



NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

18th Floor, Philippine AXA Life Centre, Sen. Gil J. Puyat Avenue corner Tindalo Street, Makati City 1200, Philippines
Trunk lines: +632 759 5801 to 06 * Fax: +632 759 5886 * Website: nrcp.com.ph * e-mail: nrcp@nrcp.com.ph

April 29, 2010

MS. JANET A. ENCARNACION
Head, Disclosure Department
The Philippine Stock Exchange, Inc.
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City

Dear Ms. Encarnacion:

Herewith the SEC Form 17-A of National Reinsurance Corporation of the Philippines for the year ending December 31, 2009.

We trust that you will find everything in order.

Sincerely,


JOHN E. HUANG
Senior Vice President/CFO

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 A

FORM TYPE

For the year ending December 31, 2009

0 6 2 9 10

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Domestic Foreign

Total No. of Stockholders

Total No. of Stockholders

Total No. of Stockholders

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: **December 31, 2009**
2. SEC Identification Number: **80118** 3. BIR Tax Identification No.: **000-480-869**
4. Exact name of issuer as specified in its charter:
**National Reinsurance Corporation of the Philippines, doing business
under the names and styles of Philippine National Reinsurance
Company; PhilNaRe**
5. **Philippines**
Province, Country or other jurisdiction of
incorporation or organization
6. (SEC Use Only)
Industry Classification Code:
7. **18th Floor, Philippine AXA Life Centre** **1200**
Sen. Gil Puyat Avenue corner Tindalo Street Postal Code
Makati City, Philippines
Address of principal office
8. **(632) 759-5801 to 06**
Issuer'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 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>No. of Shares Outstanding</u>	<u>Amount</u>
Common Shares	2,181,954,600	Php2,181,954,600.00
TOTAL	2,181,954,600	Php2,181,954,600.00

11. Are any or all of these securities listed on a Stock Exchange?

Yes [] No []

If yes, state the name of such stock exchange and the classes of securities listed therein:
Philippine Stock Exchange Common

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes No

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

Shares Held by Non-Affiliates	Market Value per share as of xx/xx/xx	Total Market Value
xxx	xxx	xxx

**APPLICABLE ONLY TO ISSUERS INVOLVED IN
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. **N/A**

Yes No

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

(b) Any information statement filed pursuant to SRC Rule 20;

(c) Any prospectus filed pursuant to SRC Rule 8.1.

TABLE OF CONTENTS

	<u>Page No.</u>
PART I – BUSINESS AND GENERAL INFORMATION	
Item 1. Business	4
Item 2. Properties	6
Item 3. Legal Proceedings	7
Item 4. Submission of Matters to a Vote of Security Holders	8
PART II – OPERATIONAL AND FINANCIAL INFORMATION	
Item 5. Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters	9
Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 7. Financial Statements	24
Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	24
PART III – CONTROL AND COMPENSATION INFORMATION	
Item 9. Directors and Executive Officers of the Issuer	25
Item 10. Executive Compensation	31
Item 11. Security Ownership of Certain Record and Beneficial Owners and Management	33
Item 12. Certain Relationships and Related Transactions	35
PART IV – CORPORATE GOVERNANCE	
Item 13. Corporate Governance	36
PART V – EXHIBITS AND SCHEDULES	
Item 14. Exhibits and Reports	37
SIGNATURES	39
EXHIBIT INDEX	40
AUDITED FINANCIAL STATEMENTS/SUPPLEMENTARY SCHEDULES	

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Business Development

National Reinsurance Corporation of the Philippines (hereafter the “Company” or the “Corporation”) was incorporated in 1978 pursuant to Presidential Decree No. 1270. The Company operates as a professional reinsurance corporation providing life and non-life reinsurance to the Philippines and to neighboring insurance markets. Since 2007, the Company has also been doing business under the names and styles of “Philippine National Reinsurance Company; PhilNaRe” in order to reinforce its image as the country’s national reinsurer and its position as the only domestically-incorporated professional reinsurance company in the Philippines.

The primary mandate of PhilNaRe is to assist in the development of the Philippine insurance industry (a) by providing reinsurance capacity and support to Philippine insurance companies, (b) by serving as a medium for regional and international cooperation in insurance, and (c) by contributing towards higher retention of business within the country. The Company became a vehicle for the Philippine insurance industry’s participation in the Asian Reinsurance Corporation (“Asian Re”), a multilateral reinsurance entity based in Bangkok, Thailand established to foster regional cooperation among insurance companies doing business in Asia.

