--indicates the total amount of business retained by the company, computed by dividing reinsurance premiums retained by reinsurance premiums (Gross premiums written or GPW). The reason for the decline in retention ratio to 25% in 2006 from 32% in 2005 was the rapid growth of facultative business for which the average retention is lower compared to treaty business.

Combined ratio--a measure of profitability used by the Company to indicate how well it is performing in its daily operations. A ratio below 100% indicates that the company is making underwriting profit while a ratio above 100% means that it is paying out more money in claims that it is receiving from premiums. Combined ratio is the sum of loss ratio, commission ratio and expense ratio. The combined ratio was at 92% in 2006, 97% in 2005 and 94% in 2004.

Return on average equity (ROE)--measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners, computed by dividing net income by average equity. ROE for the last three years was at 9.2%, 6.1% and 9.5% for 2006, 2005 and 2004 respectively.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Since 2003, Punongbayan & Araullo has served as the independent auditor of the Company to audit the Company's financial statements. The Company has not had any material disagreements on accounting or financial disclosure matters with Punongbayan & Araullo.

External Audit Fees

The following are the aggregate fees (in Philippine pesos) billed for each of the last three fiscal years for professional services rendered by Punongbayan & Araullo:

	2004	2005	2006
Audit and audit-related fees	291,762	261,286	448,517
Other assurance and related services	1,943,414	669,563	612,777
Tax fees	-	-	80,000
Total	2,235,176	930,849	1,141,294

The Audit Committee reviews the external auditor's engagement letter covering their scope of work and the reasonableness of the related professional fee. The Audit Committee recommends for approval of the Board the re-appointment of the external audit service provider for the subject audit year. The Board approves the re-appointment subject to ratification by the stockholders during the Company's annual stockholders meeting.

MATERIAL EVENTS AND UNCERTAINTIES

Other than the disclosure enumerated above, NRCP has nothing to report on the following:

- a) Any known trends, demands, commitments, events or uncertainties that will have a material impact on its liquidity.
- b) Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- c) Material off balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- d) Any material commitments for capital expenditures.
- e) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.
- f) Any significant elements of income or loss that did not arise from the issuer's continuing operations.
- g) Any seasonal aspects that had a material effect on the financial condition or results of operations.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Market Information

- a) The common shares of NRCP have been listed on the Philippine Stock Exchange since April 27, 2007.
- b) The price information as of the close of the latest practicable trading date, June 1, 2007, was P4.40 per share.

Dividends

The Company's Board of Directors is authorized to declare dividends. A cash dividend declaration does not require any further approval from the stockholders. A stock dividend declaration requires further approval of the stockholders holding or representing not less than two-thirds (2/3) 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 Board of Directors may determine and in accordance with law.

The Insurance Code prescribes that any declaration or distribution of dividends by the Company must be attested in a sworn statement by the President or Treasurer of the Company that such dividends will be sourced from profits after retaining unimpaired the entire paid-up capital stock, the margin of solvency, the legal reserve funds required by law, and the sum sufficient to pay all net losses and all liabilities for expenses and taxes. The Company is required to report such dividend declaration or distribution to the Insurance Commission within thirty (30) days from the date of such declaration or distribution.

It is the Company's policy to declare dividends regularly with the pay-out determined based on the Company's performance. Cash and stock dividends declared and paid during the years ending December 31, 2002, 2003 & 2004 are as follows:

Amount in Million Pesos			
Year	Cash	Stock	Total
2002	33.7	-	33.7
2003	16.9	33.7	50.6
2004	-	159.0	159.0

Approximate Number of Holders as of 31 May 2007

There were approximately 198 common shareholders of NRCP as of 31 May 2007

Top 20 Stockholders as of 31 May 2007

	Name of Record Owner	No. of shares Held	Percentage
1	PCD Nominee Corporation (Filipino) (Non-Filipino)	1,753,024,300 5,931,000	80.34% .27%
2	Great Pacific Life Assurance Corporation	36,460,200	1.67%
3	FGU Insurance Corporation	36,126,100	1.66%
4	Ayala Life Assurance, Inc.	28,274,900	1.30%

5	Malayan Insurance Company, Inc.	23,088,200	1.06%
6	Philam Insurance Company, Inc.	22,078,000	1.01%
7	Seaboard-Eastern Insurance Co.	16,668,500	.76%
8	Philippine Charter Insurance Corp.	15,306,000	.70%
9	First Nationwide Assurance Corp.	13,157,000	.60%
10	Malayan Zurich Insurance Co., Inc.	12,869,200	.59%
11	Tokio Marine Malayan Insurance Co., Inc.	12,522,000	.57%
12	Philippines First Insurance Co., Inc.	11,075,300	.51%
13	Philippine American Life Insurance Co.	8,628,600	.40%
14	Philippine International Life Insurance Co. Inc.	7,068,300	.32%
15	New Hampshire Insurance Company	6,941,200	.32%
16	Asia Traders Insurance Corporation	6,543,500	.30%
17	Industrial Insurance Company, Inc.	6,185,800	.28%
18	Alliedbankers Insurance Corporation	5,428,800	.25%
19	Cibeles Insurance Corporation	4,992,100	.23%
20	Northwest Insurance & Surety Company, Inc.	4,921,200	.23%

Recent Sales of Unregistered or Exempt Securities

The following table sets out details of the shares sold by the Company from 2004 up to April 27, 2007(listing date of NRCP), which includes new issues, shares issued in exchange for property, services or other shares, and new shares resulting from the modification of outstanding shares.

Date	No. of Shares	Purchaser	Consideration	Exemption from registration
June 28, 2004	1,590,180	Stock dividends declared (35%)	P100 per Share	Section 10.1(d) of the SRC
June 6, 2005	3,882,352	Various stockholders of the Company who participated in the Stock Rights Offer.	P200 per share	Section 10.1(e) of the SRC
Sept. 15, 2006	5,885,583	Issued to shareholders of UMRe pursuant to merger	P251.18 per Share	The Merger was processed by the SEC's Corporate Registration and Monitoring Dept.
Jan. 15, 2007	1,471,219,325	Issued to shareholders after stock split	P1.00 per Share	Section 10.1(j) of the SRC

On March 20, 2004, the Board of Directors approved the distribution of 1,590,180 common shares or 35% of the issued and outstanding capital stock as stock dividends to the Company's stockholders as of June 28, 2004. The stockholders, owning or representing 2/3 of the outstanding capital stock of the Company approved the distribution of the stock dividends on June 28, 2004. The requisite affidavit was submitted to the IC on July 8, 2004. Such stock dividend declaration is an exempt transaction under Section 10.1(d) of the SRC.

Pursuant to the resolutions of the Board of Directors adopted on February 15, 2005, the Company offered its stockholders of record as of February 15, 2005, the option to subscribe to 3,857,635 unissued authorized shares of stocks and 24,717 treasury shares or a total of 3,882,352 common shares at a price of ₱200 per share. The stock rights offering was fully subscribed raising ₱776 million for the Company. The stock rights offering is an exempt transaction under Section 10.1(e) of the SRC because the offering was exclusively made to the Company's stockholders and no commission was paid or given in connection with such offering.

The Board of Directors of the Company and stockholders owning more than 2/3 of the Company's outstanding capital stock approved the Plan of Merger of the Company with Universal Malayan Reinsurance Corporation on October 4, 2005 and October 24, 2005, respectively. The Merger became effective upon approval by the Securities and Exchange Commission ("SEC") on March 6, 2006 (the "Effective Date"). Pursuant to the Plan of Merger, each common share of UMRe, issued and outstanding as of the Effective Date, shall be cancelled and converted into fully paid shares of the Company at a ratio of 1 share of the Company for every 6.80 common shares of UMRe. On September 15, 2006, the Company issued 5,885,583 common shares to shareholders of UMRe. The issuance of common shares pursuant to the Merger is an exempt transaction under Section 10.1(c) of the SRC because the Merger is considered an isolated transaction.

On December 22, 2006, the Company's stockholders holding or representing at least two-thirds (2/3) of the outstanding capital stock of the Company approved the resolution of the Board of Directors adopted on November 28, 2006, for the stock split or the decrease in the par value of the authorized capital stock from Thirty Million (30,000,000) shares with a par value of One Hundred Pesos (₱100.00) per share to Three Billion (3,000,000,000) shares with a par value of One Peso (₱1.00) per share. The SEC approved the stock split on January 15, 2007. This resulted in the pro rata distribution of 1,471,219,325 shares to the shareholders as of January 15, 2007. The stock split is an exempt transaction under Section 10.1(j) of the SRC because it is essentially an exchange of securities by the Company exclusively made with its existing stockholders and no commission was paid or given in connection with such stock split.

Corporate Governance

- a) In order to measure or determine the level of compliance of the Board of Directors and management with the Company's Manual of Corporate Governance, the Company has appointed a compliance officer, who is responsible on a continuing basis for monitoring compliance with the provisions of the Company's Manual of Corporate Governance. The Compliance Officer likewise accomplishes Self Assessment Questionnaire-General Disclosure on Corporate Governance Practices for Insurance Companies, Professional Reinsurers and Intermediaries. The report, which is reviewed by the Board of Directors, is a requirement of the Insurance Commission (IC) and is submitted to the IC on a semi-annual basis.
- b) The Company's Corporate Governance Manual (the "Manual") was filed with the Insurance Commission and the Securities and Exchange Commission and has been in effect since January 1, 2003. Pursuant to the Manual, the Company instituted the following changes in its organization:
 - The Board established an Executive Committee and a Nomination and Compensation Committee.
 - All Directors of the Company are required to limit their directorship positions in other companies engaged in insurance and insurance-related business to four (4).

- Effective July 2006, the Company has appointed its independent directors as members of its Audit Committee.
 - The Company formalized and regularly updates its Anti-Money Laundering Policies and Procedures.
- c) There has been no deviation from the Company's Manual of Corporate Governance. The Company's Board of directors and management recognize that a good corporate governance system is integral to the mandate bestowed upon them by the Company's stockholders.
- d) The Company continues to improve corporate governance practice through continuous training of management on the best practices of good corporate governance. All new directors and executive officers with a designation of Vice President or higher are required to participate in and complete a Corporate Governance Seminar.

SCHEDULE 1

Name and Address of Beneficial Owner and Relationship with Record Owner

**Beneficial Owner Report
National Reinsurance Corp.
as of May 31, 2007**

broker cod	Participants Name	Units
B100AC	UPCC Securities Corp	1,597,000
B101AC	A & A Securities, Inc. - FREE	3,000
B101AC	A & A Securities, Inc.	10,544,000
B102AC	Abacus Securities Corporation	32,577,900
B102AP	Abacus Securities Corporation	200,000
B103AC	Accord Capital Equities Corporation	10,817,000
B103FC	Accord Capital Equities Corporation	286,000
B104AC	A. T. De Castro Securities Corp.	2,035,000
B106AC	Alpha Securities Corp.	695,000
B109AC	BA Securities, Inc. - FREE	859,000
B110AC	Angping & Associates Securities, Inc.	3,659,000
B110FC	Angping & Associates Securities, Inc.	120,000
B111AC	Ansaldo, Godinez & Co., Inc.	6,388,000
B112AC	AB Capital Securities, Inc.	1,492,000
B112AC	AB Capital Securities, Inc. - FREE	15,065,000
B112FC	AB Capital Securities, Inc. - FREE	22,000
B113AC	Sarangani Securities, Inc.	197,000
B115AC	SB Equities, Inc.	7,378,000
B115AC	SB Equities, Inc. - FREE	2,000
B115FC	SB Equities, Inc.	100,000
B116AC	Asia Pacific Capital Equities & Securities Corporation	2,152,000
B117AC	Asiamerit Securities, Inc. - FREE	10,000
B117AC	Asiamerit Securities, Inc.	263,000
B118AC	Asiasac Equities, Inc.	2,884,000
B119AC	Astra Securities Corporation	13,087,000
B120AC	ATC Securities, Inc.	942,000
B122AC	Belson Securities, Inc.	3,342,000
B123AC	Benjamin Co Ca & Co., Inc.	681,000
B124AC	B. H. Chua Securities Corporation	11,799,700
B125AC	Jaka Securities Corporation	5,770,000
B126AC	BPI Securities Corporation	937,436,000
B126FC	BPI Securities Corporation	2,529,000
B128AC	Campos, Lanuza & Company, Inc.	1,193,000
B129AC	Sincere Securities Corporation - FREE	125,000
B129AC	Sincere Securities Corporation	7,020,000
B130AC	Century Securities Corporation	3,036,000

B131AC	PCIB Securities, Inc. - B131AC-TA000987	25,000
B131AC	PCIB Securities, Inc. - PSI FAO PRULI063	50,000
B131AC	PCIB Securities, Inc. - PSI FAO PRULI023	100,000
B131AC	PCIB Securities, Inc. - PSI FAO PRULI012	100,000
B131AC	PCIB Securities, Inc. - B131AC-PT000606	227,000
B131AC	PCIB Securities, Inc. - FREE	381,000
B131AC	PCIB Securities, Inc. - B131AC-PT000611	35,000
B131AC	PCIB Securities, Inc. - B131-PT001297	287,000
B131AC	PCIB Securities, Inc. - B131-PT001298	184,000
B131AC	PCIB Securities, Inc. - B131-PT001299	670,000
B131AC	PCIB Securities, Inc. - B131-TA001234	48,000
B131AC	PCIB Securities, Inc. - B131-TA001374	140,000
B131AC	PCIB Securities, Inc. - B131-TA001778	8,000
B131AC	PCIB Securities, Inc. - B131AC-1	6,190,000
B131AC	PCIB Securities, Inc. - B131AC-5	225,000
B131AC	PCIB Securities, Inc.	5,468,000
B133AC	CITISECURITIES, INC.	28,088,000
B133AP	CITISECURITIES, INC.	14,000
B133FC	CITISECURITIES, INC.	290,000
B136AC	TRITON SECURITIES CORP.	5,193,000
B140AC	IGC Securities, Inc.	1,748,000
B141AC	Cualoping Securities Corporation	266,000
B142AC	DBP-Daiwa Securities (Phils.), Inc. - FREE	1,522,700
B142AC	DBP-Daiwa Securities (Phils.), Inc. - PIONEERLIFE	5,995,100
B143AC	DAVID GO SECURITIES CORP.	1,486,000
B145AC	DIVERSIFIED SECURITIES, INC. - FREE	948,000
B145AC	DIVERSIFIED SECURITIES, INC.	206,000
B147AC	E. CHUA CHIACO SECURITIES, INC. - FREE	59,000
B147AC	E. CHUA CHIACO SECURITIES, INC.	2,387,000
B147FC	E. CHUA CHIACO SECURITIES, INC.	6,000
B149AC	East West Capital Corporation	82,000
B150AC	EASTERN SECURITIES DEVELOPMENT CORPORATIO	8,475,000
B153AC	EQUITIWORLD SECURITIES, INC.	2,535,000
B154AC	Evergreen Stock Brokerage & Sec., Inc.	1,864,000
B154FC	Evergreen Stock Brokerage & Sec., Inc.	165,000
B157AC	FIRST ORIENT SECURITIES, INC.	521,000
B159AC	First Integrated Capital Securities, Inc.	1,643,000
B161AC	FRANCISCO ORTIGAS SECURITIES, INC.	564,000
B162AC	F. Yap Securities, Inc.	3,681,000
B162AP	F. Yap Securities, Inc.	1,950,000
B167AC	Aurora Securities, Inc.	1,242,000
B168AC	Globalbats Securities & Stocks, Inc.	5,750,000
B169AC	JSG Securities, Inc. - PESENGCO	110,000
B169AC	JSG Securities, Inc.	4,566,000