Over a span of three decades, the Company developed into the largest domestic professional reinsurer in the Philippines. PhilNaRe became the country’s sole domestic professional reinsurance company following its merger with Universal Malayan Reinsurance Corporation (“UMRe”) on March 6, 2006. UMRe itself was the product of the 2004 merger between Universal Reinsurance Corporation (“URC”) and Malayan Reinsurance Corporation (“MRC”). Prior to their 2004 merger, URC had been the country’s second largest reinsurer and MRC had been ranked third. At present, PhilNaRe has no subsidiaries.

The Company has not been a party to any bankruptcy, receivership or similar proceedings.

(2) Business of Issuer

Principal Products & Services

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 and 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.

As of December 2009, casualty & others accounted for 47% of the Company’s Gross Premiums Written (“GPW”) and 33% of Net Premiums Written (“NPW”), fire accounted for 27% of GPW and 29% of NPW, life accounted for 15% of GPW and 22% of NPW and marine and aviation accounted for 11% of GPW and 16% of NPW.

The Company writes reinsurance largely for the domestic market. The portion of the Company’s GPW accounted for by foreign insurance companies for the years 2007, 2008 and 2009 are 3%, 8% and 10%, respectively.

The Company offers reinsurance both on treaty and facultative 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.

The Company competes with a number of large foreign reinsurers in its selected lines of business. These companies offer the lines of reinsurance that the Company also offers. The Company benefits to a certain extent from Presidential Decree No. 1270 ("PD 1270") which mandates all life and non-life insurance and reinsurance companies doing business in the Philippines to cede to the Company at least ten percent of their outward reinsurance placed with foreign reinsurers.

Risks

The occurrence of severe catastrophic events may have a material adverse effect on the financial results and conditions

The Company reinsures property, marine and casualty insurance with large aggregate exposures, corresponding to the possibility of loss due to natural and man-made disasters such as typhoons, floods, and earthquakes. The Company expects that the loss experience generally will include infrequent events of great severity. The risks associated with natural and man-made disasters are inherently unpredictable, and it is difficult to predict the timing of such events with statistical certainty or estimate the amount of loss any given occurrence will generate. However, such losses are considered manageable. The Company has procured an excess of loss protection to limit its risk exposure to ₱40 million per catastrophic event.

A significant amount of the Company's invested assets will be subject to changes in interest rates, exchange rates and market volatility.

A major portion of the Company's assets are invested in fixed income and equity securities. The Company has total investments of ₱6.8 billion, of which approximately 89% is invested in fixed income securities and 11% is invested in equities. The Company maintains a certain portion of its investments in securities denominated in U.S dollars.

The fair market value of these assets and the investment income from these assets will fluctuate depending on general economic and market conditions. Investments in fixed income securities may be adversely affected by fluctuations in interest rates. An increase in interest rates will decrease the value of the investments while a decrease in interest rates will increase the value of the investments. The investment results may also be adversely affected by changes in the business, financial condition or results of operations of the entities in which the Company invests. Since a substantial amount of the Company's invested assets are classified as securities available for sale, changes in the market value of these securities will be reflected in shareholders' equity.

The Company's Board of Directors has established investment guidelines which involve

diversifying the investment portfolio, limiting investments to instruments not exposed to significant risks, performing rigorous analysis of potential investments and establishing suitable benchmarks for targeted returns, among others. The Company currently invests only in instruments allowable under Section 200 of the Insurance Code and by related issuances of the Insurance Commissioner. The Board of Directors of the Company has established an Investment Committee to implement the Company's investment strategy in accordance with approved investment guidelines.

The Company's financial condition may be affected by delays in the payment of premiums by cedants.

On facultative acceptances, the Company generally provides its cedants a grace period of 120 days for the settlement of premiums. Within this 120-day premium payment warranty term, the company is obligated to pay legitimate claims arising from its acceptance of risk, even though it may not have yet received any premiums. As of December 31, 2009, premiums receivable from ceding companies amounted to P912.7 million.

To mitigate the risk of non-payment of premiums, the Company regularly reviews and evaluates the financial capacity and payment history of the companies from which it accepts business. Moreover, should the Company not receive premium payments within the prescribed premium payment warranty term, the Company automatically cancels its acceptance and any claims arising from said acceptance will be denied.

The Company's financial performance may be affected by the inability of its retrocessionaires to pay their share of losses

As of end 2009, the Company retroceded P2.2 billion or 62% of its gross premiums written to retrocessionaires. The Company retroceded part of the gross premiums in order to transfer the risk to the retrocessionaire. As certain loss events occur, the Company is obligated to pay the legal claims made by its customers. If the Company retroceded part of the premiums paid by its clients to retrocessionaires, then the Company is entitled to recover commensurately the losses it paid to its clients from the latter. However, if the retrocessionaire is not able to pay the claims made by the Company, the latter will shoulder the losses it paid to its customers and this will impact negatively on the Company's financials. As of end 2009, reinsurance recoverable on losses amounted to P2.1 billion.

In choosing its retrocessionaires, the Company takes into consideration a retrocessionaires financial capacity, technical knowledge/expertise and industry reputation. The Company also considers the retrocessionaires record of paying claims and adverse balances. The Company adheres to these guidelines to ensure that this risk is mitigated and/or avoided.

Item 2. Properties

The net property, plant and equipment of the Company as of December 31, 2009 amounted to P130 million, broken down as follows:

(in Philippine Pesos)	Cost	Accumulated Depreciation	Net book value
Condominium units	104,227,734	37,032,968	67,194,766
Office Improvements	14,284,102	12,003,316	2,280,786
Office furniture and equipment	9,590,950	9,081,416	509,514
Transportation Equipment	13,300,379	7,417,098	5,883,281
EDP Equipment	67,630,760	13,464,174	54,166,586

The Company's principal office is located at the 18th Floor, Philippine AXA Life Centre, Sen. Gil Puyat Avenue corner Tindalo Street, Makati City. The Company owns the office space containing approximately 993.13 square meters together with 7 parking slots.

The Company also maintains a Life and Corporate Services Center office at the 31st Floor, Ayala Life-FGU Center, 6811 Ayala Avenue, Makati City, containing approximately 824 square meters together with 8 parking slots. This property had been owned by UMRc which, as earlier discussed, was merged into the Company on March 6, 2006. Pursuant to the merger, ownership of the Ayala Life-FGU office condominium was passed to the Company.

The Company also leases 143.4 square meters of office space located on the 19th Floor of Philippine AXA Life Centre for use of the Company's Accounting Department. The term of the lease is until March 31, 2011, with monthly lease payments of approximately P87,000.

The Company does not intend to acquire any major properties in the next twelve months.

There are no liens, mortgages or encumbrance over the aforementioned properties of the Company. There is likewise no limitation on the ownership or usage of the said properties, except a portion of the Ayala Life-FGU office space, which the Company currently leases to BPI/MS Insurance Corporation.

There is no litigation or claims of material importance known to the Company to be pending or threatened against the Company's properties.

Item 3. Legal Proceedings.

The Company is currently a party to the following litigation cases:

1. *Industrial Bank of Korea vs. DOMSAT*
Civil Case No. 99-1853
Regional Trial Court, Makati City, Branch 135

This is a third-party complaint filed by the Government Service Insurance System (GSIS) against the Company as well as other reinsurers (collectively, the "reinsurers"). The third-party complaint stemmed from a complaint filed by the Industrial Bank of Korea, *et al.* against DOMSAT Holdings, Inc. ("DOMSAT") and GSIS to collect DOMSAT's debt in the amount of US\$11 million, plus interest, default interest, expenses as well as damages. The proceeds of the loan were used to finance DOMSAT's two-year lease and/or purchase of a Russian satellite. GSIS's liability is based on the surety bond it issued to guarantee the repayment by DOMSAT of its debt (the "surety bond"). GSIS filed a third-party complaint against the reinsurers pursuant to the terms of the bond reinsurance binder and the reinsurance treaty executed by them.

GSIS filed a Manifestation and Urgent Omnibus Motion dated March 25, 2008 ("Motion") which moved for the continuation of the main complaint between the lenders on the one hand, and DOMSAT as well as GSIS on the other (Industrial Bank of Korea, *et al.* vs. DOMSAT, *et al.*). GSIS further moved for the suspension of the proceedings in its third-party complaint against the Company and the other reinsurers, because the liability of the reinsurers is contingent on the liability of GSIS in the main complaint. The Corporation filed its manifestation dated April 14, 2008 informing the court that it has no objection to GSIS' motion. GSIS further filed a Manifestation with Urgent Motion dated October 13, 2008 which moved for the deferment of third-party proceedings. On October 29, 2008, the Company filed a manifestation stating that it has no objection to GSIS's Manifestation and Urgent Motion dated October 13, 2008.