B169FC	JSG Securities, Inc.	12,000
B170AC	GOLDSTAR SECURITIES, INC. - FREE	6,873,000
B170AC	GOLDSTAR SECURITIES, INC.	614,000
B172AC	Guild Securities, Inc. - FREE	4,103,000
B172AC	Guild Securities, Inc.	5,000
B174AC	HDI Securities, Inc. - FREE	3,445,000
B175AC	H. E. BENNETT SECURITIES, INC.	801,000
B175AP	H. E. BENNETT SECURITIES, INC.	47,900
B178AC	HK SECURITIES, INC.	5,000
B179AC	I. Ackerman & Co., Inc.	1,523,000
B180AC	I. B. GIMENEZ SECURITIES, INC.	1,685,000
B180AP	I. B. GIMENEZ SECURITIES, INC.	55,000
B181AC	INVESTORS SECURITIES, INC.	2,452,000
B182AC	Imperial, De Guzman, Abalos & Co., Inc.	858,000
B182AP	Imperial, De Guzman, Abalos & Co., Inc.	750,000
B183AC	INTRA-INVEST SECURITIES, INC.	704,000
B188AC	J.M. Barcelon & Co., Inc.	564,000
B190AC	Value Quest Securities Corporation	17,494,000
B190FC	Value Quest Securities Corporation	200,000
B192AC	Strategic Equities Corp. - LIBERTYINSURANCE	2,966,900
B192AC	Strategic Equities Corp. - FREE	3,083,000
B192AP	Strategic Equities Corp. - FREE	22,000
B193AC	Larrgo Securities Co., Inc.	969,000
B195AC	LITONJUA SECURITIES, INC.	52,000
B197AC	Lopez, Locsin, Ledesma & Co., Inc.	997,000
B197AP	Lopez, Locsin, Ledesma & Co., Inc.	8,000
B198AC	Lucky Securities, Inc.	836,000
B199AC	Luys Securities Company, Inc.	1,870,000
B199AP	Luys Securities Company, Inc.	100,000
B200AC	Mandarin Securities Corporation - FREE	877,000
B201AC	MARIAN SECURITIES, INC.	996,000
B204AC	DA Market Securities, Inc.	100,000
B204AC	DA Market Securities, Inc. - FREE	1,171,000
B205AC	Mercantile Securities Corp.	2,021,000
B206AC	Meridian Securities, Inc. - FREE	13,750,000
B206AC	Meridian Securities, Inc.	4,099,500
B208AC	MDR Securities, Inc.	620,000
B209AC	Deutsche Regis Partners, Inc. - AC CORPORATE	125,000
B209AC	Deutsche Regis Partners, Inc. - AC RETAIL	184,000
B210AC	Mount Peak Securities, Inc.	579,000
B211AC	New World Securities Co., Inc.	862,000
B213AC	Nieves Sanchez, Inc.	311,000
B213FC	Nieves Sanchez, Inc.	20,000
B215AC	Optimum Securities Corporation	531,000

B215AP	Optimum Securities Corporation	122,000
B217AC	RCBC Securities, Inc. - FREE	66,753,000
B217AC	RCBC Securities, Inc.	2,267,000
B218AC	Pan Asia Securities Corp.	1,402,000
B219AC	Papa Securities Corporation - FREE	60,000
B219AC	Papa Securities Corporation	7,928,100
B220AC	ATR-KIM ENG SECURITIES, INC. - FREE	22,632,800
B223AC	Platinum Securities, Inc.	5,000
B224AC	PNB Securities, Inc.	4,043,000
B225AC	PREMIUM SECURITIES, INC. - FREE	1,882,000
B225FC	PREMIUM SECURITIES, INC.	40,000
B229AC	Public Securities Corporation	1,745,000
B230AC	QUALITY INVESTMENTS & SECURITIES CORPORATI	4,339,000
B230FC	QUALITY INVESTMENTS & SECURITIES CORPORATI	136,000
B231AC	R & L Investments, Inc.	1,223,000
B232AC	Alakor Securities Corporation - FREE	30,000
B232AC	Alakor Securities Corporation	647,000
B233AC	R. Coyinto Securities, Inc.	2,072,100
B235AC	REGINA CAPITAL DEVELOPMENT CORPORATION - I	5,000
B235AC	REGINA CAPITAL DEVELOPMENT CORPORATION	4,508,000
B236AC	R. Nubla Securities, Inc.	4,737,000
B237AC	AAA Southeast Equities, Incorporated	2,583,000
B238AC	R. S. Lim & Co., Inc.	3,427,000
B239AC	RTG & COMPANY, INC.	756,000
B239AP	RTG & COMPANY, INC.	20,000
B240AC	S.J. Roxas & Co., Inc.	803,000
B240AC	S.J. Roxas & Co., Inc. - FREE	612,000
B242AC	SECURITIES SPECIALISTS, INC.	1,885,000
B242AP	SECURITIES SPECIALISTS, INC.	200,000
B243AC	Fidelity Securities, Inc. - FREE	100,000
B243AC	Fidelity Securities, Inc.	566,000
B246AC	Summit Securities, Inc.	338,000
B246AC	Summit Securities, Inc. - FREE	542,000
B247AC	STANDARD SECURITIES CORPORATION - PIONEER I	2,098,200
B247AC	STANDARD SECURITIES CORPORATION - PIONEER I	15,832,800
B247AC	STANDARD SECURITIES CORPORATION	7,391,000
B247AC	STANDARD SECURITIES CORPORATION - PIONEER I	20,107,400
B249AC	SUPREME STOCKBROKERS, INC.	305,000
B251AC	TANSENGCO & CO., INC.	1,825,000
B251FC	TANSENGCO & CO., INC.	306,000
B252AC	THE FIRST RESOURCES MANAGEMENT & SECURITIE	37,259,000
B252AC	THE FIRST RESOURCES MANAGEMENT & SECURITIE	765,000
B253AC	Tower Securities, Inc.	4,015,000
B254AC	TRANS-ASIA SECURITIES, INC.	162,000

B255AC	APEX Philippines Equities Corp.	757,000
B255AC	APEX Philippines Equities Corp. - FREE	5,000
B257AC	TRI-STATE SECURITIES, INC.	541,000
B257FC	TRI-STATE SECURITIES, INC.	10,000
B259AC	UCPB Securities, Inc. - FREE	20,000
B259AC	UCPB Securities, Inc.	3,156,400
B261AC	e. securities, inc. - FREE	60,000
B261AC	e. securities, inc.	1,400,000
B261AP	e. securities, inc. - FREE	20,000
B261FC	e. securities, inc.	98,000
B263AC	Venture Securities, Inc. - FREE	1,557,000
B263AC	Venture Securities, Inc. - PHIL FIRST AC001	500,000
B266AC	Vicqal Securities & Stock Brokerage, Inc.	410,000
B267AC	First Metro Securities Brokerage Corp. - FREE	6,210,000
B267AC	First Metro Securities Brokerage Corp.	8,343,000
B267AP	First Metro Securities Brokerage Corp.	100,000
B269AC	Wealth Securities, Inc.	23,147,000
B270AC	Westlink Global Equities, Inc.	6,130,000
B270AP	Westlink Global Equities, Inc.	135,000
B272AC	BERNAD SECURITIES, INC.	4,252,000
B272AP	BERNAD SECURITIES, INC.	826,000
B273AC	WONG SECURITIES CORPORATION	185,000
B275AC	Yao & Zialeta, Inc.	3,106,000
B278AC	Yu & Company, Inc.	2,724,000
B278FC	Yu & Company, Inc.	6,000
B279AC	BDO SECURITIES CORP.	21,421,600
B279AC	BDO SECURITIES CORP. - FREE	12,000
B279FC	BDO SECURITIES CORP.	23,000
B282AC	PCCI SECURITIES BROKERS CORP.	832,000
B282AC	PCCI SECURITIES BROKERS CORP. - FREE	11,220,500
B283AC	Eagle Equities, Inc.	5,176,000
B283FC	Eagle Equities, Inc.	60,000
B285AC	Golden Tower Securities & Holdings, Inc.	3,142,000
B286AC	SOLAR SECURITIES, INC.	9,448,000
B286AP	SOLAR SECURITIES, INC.	250,000
B288AC	G.D. TAN & COMPANY, INC.	3,773,000
B323AC	CLSA Philippines, Inc. - FREE	3,903,000
B323AC	CLSA Philippines, Inc. - PERLA INSURANCE	7,613,400
B328AC	Thing On Securities LTD, (Phils.), Inc.	3,005,000
B338AC	Philippine Equity Partners, Inc. - CLIENT2	16,000
B338FC	Philippine Equity Partners, Inc. - CLIENT	100,000
B345AC	UNICAPITAL Securities Inc. - FREE	3,421,000
B345AC	UNICAPITAL Securities Inc. - PIONEER LIFE	8,409,300
B388AC	Armstrong Securities, Inc.	32,000

B389AC	King's Power Securities, Inc.	21,190,000
B389FC	King's Power Securities, Inc.	11,969,000
BCDO20	Banco de Oro - Trust Banking Group	9,941,000
CITI10	CITIBANK N. A. - CITIOMNIFOR	300,000
DEUB10	Deutsche Bank AG Manila Branch	500,000
HSBC10	The Hongkong and Shanghai Banking Corp. Ltd. -Clients' Ac	8,295,000
HSBC20	The Hongkong and Shanghai Banking Corp. Ltd. -Clients' Ac	29,252,000
PBCI10	Basic Capital Investments Corp.	150,000
PCPL10	United Coconut Planters Life Assurance Corp. - VLPESOE	240,000
PCPL10	United Coconut Planters Life Assurance Corp.	705,000
PMIC20	Malayan Zurich Insurance Co., Inc.	400,000
PMIC30	Tokio Marine Malayan Insurance Co., Inc.	200,000
PMIC40	First Nationwide Assurance Corp	200,000
PSMC10	San Miguel Corp.-Retirement Plan	1,000,000
PSMC11	Purefoods-Hormel Co., Inc. Employees' Ret. Plan	350,000
PSMC20	San Miguel Corporation Plan-STP	3,150,000
RCBC10	RCBC Trust & Investment Division	5,996,000
SCBK10	Standard Chartered Bank	25,193,000
SCTD10	MBTC - Trust Banking Group	350,000
UCPB10	United Coconut Planters Bank-Trust Banking	4,400,000
		1,758,955,300

FINAL LIST OF CANDIDATES FOR INDEPENDENT DIRECTORS

1. Mr. Romeo L. Bernardo: He is an Independent Director of the Corporation since April 2006. He is also the President of Lazaro Bernardo Tiu & Associates, Inc.; Independent Director of Bank of the Philippine Islands and Ayala Life Assurance, Inc.; Chairman of the Board of ALFM Peso Bond Fund, Inc., ALFM Dollar Bond, Inc., and ALFM Euro Bond Fund, Inc.; Director of Globe Telecom, Inc., RFM Corporation, Philippine Investment Management, Inc., PSi Technologies, Inc., Philippine Institute for Development Studies, Ayala Plans, Inc., BPI Family Savings Bank, Inc., BPI Capital Corporation, BPI Direct Savings Bank, BPI Rental Corporation, and BPI Leasing Corporation; and Vice Chairman and Founding Fellow of the Foundation for Economic Freedom and Member of the Board of Trustees of the UP School of Economics Alumni Association. He graduated with a degree in BS Business Economics from the University of the Philippines in 1974, and Masters in Development Economics from the Williams College, Massachusetts, U.S.A. in 1977.

2. Mr. Primitivo Cal: Mr. Primitivo Cal is a civil engineer and lawyer. He is a full professor at the School of Urban and Regional Planning (SURP), University of the Philippines. He recently completed his term as dean of SURP. He served as Undersecretary of the Department of Transportation and Communication from December 1993 to June 1998. He has held several scholarly positions in the past as Foreign Professor at the University of Tsukuba, Japan; Research assistant in the Department of Civil Engineering, University of Dundee in Scotland and in the Asian Institute of Technology in Bangkok, Thailand. He also served as a Board member of the Philippine National Railways from November 2001 to December 2004.

3. Mr. Rizalino Navarro: Mr. Rizalino S. Navarro is presently a director of the Rizal Commercial Banking Corporation since 1999 and the Chairman of several companies including EEI Corporation, Upline Food Corporation, and Phil. Fuji Xerox Corp. He is at present a director of House of Investments, Inc., Pacific Plans, Inc., Bankard, Inc., Great Pacific Life Assurance Corp., Mapua Institute of Technology, Seafont Resources Corp., Malayan Insurance Co., Inc., YGC Computer Services, Inc., Petroenergy Corp., an Honda Cars Phil., Inc. He served as the Executive Vice Chairman of RCBC from June 28, 2004 to January 2005.



NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

18TH FLOOR, PHILIPPINE AXA LIFE CENTRE SEN. GIL PUYAT AVENUE CORNER TINDALO STREET, MAKATI CITY, PHILIPPINES
TELS: (632) 759-5801 TO 06 * FAX: (632) 759-5886/87 * WEBSITE: www.nrcp.com.ph * E-MAIL: nrcp@nrcp.com.ph

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Dear Stockholders:

Please be notified that the annual meeting of stockholders of **National Reinsurance Corporation of the Philippines** (the "Corporation") will be held on **July 23, 2007, Monday at 3:00 p.m., at Carlos P. Romulo Auditorium, Podium 4, Tower II, RCBC Plaza, 6819 Ayala Avenue, Makati City**, with the following agenda:

1. Call to order.
2. Report on attendance and quorum.
3. Approval of minutes of previous stockholders' meeting.
4. Management report for the year ended December 31, 2006.
5. Ratification of all acts of the board of directors and officers during the preceding year.
6. Appointment of independent auditors.
7. Election of directors, including three Independent directors.
8. Other matters.
9. Adjournment.

Stockholders of record as of June 15, 2007 shall be entitled to notice of, and to vote at said annual stockholders' meeting or any adjournment or postponement thereof.

Validation of proxy shall be held on July 16, 2007 at 2:00 p.m. at the principal office of the Corporation.

On the day of the meeting you, or your duly designated proxy, are hereby required to bring this Notice, and any form of identification (i.e. driver's license, company I.D., TIN card, etc.) to facilitate registration. Registration starts at exactly 1:00 p.m. and closes at 3:00 p.m.

Makati City, Metro Manila
June 21, 2007

For the Board of Directors


ZENAIDA L. SALIPSIP
Corporate Secretary

PROXY
NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

PROXY SOLICITED ON BEHALF OF THE MANAGEMENT OF NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES FOR THE ANNUAL STOCKHOLDERS' MEETING TO BE HELD ON JULY 23, 2007, MONDAY, AT 3:00 P.M. AT CARLOS P. ROMULO AUDITORIUM, PODIUM 4, TOWER II, RCBC PLAZA, 6819 AYALA AVENUE, MAKATI CITY.

The Undersigned hereby appoints:

- (a) The Chairman of the Board of Directors of National Reinsurance Corporation of the Philippines, or in his absence, the President of National Reinsurance Corporation of the Philippines, or in their absence,
- (b) _____

as his/her/its Proxy to attend the above annual meeting of the stockholders of **National Reinsurance Corporation of the Philippines**, and any adjournment or postponement thereof, and thereat to vote all shares of stock held by the undersigned as specified below and on any matter that may properly come before said meeting.