In view of the GSIS' pending motions, GSIS deferred its initial presentation of evidence in the third-party proceedings.

On December 22, 2008, the Corporation received an Order dated December 12, 2008, where the court suspended the proceedings against the Corporation and the third-party defendants until after the completion of the proceedings in the main complaint, since the third-party defendants' liability is contingent on GSIS's liability in the main complaint. Thus, the third-party proceedings were deferred until the completion of the proceedings in the main complaint.

2. *NRCP vs. Stronghold Insurance Company, Inc.
Insurance Commission, Manila*

This is a complaint filed by the Company with the Insurance Commission against Stronghold Insurance Company, Inc. ("Stronghold") for the revocation or cancellation of Stronghold's license to conduct insurance business.

Government Service Insurance System ("GSIS") and Bangko Sentral ng Pilipinas ("BSP") entered into a fire insurance contract, where the latter insured its PICC Building with the former. GSIS, in turn, reinsured its risk with the Company. The Company then reinsured its risk with Stronghold, which likewise reinsured its risk with other entities.

On February 22, 2001, BSP incurred a loss due to the fire which occurred at the western portion of the PICC Building. GSIS paid BSP the amount of ₱111,089,965.65 for the building and ₱16,236,687.73 for the contents thereof. The Company then paid its share of GSIS claim amounting to ₱63,321,280.00 for the buildings and ₱9,254,912.01 for the contents on various dates. Thereafter, the Company notified Stronghold of the total amount of its share in the loss, which amounts to ₱57,64,800.39 for the buildings and ₱8,413,556.67 for the contents.

Despite demands, Stronghold unjustly refused to pay its share of loss to the Company, to the latter's damage and prejudice. Thus, on January 19, 2010, the Company filed a complaint with the Insurance Commission against Stronghold for the revocation or suspension of Stronghold's license to do insurance business. Stronghold filed its Answer with Compulsory Counterclaims and the Company filed its Reply to the Answer.

The Company intends to file a separate civil action to collect the amount due from Stronghold.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the stockholders during the fourth quarter of the fiscal year ending December 31, 2009.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

(A) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters

(1) Market Information

The common shares of the Company have been listed on the Philippine Stock Exchange since April 27, 2007. The high and low prices for each quarter of the last two years are as follows:

	2008	2008	2009	2009
	High	Low	High	Low
1st Quarter	3.30	2.34	1.34	1.22
2nd Quarter	3.20	2.00	1.90	1.24
3rd Quarter	2.34	1.92	2.12	1.58
4th Quarter	1.96	1.20	1.80	1.58

The price information as of the latest practicable trading date, March 31, 2010, was P1.52 per share.

(2) Holders

Approximate Number of Holders as of 31 December 2009

There were approximately 295 common shareholders of the Company as of December 31, 2009. The Top 20 shareholders as of December 31, 2009, with their corresponding shares and percentage ownership of the Company, are as follows:

	Name of Record Owner	No. of Shares Held	Percentage
1	PCD Nominee Corporation (Filipino) (Non-Filipino)	1,440,185,320 95,177,100	66.68% 4.41%
2	Bank of the Philippine Islands	290,795,500	13.46%
3	FGU Insurance Corporation	36,126,000	1.67%
4	Malayan Insurance Company, Inc.	35,610,100	1.65%
5	Ayala Life Assurance, Inc.	28,274,900	1.31%
6	Rosario, Paul Gerard B. Del	23,021,000	1.07%
7	Philippine Charter Insurance Corp.	15,305,900	.71%
8	First Nationwide Assurance Corp.	13,157,000	.61%
9	Philippines First Insurance Co., Inc.	11,057,200	.51%
10	Bankers Assurance Corporation	10,295,280	.48%
11	Philippine American Life Insurance Co.	8,628,600	.40%
12	Pa, Ana Go &/or Go Ki	7,500,000	.35%
13	Empire Insurance Company	7,498,900	.35%
14	Industrial Insurance Co., Inc.	6,184,900	.29%
15	Allied Bankers Insurance Corporation	5,428,700	.25%
16	Phil. International Life Insurance Co., Inc.	5,110,900	.24%
17	FLT Prime Insurance Corporation	4,538,700	.21%
18	New India Assurance Co., Ltd.	4,168,300	.19%
19	South Sea Surety & Insurance Co., Inc.	4,152,700	.19%
20	Equitable Insurance Corporation	4,045,000	.19%

(3) Dividends

It is the Company's policy to declare dividends regularly with the pay-out determined by the Company's performance as well as by the availability of unappropriated retained earnings for distribution. On June 16, 2009, the Company declared cash dividends amounting to a total of P86,387,104.00. The payment of dividends by insurance companies is governed in the Philippines by Section 195 of the Insurance Code as well as by Section 43 of the Corporation Code, both of which establish the appropriate amount of retained earnings which may be paid out for dividend distribution. Beyond these inherent limitations, there are no known restrictions or impediments to the Company's ability to pay dividends on common equity or are there likely to be any in the future.

(4) Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

The following table sets out details of the shares sold by the Company from January 1, 2007 to December 31, 2009, 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
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 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 (P100.00) per share to Three Billion (3,000,000,000) shares with a par value of One Peso (P1.00) 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.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Review of 2009 versus 2008

Results of operations

Reinsurance premiums – net of returns or Gross Premiums Written

Gross premiums written in 2009 decreased by P955.1 million, or 21.3%, to P3,538.4 million from P4,493.5 million in 2008. The decrease was due largely to the Company's stricter underwriting policies, which resulted in the cancellation of certain unprofitable treaties and facultative business, the losses from which negatively affected the Company's underwriting performance in previous years. Consequently, reinsurance premiums from the casualty line of business decreased from P2,254.8 million in 2008 to P1,652 million in 2009. Reinsurance premiums from the Company's marine business also decreased from P784 million in 2008 to P384.1 million in 2009. These declines were not offset by reinsurance premiums from the fire business, which grew from P944 million in 2008 to P971.2 million in 2009 or from the life business, which increased from P510.7 million in 2008 to P531.2 million in 2009.

Net premiums retained

The percentage decline in net premiums retained was lower than gross premiums because of the Company's higher retention ratio. Net premiums retained in 2009 decreased by P227.6 million, or 14.4%, to P1,352.4 million from P1,580 million in 2008. Retention ratio in 2009 was 38.2% in 2009 as against 35.16% in 2008, owing to the fact that a large portion of risk acceptances cancelled or not renewed in 2009 were risks in which the Company had a lower retention.

Premiums earned

Premiums earned in 2009 decreased by only P80.5 million, or 5.2%, to P1,471 million from P1,551.3 million in 2008. This was due to a decrease in the reserve for unearned premiums of P118 million in 2009 as against an increase in the reserve of P28.6 million in 2008. Unearned premium reserve represents the unearned portion of premium income recognized from policies in force as at report date. The drop in 2009 of the Company's gross premiums written and net premiums retained resulted in a decline in this reserve and therefore an addition to earned premiums.

Share in claims and losses

Despite the occurrence of a number of fire, marine and catastrophe-related (i.e., typhoon) losses in 2009, share in claims and losses for 2009 decreased by P204.3 million, or 16.5%, to P1,033 million from P1,237 million in 2008. The decrease was largely due to the denial of certain claims due to non-payment of the associated reinsurance premiums.

Commissions - net

The increase in net commissions of P19.8 million or 5.1% from P387.2 million in 2008 to P407 million in 2009 was the resultant effect of the P118.5 million decrease in reserve for unearned premiums. The decline in this reserve, which resulted in additional premiums deemed earned under the 24th method of premium accounting, also resulted in the recognition of the associated acquisition cost (i.e., commission) which had until then been deferred.

Investment income and other income

Investment income and other income rose by 4% to P466.7 million in 2009 from P449.2 million in 2008. During the year, positive trends prevailed in the Company's main investment markets of Philippine equities and bonds.

Interest Income increased by P2% or P7.4 million to P382 million in 2009 from P375 million in 2008 as the Company continued to invest in high-quality fixed-income government securities and corporate bonds. Other Income, comprised largely of dividend and trading income, experienced a

turnaround in 2009 with a gain of P108 million compared to a loss of P41 million in 2008. This cushioned the impact of unrealized foreign exchange loss in 2009 amounting to P24.3 million

General and administrative expenses

General and administrative expenses (GAE) increased by 53.6% to P325 million in 2009 from P211.7 million in 2008, primarily due to additional provisions for impairment (i.e., bad debts) of P128 million. Without the provision, GAE in 2009 would have decreased from the previous year.