Management recommends a vote on the following items and my vote is respectively indicated below:

- (1) **Approval/ratification of the minutes of the annual stockholders' meeting held on June 26, 2006 and special stockholders' meeting held on December 22, 2006.**
- ☐ FOR ☐ AGAINST ☐ ABSTAIN
- (2) **Ratification of the acts of the Board of Directors and Officers of the Corporation**
- ☐ FOR ☐ AGAINST ☐ ABSTAIN
- (3) **Appointment of Punongbayan & Araullo as Independent External Auditors**
- ☐ FOR ☐ AGAINST ☐ ABSTAIN
- (4) **Election of Directors.**
- ☐ FOR all nominees listed below, except those whose names are stricken out
- ☐ WITHHOLD authority to vote for all nominees listed below.

(Instruction: To strike out a name or withhold authority to vote for any individual nominee, draw a line through the nominee's name in the list below).

For Regular Directors:

Winston F. Garcia
 Adelita A. Vergel De Dios
 Wilfrido C. Bantayan
 Yvonne S. Yuchengco
 Alfonso L. Salcedo, Jr.
 Emilio S. De Quiros, Jr.
 Josefina L. Valera
 Rafael C. Gallaga

For Independent Directors:

Romeo L. Bernardo
 Primitivo C. Cal
 Rizalino Navarro

In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the meeting. This proxy when properly executed will be voted in the manner as directed above by the undersigned stockholder. If no direction is made, this proxy will be voted for the above items in the discretion of the Proxy.

The manner in which this proxy shall be accomplished, as well as the validation hereof shall be governed by the provisions of SRC Rule 20 (11)(b). Pursuant to this rule, a proxy executed by a corporation shall be in a form of a board resolution duly certified by the Corporate Secretary or this proxy form shall be executed by a duly authorized corporate officer accompanied by a Corporate Secretary's certificate quoting the board resolution authorizing the said corporate officer to execute this proxy.

This proxy may be revoked by the undersigned stockholder at any time by submitting to the Corporate Secretary a written notice of revocation not later than the start of the meeting, or by attending the meeting in person and signifying his intention to personally vote his shares.

 Date

 (Signature above printed name, including title when signing for a corporation or partnership or as an agent, attorney or fiduciary).

No. of shares held: _____

Please mark, sign, date, and return promptly in the accompanying envelope.

COVER SHEET

8 0 1 1 8
S.E.C. Registration Number

NATIONAL REINSURANCE
CORPORATION
OF THE PHILIPPINES

(Company's Full Name)

18TH FLOOR PHILIPPINE AXA LIFE
CENTER SEN. GIL J. PUYAT AVENUE
CORNER TINDALO ST. MAKATI CITY

(Business Address : No. Street City / Town / Province)

JOHN E. HUANG
Contact Person

759-58-01
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

1 7 Q
FORM TYPE

0 7 2 3 07
Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

COVER SHEET

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

("PhilNaRe")

(Company's Full Name)

**18th Floor, Philippine AXA Life Centre Sen. Gil J. Puyat Avenue
corner Tindalo St., Makati City, Philippines 1200**

(Company's Address)

(632) 759-5801 to 06

(Telephone Number)

December 31

(Fiscal Year Ending)

July 23, 2007

(Annual Meeting)

SEC FORM 17-Q

Quarterly Report

1st Quarter Ending 31 March 2007

(Form Type)

Amendment Designation (If applicable)

(Secondary License Type and File Number)

Cashier

LCU

DTU

80118

S.E.C. REG. No.

Central Receiving Unit

File Number

Document I.D.

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE
SECURITIES REGULATIONS ACT AND SRC RULE 17 (2)(b) THEREUNDER**



1. For the quarter ended 31 March 2007
2. Commission identification Number 80118
3. BIR Tax Identification Number 000-480-869
4. **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**
Exact name of registrant as specified in its charter
5. **PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization
6. Industry classification code (SEC Use Only)
7. **18/F PHILIPPINE AXA LIFE CENTRE, SEN. GIL J. PUYAT AVE.** 1200
CORNER TINDALO STREET, MAKATI CITY Postal Code
Address of registrant's principal office
8. **(632) 759-5801 to 06**
Registrant's telephone number, including area code
9. **Not applicable**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the RSA as of quarter ended:

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding</u>
Common	741,902,600
11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes ☒ No ☐
12. Indicate by check mark whether the registrant:
 - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such report);

Yes ☐ No ☒
 - (b) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☒

PART 1. - FINANCIAL INFORMATION

Item 1. Financial Statements

- a. Balance Sheet as of 31 March 2007 and December 31, 2006.
- b. Income Statement for the Quarter Ended 31 March 2007 and 31 March 2006.
- c. Statement of Changes in Stockholders Equity for the Quarter Ended 31 March 2007 and 31 March 2006.
- d. Statement of Cash Flows as of 31 March 2007 and 31 March 2006.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, 1st Quarter (National Reinsurance Corporation of the Philippines)

Results of Operations

Reinsurance Premium Income

Reinsurance premiums in 1st Qtr. 2007 increased by 15.2% to P723M from P628M in 1st Qtr. 2006. The increase was mainly due to the booking of new facultative accounts and reinsurance treaties as well as bigger shares on accounts renewed during the quarter. Net premiums retained stood at P283 million, higher by 75.6% from P161 million in 1st Qtr. 2006. The increase was due to higher premiums retained by the Company for 1st Qtr. 2007 compared with 1st Qtr. 2006. Retention ratio increased to 39.2% from 25.7% for the corresponding period last year.

Premiums earned increased by 56.4%, from P158 million to P248 million, due to the increase in net premiums retained despite an increase in reserve for unexpired risks of P32.3 million, arising from the use of the 24th method of recognizing reinsurance premiums.

Underwriting Deductions

Share in claims and losses stood at P147.5 million and P95.4 million, respectively for the 1st Qtr. 2007 and 2006, an increase of P52.1 million or 54.6%. Recorded losses during the 1st Qtr. 2007 were largely losses of previous years which were reported by ceding companies during the period. Although there was an increase of P52 million, the average loss ratio improved from 60.1% in 1st Qtr. 2006 to 59.5% in 1st Qtr. 2007.

Net commissions also increased by P26.7 million or 75% in 1st Qtr. 2007 compared to 1st Qtr. 2006 because of higher premiums retained for the period. Despite the increase, commission ratio remained at 22%.

Investment and Other Income (Charges)

Investment and other income in 1st Qtr. 2007 amounted to P187 million, representing a 65% increase from P113 million in 1st Qtr. 2006. Interest Income increased by P16.3 million as a result of better yields on investments in fixed income securities. While the Company incurred a foreign currency translation loss of P26.8 million in 1st Qtr. 2007 (compared to a gain of P0.8 million in 1st Qtr. 2006), this was offset by a P136 million increase in other investment income, which included realized trading gains from equity and fixed income securities in the Company's investment portfolio. Investment and other

income in 1st Qtr. 2006 included a one-time gain of P51 million arising from the merger between the Company and Universal Malayan Reinsurance Corporation, which was completed in March 6, 2006.

General and Administrative Expenses

General and administrative expenses increased by 12% to P29 million in 1st Qtr. 2007 from P26 million in 1st Qtr. 2006 mainly due to the payment of gratuity benefits of certain resigned employees.

Provision for Income Tax

Provision for income tax for the 1st Qtr. 2007 was P22.4 million, 74% higher than 1st Qtr. 2006 income tax of P13 million and consistent with the increase in income before tax.

Net Income

As a result of the above-mentioned factors, net income for the 1st Qtr. 2007 increased by P72 million or 70% from P102 million in 1st Qtr. 2006 to P174 million.

Financial Condition

Total assets as of 1st Qtr. 2007 amounted to P8.6 billion, P497 million or 5.45% lower than the total assets of P9.1 billion as of December 31, 2006. Material changes in the company's resources are described below:

• **Reinsurance Balances Receivable-net (2,887M vs. 2,956M)**

Reinsurance balances decreased by P69 million or 2.3% due to collection of receivables from ceding companies and retrocessionaires.

• **Deferred Reinsurance Premium (1,183M vs. 1,371M) and Deferred Acquisition Cost (200M vs. 275M)**

Following the 24th method of revenue recognition, deferred reinsurance premium and deferred acquisition cost decreased by P188 million or 13.7% and P75 million or 27.13%, respectively, reflecting portions of reinsurance premiums written as of December 31, 2006 that were earned as of March 31, 2007.

• **Investments (3,394M vs. 3,445M)**

Investments decreased by P52 million or 1.50% due to pre-termination of certain fixed income securities which were used in payment of a court-mediated Compromise Agreement with dissenting stockholders, which provided for the acquisition of 44,677,400 shares of the Company at a price of P2.24 per share, totalling around P100 million. These shares reverted to Treasury shares which were subsequently sold at P3.80 during the Company's IPO.

• **Loans and Receivables (121M vs. 155M)**

Loans and receivables decreased by P33 million or 21.62% mainly due to a decrease of P27 million in accrued interest because of the conversion of certain fixed income securities to 5-year Benchmark Bonds and the collection of other receivables amounting to P6 million.

- **Property and Equipment, net (90.091M vs. 89,987M)**

Property and equipment, net of accumulated depreciation, amounted to ₱90 million, a slight increase of ₱104,266 or 0.12% from the previous year. There were no major capital expenditures during the period other than the acquisition of motor vehicles for newly-hired officers.

- **Deferred Input Value Added Tax (182M vs. 214M)**

Deferred input value added tax decreased by ₱32 million or 15% to ₱182M in 1st Qtr. 2007 from ₱214 million at the end of 2006. The decrease was due to payment of VAT for the account of various retrocessionaires for the 1st Qtr. 2007.

- **Deferred Tax Assets (14.6M vs. 28.20M)**

Deferred tax assets decreased by ₱14 million or 48.3% from ₱28 million to ₱15 million in 1st Qtr. 2007. This reflected the impact on deferred income tax arising from the difference in accounting for reserve for unexpired risk as prescribed by generally accepted accounting practices (GAAP) versus regulatory accounting practices (RAP), which is the basis for the Company's payment of income tax. The realization of certain foreign exchange translation losses in 1st Qtr. 2007 also contributed to the decline in deferred tax assets.

- **Other Assets (115M vs. 79M)**

Other assets increased by ₱35.9 million or 45% from ₱79.5 million in 2006 to ₱115 million in 1st Qtr. 2007. The increase was due to excess of input VAT over output VAT of ₱30 million between the last quarter of 2006 and 1st Qtr. 2007. Prepayments, particularly IPO related costs, also contributed to the increase.

Liabilities (4,867M vs. 5,285M)

Total liabilities decreased by ₱419 million or 7.92% from ₱5.3 billion in 2006 to ₱4.9 billion in 1st Qtr. 2007. The decrease in total liabilities are explained below:

- **Reinsurance Balances Payable (2,659M vs. 2,864M)**

Reinsurance balances payable decreased by 7.15% or ₱205 million from ₱2.9 billion at year end 2006 to ₱2.7 billion in 1st Qtr. 2007. The decrease was due to settlement of various reinsurance payable accounts.

- **Reserve for Unexpired Risks (1,663M vs. 1,816M) /
Deferred Reinsurance Commission (170M vs. 221M)**

Reserve for unexpired risk and deferred reinsurance commission decreased by ₱153 million or 8.4% and ₱51 million or 23%, respectively. During the 1st Qtr. 2007, as portions of deferred reinsurance premiums at year end 2006 are deemed earned under the 24th method of revenue recognition, there is a corresponding reduction in the associated reserve for unexpired risk and deferred reinsurance commission.

- **Deferred Output Value Added Tax (310M vs. 325M)**

Deferred value added tax decreased by ₱14.8 million or 4.6% to ₱310 million in 1st Qtr. 2007 from ₱325 million at year end 2006. The decrease came from the collection of reinsurance receivables in 1st Qtr. 2007.

• **Accounts Payable and Accrued Expenses (64M vs. 59M)**

Accounts payable and accrued expenses increased by P5 million or 8% to P64 million in 1st Qtr. 2007 from P59 million at year end 2006 as a result of an increase in withholding VAT due to non-residents from P13 million at year end 2006 to P19.5 million in 1st Qtr. 2007.

• **Equity (3,752M vs. 3,831M)**

Stockholders equity decreased by P78 million or 2% to P3,753 million as of 1st Qtr. 2007 from P3,831 million at year end 2006. The decrease resulted from the acquisition of treasury shares as well as a decline in revaluation reserve which, in turn, arose from the realization of gains from some of the Company's fixed income and equity investments.

Key Performance Indicators:

	1 st Qtr. 2007	1 st Qtr. 2006	Year 2006
1. Net Income	P 174 million	P 102 million	70.59%
2. Earnings per share (a)	P 0.12	P 0.09	33.33%
3. Retention ratio (b)	39.2%	25.7%	
4. Combined ratio (c)	91.80%	98.38%	
5. Return on average equity	18.32%	14.96%	

(a) Net income divided by weighted average number of shares issued.

(b) Reinsurance premiums retained divided by reinsurance premiums (Gross premiums written or GPW).

(c) Sum of loss ratio (59.45% / 60.15%) commissions ratio (22.04% / 22.10%) and expense ratio (10.31% / 16.13%).

Discussion and Analysis of Material Events and Uncertainties:

1. There are no known trends, demands, commitments, events or uncertainties that have material impact on the Company's liquidity and net income from continuing operations.
2. The Company listed its shares on the Philippine Stock Exchange on April 27, 2007 through the issuance of 638,000,000 new and existing common shares at an offer price of P3.80 per share. Of the 638,000,000 shares, 489,493,700 new common shares were issued by the Company from its authorized and unissued capital stock and 148,506,300 common shares were reissued from treasury. The Company also granted its underwriters an over allotment option amounting to an additional 103,902,600 common shares, which option was subsequently exercised thus bringing the total number of shares offered to 741,902,600. The offering generated gross proceeds to P2.8 billion for the Company.
3. All of the Company's income arose from its continuing operations.

PART 11. - OTHER INFORMATION

B. No other material information.

**NATIONAL REINSURANCE CORPORATION
OF THE PHILIPPINES**
(Registrant)

JOHN E. HUANG
Chief Finance Officer


WILFRIDO C. BANTAYAN
President & Chief Executive Officer

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

BALANCE SHEET As of March 31, 2007

	Notes	March 2007 (Unaudited)	Dec. 2006 (Audited)	Changes
ASSETS				
CASH AND CASH EQUIVALENTS	2, 15	376,071,835	446,834,344	(70,762,509)
REINSURANCE BALANCES RECEIVABLE-net	3, 15	2,886,793,922	2,955,711,652	(68,917,730)
DEFERRED ACQUISITION COST		200,470,269	275,114,923	(74,644,654)
INVESTMENTS				
Available for sale	4	3,393,651,697	3,445,458,733	(51,807,036)
Others	4	55,303,206	55,303,206	-
LOANS AND RECEIVABLES	5	121,413,613	154,900,847	(33,487,234)
PROPERTY AND EQUIPMENT-NET	6	90,091,836	89,987,570	104,266
DEFERRED REINSURANCE PREMIUMS	7	1,183,301,394	1,371,157,013	(187,855,619)
DEFERRED INPUT VALUE ADDED TAX		182,012,217	214,182,979	(32,170,762)
DEFERRED TAX ASSETS		14,572,437	28,198,157	(13,625,720)
OTHER ASSETS	8	115,443,571	79,494,921	35,948,650
TOTAL ASSETS		8,619,125,997	9,116,344,345	(497,218,348)
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	3, 15	2,659,002,750	2,863,904,231	(204,901,481)
RESERVE FOR UNEXPIRED RISKS	7	1,663,336,841	1,816,299,487	(152,962,646)
DEFERRED REINSURANCE COMMISSIONS		170,322,846	221,051,056	(50,728,210)
DEFERRED OUTPUT VALUE ADDED TAX		310,098,440	324,901,892	(14,803,452)
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	63,793,005	59,181,794	4,611,211
TOTAL LIABILITIES		4,866,553,882	5,285,338,460	(418,784,578)
EQUITY				
Capital Stock	14	1,588,558,300	1,588,558,300	-
Treasury shares	14	(358,070,611)	(254,639,635)	(103,430,976)
Additional Paid in Capital		1,274,936,540	1,274,936,540	-
Revaluation reserve		229,739,123	378,444,968	(148,705,845)
Retained Earnings		1,017,408,763	843,705,712	173,703,051
Total Equity		3,752,572,115	3,831,005,885	(78,433,770)
TOTAL LIABILITIES & EQUITY		8,619,125,997	9,116,344,345	(497,218,348)

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
INCOME STATEMENTS (unaudited)

For the period January 1, 2007 to March 31, 2007)

(With comparative figures for the period Jan. 1, 2006 to March 31, 2006)

	<u>Notes</u>	<u>March 2007</u>	<u>March 2006</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums		722,720,208	627,528,194	95,192,014	15.17%
Retroceded premiums		439,686,264	466,311,760	(26,625,496)	-5.71%
Net Premiums retained		283,033,944	161,216,434	121,817,510	75.56%
Inc. in reserve for unexpired risk	7	(34,892,973)	(2,575,565)	(32,317,408)	1254.77%
Premiums Earned		248,140,971	158,640,869	89,500,102	56.42%
Underwriting deductions					
Share in claims & losses		147,519,808	95,422,482	52,097,326	54.60%
Commissions, net		62,368,580	35,628,380	26,740,200	75.05%
	11	209,888,388	131,050,862	78,837,526	60.16%
Net Underwriting Income		38,252,583	27,590,007	10,662,576	38.65%
Investments and Other Income (Charges)					
Interest		66,697,697	50,430,636	16,267,061	32.26%
Foreign currency gain (losses)		(26,830,341)	796,757	(27,627,098)	-3467.44%
Gain on acquisition		-	51,295,702	(51,295,702)	
Others		147,177,816	10,921,097	136,256,719	1247.65%
Investment and Other Income	10	187,045,172	113,444,192	73,600,980	64.88%
Income after Investment Income		225,297,755	141,034,199	84,263,556	59.75%
General and Administrative Expenses	12, 13	29,179,847	25,999,497	3,180,350	12.23%
Income Before Tax		196,117,908	115,034,702	81,083,206	70.49%
Tax Expense		22,414,859	12,906,859	9,508,000	73.67%
Net Income		173,703,049	102,127,843	71,575,206	70.08%
 Earnings per Share	16	 0.12	 0.09		

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENT OF CHANGES IN EQUITY (unaudited)
As of March 31, 2007

(With comparative figures as of March 31, 2006)

	<u>Notes</u>	<u>March 2007</u>	<u>March 2006</u>
CAPITAL STOCK - P100 par value			
Authorized - 3,000,000,000 shares			
Issued -1,588,558,300 shares	14	1,588,558,300	1,588,558,300
ADDITIONAL PAID IN CAPITAL		1,274,936,540	1,274,936,540
TREASURY SHARES (at cost)	14	(358,070,611)	(244,029,466)
REVALUATION RESERVE			
Balance at beginning of the year		378,444,968	176,890,913
Changes during the period		(148,705,845)	(140,050,777)
		229,739,123	36,840,136
RETAINED EARNINGS			
Appropriated for contingencies			
Balance at beginning of the year		150,949,099	123,455,961
Additional appropriations		17,370,305	10,212,784
	14	168,319,404	133,668,745
Unappropriated			
Balance at beginning of the year		692,756,613	445,318,371
Net Income		173,703,051	102,127,845
Appropriated for contingencies		(17,370,305)	(10,212,784)
		849,089,359	537,233,432
		<u>3,752,572,115</u>	<u>3,327,207,687</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

CASH FLOW STATEMENTS (unaudited)

As of March 31, 2007

(With comparative figures as of March 31, 2006)

	<u>March 2007</u>	<u>March 2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	P 196,117,908	P 115,034,702
Adjustments for:		
Increase in reserve for unexpired risks	34,892,973	2,575,565
Unrealized foreign currency loss	25,695,109	-
Depreciation	1,807,868	1,613,109
Gain on acquisition	-	(51,295,702)
Interest income	(66,697,697)	(50,430,636)
Dividend income	(1,213,497)	(196,990)
Operating income before working capital changes	190,602,664	17,300,048
(Increase)Dec. in reinsurance balances receivable	60,213,414	(126,576,126)
(Increase) Dec. in deferred input value added tax	32,170,762	(14,927,039)
Decrease (increase) in deferred acquisition costs	23,916,443	2,300,186
(Increase) in other assets	(35,948,649)	(4,530,524)
(Increase) Decrease in loans and receivables	6,878,927	593,697
Increase (decrease) in reinsurance balances payable	(202,228,790)	41,688,292
Increase (Dec.) in deferred output value added tax	(14,803,452)	28,842,426
Increase (decrease) in accounts payable and accrued exp.	4,611,213	(5,137,086)
Cash generated from (used in) operations	65,412,532	(60,446,126)
Cash paid for income taxes	(8,526,225)	(12,906,859)
Net Cash From (Used in) Operating Activities	<u>56,886,307</u>	<u>(73,352,985)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(113,785,986)	100,278,199
Property and equipment	(1,912,134)	-
Interest received	93,306,004	60,558,700
Dividends received	1,213,497	196,900
Net Cash From (Used in) Investing Activities	<u>(21,178,619)</u>	<u>161,033,799</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance/reissuance of:		
Common shares	-	196,158,513
Acquisitions/payments of:		
Treasury shares	(103,430,976)	-
Net Cash From (Used in) Financing Activities	<u>(103,430,976)</u>	<u>196,158,513</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(67,723,288)</u>	<u>283,839,327</u>
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	<u>(3,039,221)</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>446,834,344</u>	<u>141,980,545</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>P 376,071,835</u></u>	<u><u>P 425,819,872</u></u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
Notes and Other Disclosures

1. The financial statements of the Company had been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and have been prepared consistent with its most recent annual financial statements as of December 31, 2006.. PFRS are adopted by the Financial Reporting Standards Council (FRSC), formerly Accounting Standards Council, from the pronouncements issued by the International Accounting Standards Board (IASB). PFRS consist of:
- (i) PFRS- corresponding to International Financial Reporting Standards;
 - (ii) Philippine Accounting Standards (PASs)-corresponding to International Accounting Standards; and
 - (iii) Interpretations to existing standards-representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), of the IASB which are adopted by the FRSC.

2. Cash and cash equivalents

This account consists of:

	<u>March 2007</u>	<u>December 2006</u>
Time Deposits	P 294,813,312	P 384,673,854
Cash on hand and in banks	81,258,523	62,160,490
	<u>P 376,071,835</u>	<u>P 446,834,344</u>

3. Reinsurance Balances

The details of reinsurance balances are as follows:

	<u>March 2007</u>	<u>December 2006</u>
Reinsurance balances receivable:		
Due from ceding companies	P 1,966,307,871	P 2,072,946,667
Reinsurance recoverable on losses	945,828,451	906,797,090
Funds held by ceding companies	81,457,071	82,767,366
	2,993,593,393	P 3,062,511,123
Allowance for impairment	(106,799,471)	(106,799,471)
	<u>P 2,886,793,922</u>	<u>P 2,955,711,652</u>
Reinsurance balances payable:		
Due to retrocessionaires	P 1,318,187,879	P 1,537,298,404
Claims payable	1,285,042,602	1,270,902,819
Funds held for retrocessionaires	55,772,269	55,703,008
	<u>P 2,659,002,750</u>	<u>P 2,863,904,231</u>

4. Investments

4.1 Available-for-sale financial Assets

This account is composed of:

	<u>March 2007</u>	<u>December 2006</u>
<i>Bonds</i>	P 2,695,736,902	P2,903,086,959
Equity securities	482,005,784	437,785,083
Investment in Asian Re shares	65,801,762	66,987,944
Various funds	150,107,249	37,598,747
	<u>P 3,393,651,697</u>	<u>P 3,445,458,733</u>

4.2 Others

Other investment pertain to investment properties consisting of a piece of land and building and improvements which are owned for investment purposes only.

Cost	P72,384,818
Accumulated depreciation	(17,081,612)
Net carrying amount	<u>P55,303,206</u>

5. Loans and receivables

This account includes the following:

	<u>March 2007</u>	<u>December 2006</u>
Current:		
Accrued interest receivable	P 36, 093,042	P 62,701,350
Term loans	30,000,000	30,000,000
Others	356,323	4,517,086
Non-current:		
Term loans	40,000,000	40,000,000
Loans receivable	14,964,248	17,682,411
	<u>P 121,413,613</u>	<u>P154,900,847</u>

6. Property and equipment

Presented below are the gross carrying amount and accumulated depreciation of property and equipment.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Carrying Amount</u>
Condominium units	P104,227,734	P 28,706,462	P75,521,272
Office Improvement	12,810,688	9,055,620	3,755,068
Office furniture and equipment	8,677,279	8,385,708	291,571
Transportation equipment	11,477,995	2,676,887	8,801,108
EDP equipment	11,392,764	9,669,947	1,722,817
	<u>P148,586,460</u>	<u>P 58,494,624</u>	<u>P90,091,836</u>

7. Deferred reinsurance premiums and Reserve for unexpired risks

The movement of these accounts is as follows:

	<u>Deferred Reinsurance Premiums</u>	<u>Reserve for Unexpired risk</u>
Balance at beg. of year-January 1, 2007	P1,371,157,013	P1,816,299,487
Inc. (Dec.) during the period	(187,855,619)	(152,962,646)
Balance at end of quarter-March 31, 2007	<u>P1,183,301,394</u>	<u>P1,663,336,841</u>

Deferred Reinsurance Premiums pertains to the portion of reinsurance premiums ceded out that relate to the unexpired periods of the policies at balance sheet date.

Reserve for Unexpired Risks is the portion of reinsurance premiums assumed that relate to the unexpired periods of the policies at balance sheet date.

The difference between the increase in Deferred Reinsurance Premiums and Reserve for Unexpired Risks for the year is presented as Increase in Reserve for Unexpired Risks in the income statements.

8. Other Assets

The Other Assets account includes the following:

	<u>March 2007</u>	<u>December 2006</u>
Deferred withholding VAT	P 38,641,924	P 43,554,265
Input VAT	53,712,349	23,553,408
Creditable expanded withholding tax	7,990,153	6,282,710
Prepayments	8,255,012	1,416,025
Deposit	577,392	358,147
Security Fund	192,888	192,888
Others	<u>6,073,853</u>	<u>4,137,478</u>
	<u>P115,443,571</u>	<u>P 79,494,921</u>

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. The fund was created under Section 367 of Presidential Decree No. 612, as amended under Presidential Decree No. 1640, to be used for the payment of valid claims against insolvent insurance companies. The balance of the fund earns interest at rates determined by the IC annually.

9. Accounts payable and accrued expenses

This account includes the following:

	<u>March 2007</u>	<u>December 2006</u>
Defined benefit liability	P 33,803,697	P33,803,697
Withholding taxes payable	19,854,692	15,584,497
Accrued expenses	8,851,223	8,564,879
Accounts payable and other liabilities	<u>1,283,393</u>	<u>1,228,721</u>
	<u>P 63,793,005</u>	<u>P59,181,794</u>

The fair values of accounts payable and accrued expenses have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the balance sheets to be a reasonable approximation of their fair values.

10. Investment and other income

The details of this account follow:

	<u>March 2007</u>	<u>March 2006</u>
Interest	P 66,697,697	P 50,430,636
Trading Gain	99,977,380	7,757,327
Gain on acquisition	-	51,295,702
Dividend income	1,213,497	196,990
Gain on sale of stocks	<u>26,697,973</u>	<u>41,141</u>
Foreign exchange (loss) Gain	(26,830,341)	796,757
Miscellaneous	<u>19,288,966</u>	<u>2,925,639</u>
	<u>P187,045,172</u>	<u>P113,444,192</u>

11. Underwriting Deductions

11.1 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.

11.2 Commissions-net

This account consists of the following:

	<u>March 2007</u>	<u>March 2006</u>
Commission expense	P 123,044,707	P 88,858,909
Reinsurance revenue	<u>60,676,127</u>	<u>53,230,529</u>
	<u>P 62,368,580</u>	<u>P 35,628,380</u>

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

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

12. General and administrative expenses

The details of this account follow:

	<u>March 2007</u>	<u>March 2006</u>
Salaries and employee benefits	P 19,129,644	P 15,795,810
Retirement	292,936	465,873
Depreciation	1,807,867	1,613,109
Representation and entertainment	859,450	1,094,188
Professional fees	1,817,526	834,655
Transportation & Traveling	672,507	797,669
Repairs and maintenance	991,047	362,851
Taxes, licenses and fees	686,857	419,062
Documentary stamps	-	2,942,792
Light and water	594,405	241,029
Printing and office supplies	516,380	299,314
Communication and postages	334,524	184,122
Insurance	205,123	162,260
Donations and contributions	41,000	5,257
Bank charges	84,764	11,106
Professional & Technical Devt.	27,645	33,454
Miscellaneous	<u>1,118,172</u>	<u>736,946</u>
	<u>P 29,179,847</u>	<u>P25,999,497</u>

13. Employee benefits

Short-term Benefits

Expenses recognized for employee benefits are presented below:

	<u>March 2007</u>	<u>March 2006</u>
Salaries and wages	P10,264,825	P 9,493,785
Allowances and bonus	4,569,844	4,738,551
Compensated absences	1,824,996	1,125,634
Separation benefits	1,774,252	-
Social security costs	377,126	290,517
Others	318,601	147,323
	<u>P19,129,644</u>	<u>P15,795,810</u>

14. Equity

14.1 Capital Stock

Capital Stock consists of:

Common shares-P1 par value

<u>Issued:</u>	<u>March 2007</u>	<u>March 2006</u>
Number of shares	<u>1,588,558,300</u>	<u>1,588,558,300</u>
Amount	<u>P1,588,558,300</u>	<u>P1,588,558,300</u>

14.2 Treasury Shares

Treasury shares pertain to the Company's shares of stock held by the following:

	<u>Number of Shares</u>	<u>Amount</u>
Universal Malayan Reinsurance Corp.	97,083,900	P 243,855,340
Solid Guaranty, Inc.	18,489,400	41,416,256
Pioneer Asia Insurance Corporation	9,195,400	20,597,696
CICI General Insurance Corporation	8,039,800	18,009,152
R & B Insurance Corporation	4,981,300	10,610,169
Western Guaranty Corporation	4,031,700	9,031,008
Reliance Surety & Insurance Company	2,823,100	6,323,744
Isauro J. Pagdanganan	2,098,000	4,699,520
Aviva General Insurance	1,676,800	3,353,600
First Quezon City Insurance Co., Inc.	86,900	174,126
	<u>148,506,300</u>	<u>P 358,070,611</u>

14.3 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, ten percent (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 P168,319,404 and P150,949,099 as of March 31, 2007 and December 31, 2006, respectively.

15. 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 carried out on an arm's length basis.