Provision for income tax

The income tax provisions for 2009 and 2008 were flat at P70 million. These provisions relate primarily to final tax on the Company's interest income on bank deposits, government securities and corporate bonds.

Net Income

As a result of the aforementioned factors, the Company ended 2009 with a net income of P103 million, P9 million or 9% higher than 2008 net income of P94 million.

Financial condition

As of December 31, 2009, total resources of the Company stood at P11,096 million, P1,175 million lower than total resources of P12,272 million as of December 31, 2008. Excluding reinsurance accounts, assets were primarily comprised of cash and short-term investments, fixed income securities, and equity investments designed to match the cash flow requirements of reinsurance liabilities. Material changes in the Company's resources which contributed to the decrease are described below.

Reinsurance balances receivable, net of allowance for impairment of P268 million, decreased by P1,479 million or 34% to P2,874.4 million in 2009 from P4,353.4 million in 2008 mainly due to the decline in gross reinsurance premiums written. Reinsurance balances receivable include premiums due from ceding companies (decreased from P1,669 million in 2008 to P912.7 million in 2009), reinsurance recoverable on unpaid losses (decreased from P2,403 million in 2008 to P1,760 million in 2009) reinsurance recoverable on paid losses (increased from P309 million in 2008 to P350 million in 2009) and funds held by ceding companies (increased from P112 million in 2008 to P120 million in 2009.)

Available-for-sale financial assets increased by P764 million or 14.5% to P6,048.7 million in 2009 from P5,284.6 million in 2008, reflecting mark-to-market adjustments as well as transfers from cash and cash equivalents to available-for-sale financial assets.

Loans and receivables went up by P57.7 million or 29.5% to P253.5 million in 2009 from P195.7 million in 2008 principally due to the Company's investment in fixed rate corporate promissory notes due 2011 of EEI Corporation.

Property and equipment, net of accumulated depreciation increased by P43.5 million or 50% to P130 million in 2009 from P86.5 million in 2008, mainly due to acquisition of new computers and peripherals as replacements for existing equipment as well as for the computerization project of the Company which commenced in 3rd quarter 2009.

Deferred acquisition costs dropped by P35 million or 17.4% to P166 million in 2009 from P200.7 million in 2008, reflecting portions of deferred acquisition cost booked in 2008 that were charged to commission expense in 2009. The decrease is also related to the drop in premium volume for 2009 and the corresponding decrease in unearned premium reserve.

Deferred reinsurance premiums showed a decrease of 6.7% to P772 million in 2009 from P827.3 million in 2008 largely due to lower level of premiums in 2009 compared to 2008.

Deferred input value added tax decreased by P9.5 million or 14.7% to P55 million in 2009 from P64.5 million in 2008 mainly due to decline in commission expense subject to VAT.

Other assets increased by 3.5% to P113.2 million in 2009 from P109.4 million in 2008 primarily due to an increase in unutilized creditable expanded withholding.

Total liabilities decreased by P1,380.7 million or 21.8% to P4,941.2 million in 2009 from P6,322 million in 2008. The decrease in total liabilities is explained below:

Reinsurance balances payable decreased by 23.8% or by P1,117.8 million to P3,587.9 million in 2009 from P4,705.6 million in 2008 due largely to the overall decrease in reinsurance premiums in 2009. This account primarily includes amounts due to retrocessionaires, which declined from P1,105.6 million in 2008 to P468.8 million in 2009; funds held by retrocessionaires, which decreased from P83.8 million in 2008 to P71 million in 2009; and claims payable, which decreased from P3,516.2 million in 2008 to P3,048.1 million in 2009.

Accounts payable and accrued expenses decreased by P11 million or 24.3% from P45.5 million in 2008 to P34.4 million in 2009 principally due to the reversal of a pre-merger accrued expenses and retirement liabilities which were set up in 2006.

Reserve for unearned reinsurance premiums declined to P1,179.1 million in 2009 from last year's P1,353.1 million or by P174 million (12.9%) traced largely to decrease in gross reinsurance premiums written during the year on casualty and marine business.