15.1 Reinsurance accounts with related parties

Reinsurance balances receivable from and payable to related parties are as follows:

Due from ceding companies	P606,790,436
Reinsurance recoverable on paid losses	9,453,799
Funds held by ceding companies	38,837,003
Due to retrocessionaires	411,737,326
Funds held for retrocessionaires	267,444

15.2 Bank accounts

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

Time deposits	P 40,854,700
Savings and current accounts	11,350,506
	<u>P 52,205,206</u>

15.3 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 substantially all investments of the Company subject to terms and conditions in the said agreements. For the services rendered, the Company pays BPI service fees equivalent to 0.175% of the market value of the investments. Total Service fees paid for the 1st Quarter 2007 amounted to P522,304

15.4 Retirement Fund Investment Management

The Company has 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.

16. Earnings per share

The earnings per share amounts are as follows:

	<u>March 2007</u>	<u>March 2006</u>
Net income available to common shareholders	P 173,703,049	P 102,127,843
Divided by the average number of outstanding common shares	<u>1,470,954,800</u>	<u>1,163,737,900</u>
	<u>P .12</u>	<u>P .09</u>

17. Other SEC requirements

The following information, as a minimum, should be disclosed in the notes to financial statements, if material and if not disclosed elsewhere in the interim financial report:

Explanatory comments about the seasonality or cyclical nature of interim operations	Nothing to report.
The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents	Nothing to report.
The nature and amount of changes in estimates of amounts reported in prior interim periods of the current fiscal year or changes in estimates of amounts reported prior financial years, if those changes have a material effect in the current interim period	Nothing to report.
Issuances, repurchases, and repayments of debt and equity securities	Nothing to report.
Dividends paid (aggregate or per share) separately for ordinary shares and other shares	Nothing to report.
Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting. (This shall be provided only if the issuer is required to disclose segment information in its annual financial statements)	Nothing to report.
Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period	On April 27, 2007, the Company listed its shares on the Philippine Stock Exchange through the issuance of 741,902,600 shares at an offer price of P3.80 per share.
The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisitions or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations	Nothing to report.
Changes in contingent liabilities or contingent assets since the last annual balance sheet date	Nothing to report.

- Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.

- Nothing to report.



NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

18TH FLOOR, PHILIPPINE AXA LIFE CENTRE SEN. GIL PUYAT AVENUE CORNER TINDALO STREET, MAKATI CITY, PHILIPPINES
TELS: (632) 759-5901 TO 06 • FAX: (632) 759-5886/87 • WEBSITE: www.nrcp.com.ph • E-MAIL: nrcp@nrcp.com.ph

03 April 2007

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of National Reinsurance Corporation of the Philippines is responsible for all information and representations contained in the financial statements for the years ended December 31, 2006, 2005 and 2004. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

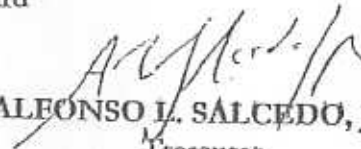
The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

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

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES


WINSTON F. GARCIA
Chairman of the Board


WILFRIDO C. BANTAYAN
President & CEO


ALFONSO L. SALCEDO, JR.
Treasurer

SUBSCRIBED AND SWORN TO before me this APR 11 2007 day of April 2007 at the City of Makati. Affiant WINSTON F. GARCIA exhibiting his Residence Cert. No. 03989501 issued on Jan. 09, 2007 at Cebu City. Affiant WILFRIDO C. BANTAYAN exhibiting his Res. Cert. No. 17722114 issued on Feb. 28, 2007 at Las Piñas City. Affiant ALFONSO L. SALCEDO, JR. exhibiting his Res. Cert. No. 05419075 on Jan. 24, 2007 at Muntinlupa City.


ATTY. LOPE M. VELASCO
NOTARY PUBLIC
Date Dec. 31, 2007

PTR O.R. No. 5333617 - Mla. 01/05/0
MRP O.R. No. 693575 - Mla. 01/05/07
TIN 212-965-989
Roll No. 28757

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Page No. 3
Book No. 78
Series of 2007

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
National Reinsurance Corporation
of the Philippines

We have audited the accompanying financial statements of National Reinsurance Corporation of the Philippines, which comprise the balance sheets as at December 31, 2006, 2005, and 2004, and the income statements, statements of changes in equity and cash flow statements for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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BOA/PRC Cert. of Reg. No. 0002
SEC Accreditation No. 0002-FR-1

Offices in Cebu, Davao, Cavite

Member of Grant Thornton International

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

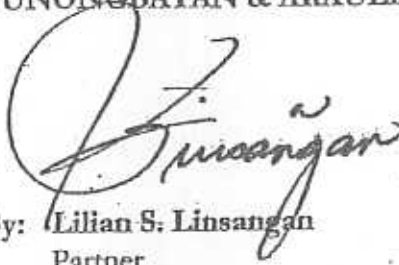
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Reinsurance Corporation of the Philippines as of December 31, 2006, 2005, and 2004, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of a Matter

As discussed in Note 23, subsequent to the issuance of the 2006 financial statements on which we have rendered our report dated February 20, 2007, the Company revised its 2006 financial statements to include additional disclosures on certain balances for its initial public offering. We were able to satisfy ourselves as to the propriety of the additional disclosures of the affected accounts which are presented in detail in Note 23.

PUNONGBAYAN & ARAULLO



By: Lilian S. Linsangan

Partner

CPA Reg. No. 0046660

TIN No. 109-228-234

PTR No. 0267683, January 2, 2007, Makati City

SEC Accreditation No. 0008-AR-1

BIR AN 08-002511-3-2005 (Dec. 27, 2005 to 2008)

April 3, 2007

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
BALANCE SHEETS
DECEMBER 31, 2006, 2005 AND 2004
(Amounts in Philippine Pesos)

	Notes	2006	2005	2004
A S S E T S				
CASH AND CASH EQUIVALENTS	4	P 446,834,344	P 141,980,545	P 68,804,330
REINSURANCE BALANCES RECEIVABLE - Net	5	2,955,711,652	1,668,259,780	1,303,507,625
DEFERRED ACQUISITION COSTS		275,114,923	133,273,725	136,938,363
INVESTMENTS	6			
Available-for-sale		3,445,458,733	1,656,818,555	663,512,515
Held-to-maturity		-	188,337,735	199,604,939
Others		55,303,206	4,041,020	-
LOANS AND RECEIVABLES	7	154,900,847	43,190,297	22,322,809
PROPERTY AND EQUIPMENT - Net	8	89,987,570	49,188,152	47,947,378
DEFERRED REINSURANCE PREMIUMS	9	1,371,157,013	543,471,360	488,378,113
DEFERRED INPUT VALUE ADDED TAX		214,182,979	23,765,892	-
DEFERRED TAX ASSETS	16	28,198,157	-	-
OTHER ASSETS	10	79,494,921	5,791,047	2,961,879
TOTAL ASSETS		P 9,116,344,345	P 4,458,118,108	P 2,933,977,951
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	5	P 2,863,904,231	P 1,332,709,346	P 976,484,832
RESERVE FOR UNEXPIRED RISKS	9	1,816,299,487	840,144,577	716,796,802
DEFERRED REINSURANCE COMMISSIONS		221,051,056	82,025,786	88,879,696
INCOME TAX PAYABLE	16	-	-	4,846,981
DEFERRED OUTPUT VALUE ADDED TAX		324,901,892	36,721,512	-
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	11	59,181,794	15,706,285	9,400,875
DEFERRED TAX LIABILITIES	16	-	20,165,381	18,639,874
		5,285,338,460	2,327,472,887	1,815,049,060
EQUITY		3,831,005,885	2,130,645,221	1,118,928,891
TOTAL LIABILITIES AND EQUITY		P 9,116,344,345	P 4,458,118,108	P 2,933,977,951

See Notes to Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Amounts in Philippine Pesos)

	Notes	2006	2005	2004
REINSURANCE PREMIUM INCOME				
Reinsurance premiums - net of returns	18	P 3,781,503,835	P 2,589,783,755	P 2,041,583,755
Retroceded premiums	18	<u>2,827,628,316</u>	<u>1,765,643,558</u>	<u>1,450,325,345</u>
Reinsurance premiums retained		953,875,519	824,140,197	591,258,410
Increase in reserve for unexpired risks	9	(<u>25,879,655</u>)	(<u>68,254,528</u>)	(<u>19,075,588</u>)
		<u>927,995,864</u>	<u>755,885,669</u>	<u>572,182,822</u>
REINSURANCE REVENUES				
		<u>-</u>	<u>-</u>	<u>-</u>
		927,995,864	755,885,669	572,182,822
UNDERWRITING DEDUCTIONS				
Share in claims and losses	13	554,566,237	506,213,425	335,901,710
Commissions - net		<u>186,440,638</u>	<u>174,517,784</u>	<u>135,685,375</u>
		<u>741,006,875</u>	<u>680,731,209</u>	<u>471,587,085</u>
NET UNDERWRITING INCOME				
		186,988,989	75,154,460	100,595,737
INVESTMENT AND OTHER INCOME - Net				
Investment and interest	12	<u>304,422,736</u>	<u>108,963,935</u>	<u>122,057,980</u>
Gain on acquisition		305,908,053	152,883,075	111,966,698
Foreign currency gain (losses)		51,295,702	-	-
Others		(<u>90,676,616</u>)	(<u>45,952,689</u>)	<u>7,201,781</u>
		<u>37,895,597</u>	<u>2,033,549</u>	<u>2,889,501</u>
INCOME AFTER INVESTMENT AND OTHER INCOME				
		491,411,725	184,118,395	222,653,717
GENERAL AND ADMINISTRATIVE EXPENSES				
	14, 15	<u>219,158,763</u>	<u>81,078,085</u>	<u>99,608,244</u>
INCOME BEFORE TAXES				
		272,252,962	103,040,310	123,045,473
TAX EXPENSE (BENEFIT)				
	16	(<u>2,678,418</u>)	<u>4,376,147</u>	<u>23,107,195</u>
NET INCOME				
		<u>P 274,931,380</u>	<u>P 98,664,163</u>	<u>P 99,938,278</u>
Earnings Per Share				
	22	<u>P 0.20</u>	<u>P 0.10</u>	<u>P 0.16</u>

See Notes to Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts in Philippine Pesos)

Notes	Capital Stock		Additional Paid-in Capital	Treasury Shares	Revaluation Reserves	Retained Earnings		Total Equity
	No. of Shares	Amount				Appropriated	Unappropriated	
Balance as of January 1, 2004, previously stated	4,332,185	P 455,218,500	P -	(P 2,001,014)	P 35,536,734	P 104,009,986	P 354,250,126	P 987,074,542
Effects of transition to PFRS	-	-	-	-	51,125,640	-	50,937,244	82,262,884
Balance as of January 1, 2004, as restated	4,332,185	455,218,500	-	(2,001,014)	86,662,374	104,009,986	425,187,370	1,069,277,226
Shares issued (reacquired)	1,590,100	159,018,000	-	(3,351,784)	-	-	-	155,666,216
Decrease during the year	-	-	-	-	(46,727,154)	-	-	(46,727,154)
Stock dividends	-	-	-	-	-	-	(159,018,000)	(159,018,000)
Cash dividends	-	-	-	-	-	-	(7,475)	(7,475)
Appropriated for contingencies	-	-	-	-	-	9,579,549	(9,579,549)	-
Net income	-	-	-	-	-	-	99,938,278	99,938,278
Total equity as of December 31, 2004	6,142,565	P 614,236,500	P -	(P 5,352,798)	P 40,135,020	P 113,589,545	P 356,520,624	P 1,118,928,891
Balance as of January 1, 2005	6,142,565	P 614,236,500	P -	(P 5,352,798)	P 28,419,707	P 113,589,545	P 321,440,597	P 1,072,135,611
Effects of transition to PFRS	-	-	-	-	11,715,253	-	35,080,027	46,795,280
Balance as of January 1, 2005, as restated	6,142,565	614,236,500	-	(5,352,798)	40,135,020	113,589,545	356,520,624	1,118,928,891
Shares issued and reacquired	3,057,635	385,763,500	385,154,102	5,378,672	-	-	-	776,294,274
Increase during the year	-	-	-	-	136,755,893	-	-	136,755,893
Appropriated for contingencies	-	-	-	-	-	9,866,416	(9,866,416)	-
Net income	-	-	-	-	-	-	98,564,103	98,564,103
Total equity as of December 31, 2005	10,000,000	P 1,000,000,000	P 385,154,102	(P 174,126)	P 176,890,913	P 123,455,961	P 445,318,371	P 2,150,645,221
Balance as of January 1, 2006	10,000,000	P 1,000,000,000	P 385,154,102	(P 174,126)	P 176,890,913	P 123,455,961	P 445,318,371	P 2,150,645,221
Shares issued (reacquired)	5,883,583	588,558,500	889,782,438	(254,465,309)	-	-	-	1,223,873,229
Increase during the year	-	-	-	-	201,534,055	-	-	201,534,055
Appropriated for contingencies	-	-	-	-	-	27,493,138	(27,493,138)	-
Net income	-	-	-	-	-	-	274,931,280	274,931,280
Total equity as of December 31, 2006	15,883,583	P 1,588,558,500	P 1,274,936,540	(P 254,639,635)	P 378,444,968	P 150,949,099	P 692,756,613	P 3,831,005,385

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Amounts in Philippine Pesos)

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax	P 272,252,962	P 103,040,310	P 123,045,473
Adjustments for:			
Increase in reserve for unexpired risks	25,879,655	68,254,528	19,075,588
Unrealized foreign currency loss (gain)	81,867,627	55,692,983	(9,058,019)
Depreciation	8,679,824	4,661,906	4,567,710
Gain on acquisition	(51,295,702)	-	-
Interest income	(253,234,383)	(152,883,075)	(111,966,698)
Dividend income	(8,979,802)	(1,959,994)	(2,472,990)
Operating income before working capital changes	75,170,181	76,806,658	23,191,064
Increase in reinsurance balances receivable	(1,106,336,442)	(386,309,975)	(4,986,408)
Increase in deferred input value added tax	(190,417,087)	(23,765,892)	-
Decrease (increase) in deferred acquisition costs	20,174,627	(3,189,272)	(6,342,425)
Increase in other assets	(46,002,000)	(3,849,337)	(416,316)
Increase in loans and receivables	(5,682,704)	(22,449,011)	(3,221,449)
Increase (decrease) in reinsurance balances payable	967,691,772	367,944,135	(247,796,246)
Increase in deferred output value added tax	283,146,942	36,721,512	-
Increase (decrease) in accounts payable and accrued expenses	1,979,388	6,305,410	(1,921,728)
Cash generated from (used in) operations	(275,123)	48,214,228	(241,493,508)
Cash paid for income taxes	(38,077,015)	(4,846,981)	(23,629,910)
Net Cash From (Used in) Operating Activities	(38,352,138)	43,367,247	(265,123,418)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal/maturities of:			
Available-for-sale financial assets	1,138,510,274	281,579,875	293,041,273
Held-to-maturity investments	87,922,432	-	185,168,485
Interest received	233,920,424	133,569,116	117,236,002
Dividends received	8,979,802	1,959,994	2,472,990
Disposals (acquisitions) of:			
Available-for-sale financial assets	(1,304,055,136)	(1,152,736,726)	(140,312,710)
Property and equipment	(1,950,282)	(5,902,680)	(1,174,001)
Other investments	(454,367)	(4,041,020)	-
Held-to-maturity investments	-	-	(151,002,139)
Net Cash From (Used in) Investing Activities	162,873,147	(745,571,441)	305,429,900
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance/reissuance of:			
Common shares	196,158,513	771,527,000	-
Treasury shares	-	4,943,400	-
Acquisitions/payments of:			
Treasury shares	(10,610,169)	(174,126)	(3,551,784)
Fractional shares	-	-	(7,475)
Net Cash From (Used in) Financing Activities	185,548,344	776,296,274	(3,559,259)
NET INCREASE IN CASH AND CASH EQUIVALENTS	310,069,353	74,092,080	36,747,223
EFFECTS FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	(5,215,554)	(915,865)	229,654
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	141,980,545	68,804,330	31,827,453
CASH AND CASH EQUIVALENTS AT END OF YEAR	P 446,834,344	P 141,980,545	P 68,804,330

Supplemental Information on Noncash Financing Activity

On March 30, 2004, the Company's BOD declared 35% stock dividend from its unappropriated retained earnings as of December 31, 2003 to stockholders of record as of June 28, 2004. On June 29, 2004, the Company distributed shares amounting to P159,018,000 equivalent to 1,590,180 shares. The remaining fractional shares amounting to P7,475 was paid in cash.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005 AND 2004
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 General

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

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

The financial statements of the Company for the year ended December 31, 2006 (including the comparatives for the years ended December 31, 2005 and 2004) were authorized for issue by the Company's Board of Directors (BOD) on April 3, 2007.

1.2 Merger With Universal Malayan Reinsurance Corporation (UMRC)

On May 28, 2004, the Company entered into a Memorandum of Agreement with Universal Malayan Reinsurance Corporation (UMRC) for the merger of the two entities. Subsequently, on October 10, 2005, the Company executed a Plan of Merger (the "Plan") together with UMRC, under which both parties agreed to a combination whereby the Company would be the surviving corporation. The stockholders and BOD of each of the Company and of UMRC approved the Plan on October 4, 2005 and October 24, 2005, respectively.

On March 6, 2006, the planned merger was approved by the Securities and Exchange Commission (SEC) and was eventually consummated by the Company and UMRC on that date.

To consummate the merger, the Company issued 5,885,583 shares of capital stock (with P100 par value) at an agreed exchange value of P251.18 per share amounting to P1,478,340,738 and incurred P4,041,020 for costs directly attributable to the merger, in order to acquire from UMRC the following:

Assets:

Cash and cash equivalents	P 196,158,513
Reinsurance balances receivable	216,597,266
Deferred acquisition costs	36,543,768
Available-for-sale financial assets	1,344,617,555
Held-to-maturity investments	46,906,447
Loans and receivables	86,713,887
Property and equipment	85,898,570
Deferred reinsurance premium	53,621,139
Investment properties	24,556,312
Other assets	<u>22,949,923</u>
	<u>P2,114,563,380</u>

Liabilities:

Losses and claims outstanding	P 449,780,223
Reinsurance balances payable	138,667,724
Reserve for unexpired risks	176,210,742
Deferred reinsurance commission	13,553,013
Deferred output value-added tax (VAT)	5,033,438
Accounts payable and accrued expenses	<u>41,496,120</u>
	<u>P 824,741,260</u>

The abovementioned merger also resulted to the Company's acquisition of its own shares of stock valued at P243,855,340 (970,839 shares at P251.18 per share) from UMRC which the latter had previously purchased from the Company. These reacquired shares were shown as part of Treasury Shares account in the 2006 statement of changes in equity (see Note 17).

Further, the Company recognized gain on acquisition of net assets of UMRC, brought about by the merger transaction, amounting to P51,295,702, which is shown as part of Investment and Other Income account in the 2006 income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

(a) *Statement of Compliance with Philippine Financial Reporting Standards (PFRS)*

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

- (i) PFRS – corresponding to International Financial Reporting Standards;
- (ii) Philippine Accounting Standards (PASs) – corresponding to International Accounting Standards; and
- (iii) Interpretations to existing standards – representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), of the IASB which are adopted by the FRSC.

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

(b) *Transition to PFRS in 2005*

In compliance with the pronouncements of the FRSC and the regulations of the SEC, the Company adopted all the relevant PFRSs for the first time in its financial statements for the year ended December 31, 2005, with January 1, 2004 as its transition date.

The transition from the previous generally accepted accounting principles in the Philippines to PFRS was made in accordance with PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*.

The Company's transition to PFRS in 2005 resulted in the restatement of the balance of Equity as of January 1, 2005 and 2004. The total adjustment to Equity, particularly in the balance of Revaluation Reserves and Unappropriated Retained Earnings, arising from the transition amounted to P46,795,280 and P82,262,884, respectively, and is broken down as follows:

		January 1, 2005				
	Relevant PFRS		Revaluation Reserves		Retained Earnings	Total Adjustment
Fair value adjustments of available-for-sale financial assets	PAS 39	P	21,108,508	P	-	P 21,108,508
Accumulated foreign exchange difference on available-for-sale financial assets previously charged directly to equity	PAS 21	(	24,405,046)		24,405,046	-
Reversal of incurred but not reported losses (IBNR)	PFRS 4		-		16,875,963	16,875,963
Reversal of catastrophe loss reserve	PFRS 4		-		12,697,073	12,697,073
Effect of change from straight line to effective interest amortization method	PAS 39		-		1,142,546	1,142,546
Recognition of defined benefit asset	PAS 19		-		83,778	83,778
Remeasurement of long-term receivable	PAS 39		-	(	16,464)	(16,464)
Accrual of leave benefits	PAS 19		-	(	4,169,014)	(4,169,014)
Deferred tax adjustments	PAS 12		15,011,791	(	15,938,901)	(927,110)
		P	11,715,253	P	35,080,027	P 46,795,280

		January 1, 2004			
	Relevant PFRS		Revaluation Reserves	Retained Earnings	Total Adjustment
Fair value adjustments of available-for-sale financial assets	PAS 39	P	67,683,751	P -	P 67,683,751
Accumulated foreign exchange difference on available-for-sale financial assets previously charged directly to equity	PAS 21	(	24,056,046)	24,056,046	-
Reversal of IBNR	PFRS 4		-	12,141,375	12,141,375
Reversal of catastrophe loss reserve	PFRS 4		-	10,300,592	10,300,592
Effect of change from straight line to effective interest amortization method	PAS 39		-	1,346,821	1,346,821
Recognition of defined benefit asset	PAS 19		-	100,565	100,565
Remeasurement of long-term receivable	PAS 39	-	(	32,223)	(32,223)
Accrual of leave benefits	PAS 19	-	(	3,083,189)	(3,083,189)
Deferred tax adjustments	PAS 12		7,697,935	(13,892,743)	(6,194,808)
			<u>P 51,325,640</u>	<u>P 30,937,244</u>	<u>P 82,262,884</u>

In addition to the foregoing adjustments to Equity, the structure of the balance sheet and income statement was also revised.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional currency, and all values represent absolute amounts except when otherwise indicated (see also Note 2.12).

2.2 *Impact of New Standards, and Amendments and Interpretations to Existing Standards that are Relevant to the Company*

(a) *Effective in 2006*

In 2006, the Company adopted the amendments and interpretations to existing accounting standards issued by the IASB and adopted by the FRSC which are mandatory for accounting periods beginning on or after January 1, 2006. The relevant amendments and interpretations to the Company are as follows:

PAS 19 (Amendment)	:	Employee Benefits
PAS 39 and PFRS 4 (Amendment)	:	Financial Guarantee Contracts
Philippine Interpretation IFRIC 4	:	Determination Whether an Arrangement Contains a Lease

Discussed below are the impact on the financial statements of each of these amendments and interpretations.

- (i) PAS 19 (Amendment), *Employee Benefits*. The amendment introduces an option for an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements and imposes additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. Because the Company does not intend to change its current accounting policy for recognition of actuarial gains and losses and does not participate in any multi-employer plans, the adoption of this amendment did not result in a material adjustment to the financial statements.
- (ii) PAS 39 and PFRS 4 (Amendment), *Financial Guarantee Contracts*. The amendment requires the recognition of guarantee liability, at its fair value, of the parent company in relation to a third party loan to a subsidiary guaranteed by the parent company. The Company's adoption of the amendment did not result in a material adjustment to the financial statements.
- (iii) Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. Philippine Interpretation IFRIC 4 requires the determination of whether an arrangement is or contains a lease based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset; and (b) the arrangement conveys a right to use the asset. Based on the management's current year assessment, the adoption of Philippine Interpretation IFRIC 4 has no significant impact on the Company's current operations because there were no outstanding arrangements that were identified to be a lease or contains a lease.

(b) *Effective Subsequent to 2006*

There are a few new standards, and amendments and interpretation to existing standards that are effective for periods subsequent to 2006. Of these new standards, and amendments and interpretations, the following are relevant to the Company but the Company has opted not to adopt them early.

PAS 1 (Amendment)	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures
Philippine Interpretation IFRIC 10	:	Interim Financial Reporting and Impairment

Below is a discussion of the possible impact of the foregoing standards, amendments and interpretations which the Company will apply in 2007 in accordance with their transitional provisions.

- (i) PFRS 7, *Financial Instruments: Disclosures* and complementary amendment to PAS 1 (effective for annual periods beginning on or after January 1, 2007). PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company has assessed the impact of PFRS 7 and the amendment to PAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of PAS 1.
- (ii) Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 1, 2006). It prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Company is currently evaluating the impact of this interpretation on its financial statements and has initially determined that such may not have significant effects on the financial statements for 2007, as well as for prior and future periods.

2.3 Financial Assets

Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: 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.

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

All financial assets are recognized on their trade date and are initially recognized at fair value, plus transaction costs.

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

(a) *Loans and Receivables*

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. 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.

Loans and receivables are presented as Reinsurance Balances Receivables and Loans and Receivables in the balance sheets.

(b) *Held-to-maturity Investments*

These include non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to-maturity if the Company has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

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

(c) *Available-for-sale Financial Assets*

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

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

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the income statement. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the income statement. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the income statement.

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 balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss 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 carried at acquisition cost or construction cost less subsequent depreciation and impairment losses.

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 furniture and equipment	5 years
Transportation equipment	5 years
EDP equipment	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

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 income statement in the year the item is derecognized.

2.5 Investment Property

Investment property is carried at acquisition cost or construction cost less subsequent depreciation and impairment losses.

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 income statement in the year of retirement or disposal.

2.6 Financial Liabilities

Financial liabilities include reinsurance balances payable and accounts payable and accrued expenses.

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

Reinsurance balances payables and accounts payable and accrued expenses are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

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

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

2.7 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. 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. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each balance sheet date 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.

Probable 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.

2.8 Revenue Recognition

- (a) *Reinsurance premiums* – Revenue is recognized for revenue premiums from short duration insurance contracts over the period of the contracts using the 24th method except for revenues from marine cargo risks which are recognized based on the relevant provisions of the Insurance Code. The portion of the reinsurance premiums retained that relate to the unexpired periods of the policies at balance sheet dates are accounted for as Reserve for Unexpired Risks and presented in the liability section of the balance sheets. The net changes in the account Reserve for Unexpired Risks between balance sheet dates are recognized in the income statements.
- (b) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

2.9 *Claim Costs Recognition*

Share in liabilities for claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur.

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

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

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 balance sheets 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 balance sheet as Deferred Reinsurance Commissions.

2.12 *Functional Currency and Foreign Currency Transactions*

(a) *Functional and Presentation Currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Philippine pesos, which is the Company's functional and presentation currency.

(b) *Transactions and Balances*

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

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

2.13 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.

An 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 discounted cash flow evaluation.

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.

2.14 Employee Benefits

Pensions to employees are provided through a defined benefit plan.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of pension 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 pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated regularly 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 pension 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 profit or loss 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 the income statement, unless the changes to the pension 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.

Short-term employee benefits are recognized for the number of paid leave days (including holiday entitlement) remaining at the balance sheet date. 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.

2.15 Income Taxes

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 balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the income statement.

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

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the 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 each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

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

2.16 Equity

Capital stock is determined using 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 gains and losses due to the revaluation of certain available-for-sale financial assets.

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

2.17 Earnings Per Share (EPS)

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Judgments

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

(a) Functional Currency

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

(b) Held-to-maturity Investments

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

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

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

The Company follows the guidance of PAS 39 on determining when an investment is other-than-temporarily impaired. This determination 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.

(d) *Distinction Between Investment Properties and Owner-managed Properties*

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portion can be sold separately (or leased out separately under finance lease), the Company accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or 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.

(e) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.7 and relevant disclosures are presented in Note 24.

3.2 Estimates

The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances of the Company's financial statements. Actual results could differ from those estimates. The following are the relevant estimates performed by management on its December 31, 2006, 2005 and 2004 financial statements:

(a) *Useful Life of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment 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. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease total assets.

Property and equipment net of accumulated depreciation and impairment losses amounted to P89,987,570, P49,188,152, and P47,947,378 as of December 31, 2006, 2005, and 2004, respectively (see Note 8).

(b) *Allowance for Impairment of Reinsurance Balances Receivables, 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 third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

Impairment losses on reinsurance balances receivables amounted to P106,799,471 in 2006, P13,698,738 in 2005, and P12,948,738 in 2004 (see Note 5).

(c) *Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at each balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets amounted to P28,198,157 as of December 31, 2006 (see Note 16).

(d) *Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.13. 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.

(e) *Retirement Benefits and Other Retirement Benefits*

The determination of the Company's obligation and cost of pension is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 15.2 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 retirement benefit obligation and net unrecognized actuarial gains amounted to P33,803,697 and P2,465,688, respectively, in 2006; the retirement benefit asset and net unrecognized actuarial losses amounted to P162,062 and P5,364,282, respectively, in 2005; and the retirement benefit asset and net unrecognized actuarial gain amounted to P83,777 and P213,211, respectively, in 2004 (see Note 15.2).

4. CASH AND CASH EQUIVALENTS

This account consists of:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Time deposits	P 384,673,854	P -	P 14,066,750
Cash on hand and in banks	<u>62,160,490</u>	<u>141,980,545</u>	<u>54,737,580</u>
	<u>P 446,834,344</u>	<u>P 141,980,545</u>	<u>P 68,804,330</u>

Time deposits were made for varying periods of between one day and one month depending on the liquidity requirements of the Company and earn interest at short-term deposit rates. The Cash and Cash Equivalents account includes foreign currency denominated cash of US\$3,022,664 (P148,509,528) as of December 31, 2006, US\$286,208 (P15,188,200) as of December 31, 2005 and US\$329,132 (P18,519,249) as of December 31, 2004.

5. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Reinsurance balances receivable:			
Due from ceding companies	P 2,072,946,667	P 914,106,854	P 539,356,437
Reinsurance recoverable on losses	906,797,090	738,109,215	739,901,672
Funds held by ceding companies	<u>82,767,366</u>	<u>29,742,449</u>	<u>37,198,254</u>
	3,062,511,123	1,681,958,518	1,316,456,363
Allowance for impairment	(<u>106,799,471</u>)	(<u>13,698,738</u>)	(<u>12,948,738</u>)
	<u>P 2,955,711,652</u>	<u>P 1,668,259,780</u>	<u>P 1,303,507,625</u>

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Reinsurance balances payable:			
Due to retrocessionaires	P 1,537,298,404	P 492,650,346	P 242,578,102
Claims payable	1,270,902,819	819,103,379	700,357,884
Funds held for retrocessionaires	<u>55,703,008</u>	<u>20,955,621</u>	<u>33,548,846</u>
	<u>P 2,863,904,231</u>	<u>P 1,332,709,346</u>	<u>P 976,484,832</u>

A reconciliation of the allowance for impairment at beginning and end of 2006, 2005, and 2004 is shown below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Balance at beginning of year	P 13,698,738	P 12,948,738	P 12,198,738
Assumed relative to the merger	35,586,000	-	-
Impairment loss during the year	<u>57,514,733</u>	<u>750,000</u>	<u>750,000</u>
Balance at end of year	<u>P 106,799,471</u>	<u>P 13,698,738</u>	<u>P 12,948,738</u>

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

6. INVESTMENTS

6.1 Available-for-Sale Financial Assets

This account is composed of:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Bonds	P 2,903,086,959	P 1,556,903,010	P 621,610,456
Equity securities	437,785,083	18,723,035	13,768,559
Investment in Asian Re shares	66,987,944	81,192,510	28,133,500
Various funds	<u>37,598,747</u>	<u>-</u>	<u>-</u>
	<u>P 3,445,458,733</u>	<u>P 1,656,818,555</u>	<u>P 663,512,515</u>

Bonds include investments reclassified from Held-to-maturity investments to Available-for-sale financial assets in 2006 including government securities totaling P33,996,443 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.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Due within one year	P 232,676,878	P 219,979,767	P 128,335,461
Due after one year through five years	1,105,566,963	525,900,802	471,593,613
Due after five years through ten years	1,467,978,035	804,947,236	16,669,813
Due after ten years	<u>96,865,083</u>	<u>6,075,205</u>	<u>5,011,569</u>
	<u>P2,903,086,959</u>	<u>P1,556,903,010</u>	<u>P 621,610,456</u>

Bonds earn interest at annual rates ranging from 2.0% to 18.0% in 2006, 5.6% to 19.0% in 2005 and 5.6% to 20.5% in 2004. Changes in fair values of these bonds amounted to P127,349,513 (net increase), P96,435,469 (net increase), P40,739,143 (net decrease) in 2006, 2005 and 2004, respectively, and are shown as part of Revaluation Reserves account in the statements of changes in equity.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cost:			
Quoted in the stock exchange	P 316,553,415	P 15,716,756	P 15,548,205
Not quoted in the stock exchange	<u>44,811,521</u>	<u>1,694,500</u>	<u>1,635,000</u>
	<u>361,364,936</u>	<u>17,411,256</u>	<u>17,183,205</u>
Fair value gains (losses):			
Quoted in the stock exchange	78,990,824	2,246,779	(2,419,646)
Not quoted in the stock exchange	(<u>2,570,677</u>)	(<u>935,000</u>)	(<u>995,000</u>)
	<u>76,420,147</u>	<u>1,311,779</u>	<u>3,414,646</u>
	<u>P 437,785,083</u>	<u>P 18,723,035</u>	<u>P 13,768,559</u>

Equity securities mainly consist of investments in companies listed in the Philippine Stock Exchange.

The shares of Asian Re have been issued in the name of the Government of the Philippines (GoP) as the Philippine government's participation in the joint undertaking of Asian countries to organize a reinsurance company that will service the needs of the region. The GoP assigned such shares, including any interest accruing thereon, to the Company. The GoP designated the Company as the national institution authorized to subscribe and pay for the said shares of stock. The shares of stock of Asian Re, while not for sale, were classified under this category since these do not qualify for inclusion in any other categories of financial assets. These shares of stock are measured at fair values and the changes in the fair values are recognized in equity. The fair value of investments in Asian Re shares amounted to P66,987,944, P81,192,510 and P28,133,500 as of December 31, 2006, 2005, and 2004, respectively. Changes in fair value recognized as part of Revaluation Reserves in the equity section of the balance sheets amounted to P27,574,264, net of deferred taxes amounting to P14,847,681 in 2006, P35,528,356, net of deferred taxes amounting to P19,130,654 in 2005 (see Note 16).

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Balance at the beginning of the year	P1,656,818,555	P 663,512,515	P 862,619,432
Additions	2,791,711,468	1,152,671,083	140,312,710
Disposals	(1,138,510,274)	(281,579,875)	(293,041,273)
Fair value gains (losses)	201,554,055	155,886,547	(46,727,354)
Foreign currency gains (losses)	(<u>66,115,071</u>)	(<u>33,671,715</u>)	<u>349,000</u>
	<u>P3,445,458,733</u>	<u>P1,656,818,555</u>	<u>P 663,512,515</u>

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in the active market.

6.2 Held-to-Maturity Securities

Held-to-maturity securities consist of fixed rate treasury notes, retail treasury bonds, and corporate bonds with 1 to 10 years term and interest rates ranging from 8.87% to 12.37%.

The following presents the breakdown of amortized cost of investments in government securities by contractual maturity dates:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Due within one year	P -	P 26,494,064	P -
Due after one year through five years	-	50,554,795	28,046,796
Due after five years through ten years	<u>-</u>	<u>111,288,876</u>	<u>171,558,143</u>
	<u>P -</u>	<u>P 188,337,735</u>	<u>P 199,604,939</u>

Government securities totaling P18,750,000 in both 2005 and 2004 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.

In 2006, the Company reclassified all of its Held-to-maturity investments to Available-for-sale financial assets.

6.3 Others

Other investments in 2006 pertain to investment properties consisting of a piece of land and building and improvements which are owned for investment purposes only. No income or loss or direct operating expenses were recognized during the current year.

A reconciliation of the carrying amounts at the beginning and end of the year 2006 and the gross carrying amounts and the accumulated depreciation of investment properties are shown below:

Balance at January 1, 2006, net of accumulated depreciation	P -
Additions	66,907,090
Disposals	(9,613,300)
Depreciation charge for the year	(1,990,584)
Balance at December 31, 2006, net of accumulated depreciation	<u>P 55,303,206</u>

December 31, 2006

Cost	P	72,384,818
Accumulated depreciation	(	<u>17,081,612)</u>
Net carrying amount	P	<u>55,303,206</u>

Other investments in 2005 pertain to the capitalized expenses, specifically filing and professional fees, incurred for the planned merger with UMRC which amounted to P4,041,020. These capitalized expenses were subsequently treated as costs directly attributable to the merger in 2006.

7. LOANS AND RECEIVABLES

This account includes the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current:			
Accrued interest receivable	P 62,701,350	P 40,959,954	P 21,645,995
Term loans	30,000,000	-	-
Others	4,517,086	181,097	39,669
Non-current:			
Term loans	40,000,000	-	-
Loans receivable	<u>17,682,411</u>	<u>2,049,246</u>	<u>637,145</u>
	<u>P 154,900,847</u>	<u>P 43,190,297</u>	<u>P 22,322,809</u>

Loans and receivables are usually due within 1 to 20 years. These financial assets are subject to credit risk exposure. However, the Company does not identify specific concentrations of credit risk with regard to loans and receivables since most of the loans and receivables are secured by collaterals.

Term loans pertain to the Company's participation in syndicated loans of other Companies. These loans are interest bearing. The effective interest rate on these loans ranges from 9% to 12.4% in 2006.

Loans receivable includes Mortgage, Housing, and Car loans which have an annual effective interest rate of 14% to 28%, 10% to 22%, and 7% to 13%, respectively, in 2006.

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

8. PROPERTY AND EQUIPMENT

Presented below is a reconciliation of the carrying amounts at the beginning and end of 2006, 2005, and 2004 and the gross carrying amounts and the accumulated depreciation of property and equipment.

	Condominium Units	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	Total
Balance at January 1, 2006, net of accumulated depreciation and impairment	P 39,063,320	P 1,598,215	P 511,636	P 6,253,721	P 1,761,260	P 49,188,152
Additions	39,961,510	3,046,312	36,277	4,466,137	1,072,851	48,582,887
Disposals	-	-	-	(1,094,229)	-	(1,094,229)
Depreciation charge for the year	(2,746,403)	(807,765)	(261,183)	(1,887,702)	(986,187)	(6,689,240)
Balance at December 31, 2006, net of accumulated depreciation and impairment	P 76,278,227	P 3,836,762	P 286,730	P 7,737,927	P 1,847,924	P 89,987,570
December 31, 2006 Cost	P 104,227,734	P 12,669,539	P 8,624,279	P 11,091,338	P 11,277,865	P 147,890,775
Accumulated depreciation	(27,949,507)	(8,832,777)	(8,337,549)	(3,353,411)	(9,429,941)	(57,903,205)
Net carrying amount	P 76,278,227	P 3,836,762	P 286,730	P 7,737,927	P 1,847,924	P 89,987,570
Balance at January 1, 2005, net of accumulated depreciation and impairment	P 40,402,634	P 2,152,292	P 830,502	P 2,170,937	P 2,391,013	P 47,947,378
Additions	-	-	49,080	5,660,000	193,600	5,902,680
Disposals	-	-	-	-	-	-
Depreciation charge for the year	(1,339,314)	(554,077)	(367,946)	(1,577,216)	(823,353)	(4,661,906)
Balance at December 31, 2005, net of accumulated depreciation and impairment	P 39,063,320	P 1,598,215	P 511,636	P 6,253,721	P 1,761,260	P 49,188,152
December 31, 2005 Cost	P 53,572,553	P 5,540,763	P 2,518,419	P 9,652,950	P 4,494,715	P 75,779,400
Accumulated depreciation	(14,509,233)	(3,942,548)	(2,006,783)	(3,399,229)	(2,733,455)	(26,591,248)
Net carrying amount	P 39,063,320	P 1,598,215	P 511,636	P 6,253,721	P 1,761,260	P 49,188,152
Balance at January 1, 2004, net of accumulated depreciation and impairment	P 41,741,948	P 2,706,368	P 1,051,507	P 3,518,277	P 2,322,987	P 51,341,087
Additions	-	-	203,281	-	970,720	1,174,001
Disposals	-	-	-	-	-	-
Depreciation charge for the year	(1,339,314)	(554,076)	(424,286)	(1,347,340)	(902,694)	(4,567,710)
Balance at December 31, 2004, net of accumulated depreciation and impairment	P 40,402,634	P 2,152,292	P 830,502	P 2,170,937	P 2,391,013	P 47,947,378
December 31, 2004 Cost	P 53,572,553	P 5,540,763	P 2,469,339	P 7,203,370	P 4,301,115	P 73,089,140
Accumulated depreciation	(13,169,919)	(3,388,471)	(1,638,837)	(5,034,433)	(1,910,102)	(25,141,762)
Net carrying amount	P 40,402,634	P 2,152,292	P 830,502	P 2,170,937	P 2,391,013	P 47,947,378

9. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEXPIRED RISKS

The movement of these accounts is as follows:

	Deferred Reinsurance Premiums			Reserve for Unexpired Risks		
	2006	2005	2004	2006	2005	2004
Balance at beginning of year	P 543,471,360	P 488,378,113	P 510,331,952	P 840,144,577	P 716,796,802	P 719,675,053
Balance acquired relative to the merger	53,621,140	-	-	176,210,742	-	-
Increase (decrease) during the year	774,064,513	55,093,247	(21,953,832)	799,944,168	123,347,775	(2,878,251)
Balance at end of year	<u>P 1,371,157,013</u>	<u>P 543,471,360</u>	<u>P 488,378,113</u>	<u>P 1,816,299,487</u>	<u>P 840,144,577</u>	<u>P 716,796,802</u>

Deferred Reinsurance Premiums pertains to the portion of reinsurance premiums ceded out that relate to the unexpired periods of the policies at balance sheet date.

Reserve for Unexpired Risks is the portion of reinsurance premiums assumed that relate to the unexpired periods of the policies at balance sheet date.

The difference between the increase in Deferred Reinsurance Premiums and Reserve for Unexpired Risks for the year is presented as Increase in Reserve for Unexpired Risks in the income statements.

10. OTHER ASSETS

The Other Assets account includes the following:

	Note	2006	2005	2004
Deferred withholding VAT	P	43,554,265	P 3,214,139	P -
Input VAT		23,553,408	213,774	-
Creditable expanded withholding tax		6,282,710	729,241	-
Prepayments		1,416,025	1,040,761	2,577,317
Deposit		358,147	251,200	203,200
Security fund		192,888	97,585	97,585
Defined benefit asset	15	-	162,062	83,777
Others		<u>4,137,478</u>	<u>82,285</u>	<u>-</u>
		<u>P 79,494,921</u>	<u>P 5,791,047</u>	<u>P 2,961,879</u>

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. The fund was created under Section 367 of Presidential Decree No. 612, as amended under Presidential Decree No. 1640, to be used for the payment of valid claims against insolvent insurance companies. The balance of the fund earns interest at rates determined by the IC annually.

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	Note	2006	2005	2004
Defined benefit liability	15	P 33,803,697	P -	P -
Withholding taxes payable		15,584,497	2,215,152	818,773
Accrued expenses		8,564,879	3,580,715	6,306,906
Accounts payable and others liabilities		<u>1,228,721</u>	<u>9,910,418</u>	<u>2,275,196</u>
		<u>P 59,181,794</u>	<u>P 15,706,285</u>	<u>P 9,400,875</u>

The fair values of accounts payable and accrued expenses have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the balance sheets to be a reasonable approximation of their fair values.

12. INVESTMENT AND OTHER INCOME

The details of this account follow:

	2006	2005	2004
Interest	P 253,234,383	P 152,883,075	P 111,966,698
Trading gain	52,673,670	-	-
Gain on acquisition	51,295,702	-	-
Dividend income	8,979,802	1,959,994	2,472,990
Gain on sale of stocks	6,353,449	-	-
Gain on sale of assets	2,208,334	-	-
Foreign exchange gain (loss)	(90,676,616)	(45,952,689)	7,201,781
Miscellaneous	<u>20,354,012</u>	<u>73,555</u>	<u>416,511</u>
	<u>P 304,422,736</u>	<u>P 108,963,935</u>	<u>P 122,057,980</u>

13. UNDERWRITING DEDUCTIONS

13.1 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.

13.2 Commissions - net

This account consists of the following:

	2006	2005	2004
Commission expense	P 574,122,238	P 436,859,074	P 363,639,692
Reinsurance revenues	<u>387,681,600</u>	<u>262,341,290</u>	<u>227,954,317</u>
	<u>P 186,440,638</u>	<u>P 174,517,784</u>	<u>P 135,685,375</u>

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

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

14. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

	Note	2006	2005	2004
Salaries and employee benefits	15	P 78,354,821	P 47,313,412	P 41,413,691
Provision for impairment	5	57,514,733	750,000	750,000
Retirement	15	35,601,366	1,702,402	1,620,490
Depreciation	6, 8	8,679,824	4,661,906	4,567,710
Representation and entertainment		5,902,040	6,242,040	7,009,402
Professional fees		5,278,745	2,905,924	28,817,281
Transportation and traveling		3,446,644	2,996,757	3,279,950
Repairs and maintenance		3,263,955	1,757,509	1,939,897
Taxes, licenses and fees		3,221,350	1,406,021	1,258,688
Documentary stamps		2,943,312	1,941,938	795,186
Light and water		2,535,206	1,466,494	1,351,761
Printing and office supplies		<u>2,111,219</u>	<u>1,373,869</u>	<u>1,571,183</u>
Balance carried forward		<u>P 208,853,215</u>	<u>P 74,518,272</u>	<u>P 94,375,239</u>

	2006	2005	2004
Balance brought forward	P 208,853,215	P 74,518,272	P 94,375,239
Communication and postages	1,709,917	1,143,631	1,125,883
Insurance	957,337	676,663	609,495
Donations and contributions	701,324	469,250	507,057
Bank charges	608,161	168,705	72,794
Fringe benefit taxes	484,704	322,771	310,686
Professional and technical development	190,755	482,070	555,211
Miscellaneous	5,653,350	3,296,723	2,051,879
	P 219,158,763	P 81,078,085	P 99,608,244

15. EMPLOYEE BENEFITS

15.1 Short-term Benefits

Expenses recognized for employee benefits are presented below (see Note 14):

	2006	2005	2004
Salaries and wages	P 45,201,343	P 26,666,537	P 25,473,514
Allowances and bonus	18,554,657	12,266,129	10,968,498
Compensated absences	5,731,876	3,872,326	1,217,460
Separation benefits	1,593,946	-	-
Social security costs	1,407,106	1,130,122	1,060,670
Others	5,865,893	3,378,298	2,693,549
	P 78,354,821	P 47,313,412	P 41,413,691

15.2 Post Employment Benefits

The Company has a funded, noncontributory defined benefit retirement plan providing for death, disability and retirement benefits for all of its employees. The fund is administered by a local bank as trustee. Retirement expense charged to operations in 2006, 2005 and 2004 amounted to P35,601,366, P1,702,402 and P1,620,490, respectively (see Note 14).

The Company obtained an updated actuarial valuation as of January 1, 2004 to ascertain its transitional asset/liability as of that date in accordance with PAS 19, *Employee Benefits*. The Company's transition to PAS 19 is discussed in Note 2. Actuarial valuations are made regularly to update the retirement benefit costs and the amount of contributions.

In 2006, the Company aligned the retirement benefit plan for all its employees, including the employees absorbed from UMRC as a result of the merger.

The amounts of defined benefit liability (asset) recognized in the balance sheets as part of Accounts Payable and Accrued Expenses account (Other Assets account) are determined as follows (see Note 11):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Present value of the obligation	P 51,174,809	P 24,158,148	P 15,244,406
Fair value of plan assets	(19,836,800)	(18,955,928)	(15,541,394)
Deficiency (excess) of plan assets	31,338,009	5,202,220	(296,988)
Unrecognized actuarial gains (losses)	<u>2,465,688</u>	<u>(5,364,282)</u>	<u>213,211</u>
Defined benefit liability (asset)	<u>P 33,803,697</u>	<u>(P 162,062)</u>	<u>(P 83,777)</u>

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Balance at beginning of year	P 24,158,148	P 15,244,406	P 14,284,819
Actuarial adjustment	16,276,913	-	-
Current service cost			
and interest cost	11,795,895	2,942,031	2,606,341
Past service cost	19,768,521	-	-
Actuarial (gains) losses	(13,299,169)	5,971,711	(1,646,754)
Adjustment for curtailment	6,291,542	-	-
Benefits paid by the plan	(13,817,041)	-	-
	<u>P 51,174,809</u>	<u>P 24,158,148</u>	<u>P 15,244,406</u>

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Balance at beginning of year	P 18,955,928	P 15,541,394	P 12,622,083
Actuarial adjustment	1,647,591	-	-
Contributions paid into the plan	1,635,607	1,787,057	1,557,670
Benefits paid by the plan	(13,817,041)	-	-
Actuarial gains (losses)	9,766,433	387,848	351,874
Expected return on plan assets	<u>1,648,282</u>	<u>1,239,629</u>	<u>1,009,767</u>
	<u>P 19,836,800</u>	<u>P 18,955,928</u>	<u>P 15,541,394</u>

The amounts of retirement expense recorded as part of General and Administrative Expenses account in the income statements are as follows (see Note 14):

	2006	2005	2004
Current service costs	P 5,173,501	P 1,265,146	P 1,249,283
Interest costs	6,622,394	1,676,885	1,357,058
Expected return on plan assets	(1,648,282)	(1,239,629)	(1,009,767)
Net actuarial gain recognized during the year	(606,310)	-	(23,916)
Past service cost	19,768,521	-	-
Curtailment cost	6,291,542	-	-
	<u>P 35,601,366</u>	<u>P 1,702,402</u>	<u>P 1,620,490</u>

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

	2006	2005	2004
Discount rates	11%	11%	9.5%
Expected rate of return on plan assets	8%	8%	8%
Expected rate of salary increase	8%	8%	8%

16. TAXES

16.1 Current and Deferred Income Taxes

The major components of tax expense for the years ended December 31, 2006, 2005, and 2004 are as follows:

	2006	2005	2004
<i>Reported in income statements</i>			
Current tax expense:			
Final tax (at 20% and 7.5%)	P 38,077,014	P 20,895,482	P 19,356,307
Minimum corporate income tax (MCIT) (at 2%)	3,325,133	1,020,169	-
Regular corporate income tax (RCIT) (at 35% in 2006 and 2005, and at 32% in 2004)	-	-	5,858,902
Balance carried forward	<u>P 41,402,147</u>	<u>P 21,915,651</u>	<u>P 25,215,209</u>

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Balance brought forward	P <u>41,402,147</u>	P <u>21,915,651</u>	P <u>25,215,209</u>
Deferred tax expense (income)			
Deferred tax resulting from an increase in RCIT rate	-	1,741,334	-
Deferred tax relating to origination and reversal of temporary differences	(<u>44,080,565</u>)	(<u>19,280,838</u>)	(<u>2,108,014</u>)
	(<u>44,080,565</u>)	(<u>17,539,504</u>)	(<u>2,108,014</u>)
	(P <u>2,678,418</u>)	P <u>4,376,147</u>	P <u>23,107,195</u>
<i>Reported in statements of changes in equity</i>			
Deferred tax relating to origination and reversal of temporary difference	P <u>14,847,681</u>	P <u>19,130,654</u>	P <u>65,643</u>
	P <u>14,847,681</u>	P <u>19,130,654</u>	P <u>65,643</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>2006</u>	<u>2005</u>	<u>2004</u>
Tax on pretax income (at 35% in 2006 and 2005, and 32% in 2004)	P <u>95,288,537</u>	P <u>36,064,109</u>	P <u>39,374,551</u>
Adjustment for income subjected to lower income tax rates	<u>38,077,014</u>	<u>20,895,482</u>	<u>19,356,307</u>
Tax effect of:			
Increase in deductible temporary difference due to change in RCIT rate	-	1,741,334	-
Derecognized deferred tax assets	<u>1,780,753</u>	-	-
Non-deductible expenses	<u>1,231,609</u>	<u>188,261</u>	<u>416,679</u>
Separation pay deductible in 2006	(<u>11,393,461</u>)	-	-
Non-taxable income	(<u>41,279,761</u>)	(<u>714,051</u>)	(<u>2,265,470</u>)
Interest income subjected to final tax	(<u>86,383,109</u>)	(<u>53,798,988</u>)	(<u>33,774,872</u>)
Tax expense (income) reported in income statements	(P <u>2,678,418</u>)	P <u>4,376,147</u>	P <u>23,107,195</u>

The Company is subject to MCIT, computed at 2% of gross income or RCIT, whichever is higher. The MCIT and net operating loss carryover (NOLCO) resulting from the computation of RCIT can be used by the Company against the regular income tax and taxable income, respectively, in the next three taxable years. In 2006 and 2005, the Company incurred NOLCO amounting to P375,098 and P5,087,865, respectively. The NOLCO incurred in 2006 can be used as deduction against taxable income until 2009. The NOLCO incurred in 2005 was derecognized because it can no longer provide future benefit for the Company as a result of the merger.

MCIT for 2006 and 2005 amounted to P3,325,133 and P1,020,169, respectively, and is recorded as part of Deferred Tax Assets account in the balance sheets.

The net deferred tax liabilities as of December 31 relates to the following:

	Balance Sheets			Income statements		
	2006	2005	2004	2006	2005	2004
Deferred tax liabilities:						
Deferred acquisition costs	P10,875,589	P17,936,778	P15,378,773	P 7,061,190	(P 2,558,005)	P 2,029,576
Revaluation reserves on available-for-sale investments	14,847,681	19,130,654	65,643	-	-	-
Excess of reserves for unexpired risk per books over tax basis	9,176,803	2,734,101	(1,850,572)	(6,442,702)	(4,584,673)	(4,032,668)
Deferred tax assets:						
Unrealized foreign exchange gain (loss)	(20,671,901)	(10,950,775)	10,708,183	9,721,125	21,658,958	478,929
Allowance for doubtful accounts	(24,924,715)	(4,794,558)	(4,143,596)	20,130,157	650,962	(240,000)
MCIT	(4,345,302)	(1,020,169)	-	3,325,133	1,020,169	-
NOLCO	(131,284)	(1,780,753)	-	(1,649,469)	1,780,753	-
Accrued leave benefits	(963,245)	(888,431)	(1,334,087)	74,814	(445,656)	(347,464)
Past service cost	(12,061,783)	(201,466)	(184,470)	11,860,317	16,296	3,613
Deferred Tax Income				<u>P44,080,565</u>	<u>P17,539,504</u>	<u>(P 2,108,014)</u>
Net Deferred Tax Liabilities (Assets)	<u>(P28,198,157)</u>	<u>P20,165,381</u>	<u>P18,632,874</u>			

16.2 New Tax Regulation

On May 24, 2005, Republic Act No. 9337 ("RA 9337"), amending certain sections of the National Internal Revenue Code of 1997, was signed into law and become effective beginning November 1, 2005. The following are the major changes brought about by RA 9337 that are relevant to the Company:

- RCIT rate is increased from 32% to 35% starting November 1, 2005 until December 31, 2008 and will be reduced to 30% beginning January 1, 2009;
- 10% VAT rate is increased to 12% effective on February 1, 2006;
- 12% VAT is now imposed on certain goods and services that were previously zero-rated or subject to percentage tax;

- (d) Input tax on capital goods shall be claimed on a staggered basis over 60 months or the useful life of the related assets, whichever is shorter; and
- (e) Creditable input VAT is capped at a maximum of 70% of output VAT per quarter which is effective until the third quarter of 2006 (this cap was removed effective for quarters ending on December 31, 2006 and onwards).

17. EQUITY

17.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2006	2005	2004	2006	2005	2004
Common shares – P100 par value						
Authorized – 30,000,000 shares						
Issued:						
Balance at beginning of year	10,000,000	6,142,365	4,552,185	P 1,000,000,000	P 614,236,500	P 455,218,500
Issuance during the year	5,885,583	3,857,635	-	588,558,300	385,763,500	-
Stock dividends issued during the year	-	-	1,590,180	-	-	159,018,000
Balance at end of year	<u>15,885,583</u>	<u>10,000,000</u>	<u>6,142,365</u>	<u>P 1,588,558,300</u>	<u>P 1,000,000,000</u>	<u>P 614,236,500</u>

To consummate the merger, the Company issued 5,885,583 shares of capital stock in order to acquire the net assets of UMRC (see Note 1).

17.2 Treasury Shares

Treasury shares pertain to the Company's shares of stock held by First Quezon City Insurance Co., Inc. (FQCICI) reacquired in 2005, and those held by UMRC and the dissenting stockholders reacquired in 2006. The total cost of the treasury shares acquired from FQCICI, UMRC, and dissenting stockholders amounted to P174,126, P243,855,340, and P10,610,169, respectively (see Note 1).

17.3 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, ten percent (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 P150,949,099, P123,455,961, and P113,589,545 as of December 31, 2006, 2005, and 2004, respectively.

17.4 Shareholders Owning at Least 100 Shares

In compliance with SRC Rule 68, the Company has 159 shareholders owning 100 or more shares of stocks of the Company.

18. 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 carried out on an arm's length basis.

18.1 Reinsurance Contracts with Related Parties

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

Premiums	P 1,680,287,858
Retrocessions	782,802,736
Commission income	165,394,272
Commission expenses	255,411,579
Losses incurred	239,823,078
Loss recoveries	52,040,257

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

Due from ceding companies	P 760,626,683
Reinsurance recoverable on losses	54,624,018
Funds held by ceding companies	40,449,783
Due to retrocessionaires	558,356,875
Funds held for retrocessionaires	198,182

The balance of due from ceding companies pertaining to related parties is presented net of P10,788,045 allowance for impairment which was provided in 2006.

18.2 Bank Accounts

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

Time deposits	P 19,133,027
Savings and current accounts	<u>8,187,161</u>
	<u>P 27,320,188</u>

18.3 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 substantially all investments of the Company subject to terms and conditions in the said agreements. For the services rendered, the Company pays BPI service fees equivalent to 0.175% of the market value of the investments. Total Service fees paid for the year ended December 31, 2006 amounted to P1,215,043.

18.4 Retirement Fund Investment Management

The Company has 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.

18.5 Key Management Personnel Compensation

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Short-term benefits	P 53,959,458	P 22,011,260	P 18,781,767
Post-employment benefits	<u>970,130</u>	<u>793,425</u>	<u>678,004</u>
Balance at end of year	<u>P 54,929,588</u>	<u>P 22,804,685</u>	<u>P 19,459,771</u>

19. MARGIN OF SOLVENCY

Under the Insurance Code of the Philippines, a nonlife 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 nonadmitted assets, as defined in the Insurance Code, by the IC.

The IC has completed the examination of the accounts of the Company as of December 31, 2004. Based on the examination, the Company's surplus that is available to cover the required margin of solvency as of December 31, 2004 amounted to P907,301,940. This amount exceeds the required margin of solvency of P55,189,073 by P852,112,867.

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

The reconciliation of net income under GAAP and statutory net income follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
PFRS net income	P 274,931,380	P 98,664,163	P 99,938,278
Difference in change in reserve for unexpired risk – net	(18,407,720)	(13,594,754)	12,602,087
Deferred acquisition costs – net	20,174,827	(3,189,272)	(6,342,425)
Provision for catastrophe loss	-	(17,077,303)	(2,396,481)
Tax effect of the adoption of GAAP accounting	(618,487)	11,851,465	(1,236,218)
Statutory net income	<u>P 276,080,000</u>	<u>P 76,654,299</u>	<u>P 102,565,241</u>

21. EVENTS AFTER THE BALANCE SHEET DATE

21.1 Amendment of the Articles of Incorporation

On January 15, 2007, the SEC approved the amended articles of incorporation of the Company which includes a reduction of the par value of the Company's shares of stock from P100 to P1 per share. The reduction of the par value effectively increased the number of shares that are issued from 15,885,583 to 1,588,558,300 (see Note 22).

21.2 Acquisition of Treasury Shares

On February 21, 2007, the Company entered into a Compromise Agreement with certain stockholders to acquire 446,774 shares of the Company at an agreed exchange value of P100,077,376.

22. EARNINGS PER SHARE

The earnings per share amounts after the reduction of the par value of the Company's shares of stock (see Note 21) are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net income available to common shareholders	P 274,931,380	P 98,664,163	P 99,938,278
Divided by the average number of outstanding common shares	<u>1,400,893,200</u>	<u>949,365,200</u>	<u>613,079,000</u>
	<u>P 0.20</u>	<u>P 0.10</u>	<u>P 0.16</u>

23. SUBSEQUENT REVISIONS OF PREVIOUSLY ISSUED 2006 FINANCIAL STATEMENTS

Subsequent to the issuance of the Company's 2006 financial statements, the Company included additional disclosures for its initial public offering. The additional disclosures pertain to Deferred Reinsurance Premiums and Reserve for Unexpired Risks (see Note 9), Underwriting Deductions (see Note 13), Acquisition of Treasury Shares (see Note 21.2), and Earnings Per Share (see Note 22).

24. CONTINGENCIES

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.

25. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company maybe exposed to a variety of financial risks which results 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, Budget 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 Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company maybe exposed to are described below.

25.1 Foreign Currency Risk

The Company is exposed to foreign currency risk which mainly arises from its dollar-denominated investments, receivables and payables. The Company recognized net foreign exchange losses of P90,676,616 in 2006 and P45,952,689 in 2005, and net foreign exchange gain of P7,201,781 in 2004.

25.2 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance. Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

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

25.3 Cash Flow and Fair Value Interest Rate Risks

Currently, the Company has no financial liabilities with floating interest rates.