Deferred reinsurance commission declined by P10.8 million or 10% from P108.3 million in 2008 to P97.5 million in 2009, reflecting the Company's lower level of commission income.

Deferred output value added tax decreased by P67.1 million or 61.3% to P42 million in 2009 from P109.4 million in 2008 due to lower commission income subject to VAT.

Total equity as of December 31, 2009 stood at P6,155 million, an increase of P204.9 million or 3.4% from P5,950 million in 2008. The increase was primarily due to net income of P103 million and P188 million positive movement in the Company's revaluation reserve less a dividend payment of P86 million in 2009.

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

Income Statement items - 2009 versus 2008

21% decrease in reinsurance premiums
Principally due to cancellation of non-profitable marine treaty and facultative business.

25% decrease in retroceded premiums
Due to decrease in reinsurance premiums.

14% decrease in net premiums retained.
Due to decrease in reinsurance premiums offset by increase in retention ratio.

514% decrease in reserve for unearned reinsurance premiums.
Due to higher level of current relative to deferred reinsurance premiums.

11% decrease in underwriting deductions
Due to lower level of compensable claims offset by higher commission expense.

143% increase in net underwriting income
Attributable to decline in underwriting deductions, i.e., lower claims expense.

54% increase in general and administrative expenses
Principally due to additional provision for impairment.

9% increase in net income.
Largely due to positive underwriting results and higher investment and other income.

Balance Sheet items - 2009 versus 2008

41% decrease in cash and cash equivalents.
Mainly due to conversion from cash to available-for-sale financial assets.

34% decrease in reinsurance balances receivable
Due to decrease in reinsurance recoverable on losses.

14% increase in available for sale financial assets.
Essentially due to additional investments and mark-to-market gains during the year.

29% increase in loans and receivables.
Principally due to additional investment made in EEI fixed rate corporate promissory notes.

50% increase in property and equipment, net
Mainly due to acquisition of additional computers and peripherals for replacement and for computerization project of the Company.

17% decrease in deferred acquisition cost.
Due to decline in gross premiums written.

7% decrease in deferred reinsurance premiums
Principally due to lower level of retroceded premiums.

15% decrease in deferred input value added tax
Largely due to lower commissions which are subject to input VAT.

3% increase in other assets
Due to increase in unutilized creditable expanded withholding tax.

24% decrease in reinsurance balances payable
Largely due to lower level of claims payable.

24% decrease in accounts payable and accrued expenses
Principally due to reversal of pre-merger accrued expenses and retirement liability.

13% decrease in reserve for unearned reinsurance premiums
Essentially due to lower level of reinsurance premiums assumed.

10% decrease in deferred reinsurance commissions
Due to lower commission income.

61% decrease in deferred output value-added tax
Due to lower commission income subject to VAT.

3% increase in stockholders' equity
Primarily due to net income plus higher revaluation reserve.

Review of 2008 versus 2007

Results of operations

Reinsurance premiums – net of returns or Gross Premiums Written

Gross premiums written in 2008 increased by P176.9 million, or 4.1%, to P4,493.5 million from P4,316.6 million in 2007. The growth in reinsurance premiums was largely due to acceptances in both marine treaty and facultative businesses, which increased by P109.5 million or 73.1% and P235.4 million or 81.3%, respectively. Reinsurance premiums from casualty lines and life business also grew by P212.7 million (10.4%) and P62.5 million (13.9%), respectively. Offsetting this growth was a decline in premiums from the fire business, which dropped by P443.1 million or 31.9% in 2008.

Net premiums retained

Despite relatively modest growth in gross premiums, net premiums in 2008 grew by 28.7% to P1,580.0 million from P1,227.4 million in 2007. Retention ratio thus increased from 28.4% in 2007 to 35.2% in 2008, reflecting the Company's efforts to retain more risk (and therefore more premiums) for its own account. The non-life business increased its retention ratio to 32.7% in 2008 from 25.2% in 2007 while the life business slightly decreased to 54.1% in 2008 from 56% in 2007.

Premiums earned

Premiums earned also increased by 32% to P1,551.3 million in 2008 from P1,175.3 in 2007, mainly due to the strong growth in premiums retained and a decrease in reserve for unexpired risk of P28.6 million arising from the use of the 24th method of recognizing reinsurance premiums.

Share in claims and losses

Share in claims and losses doubled in 2008 (P1,236.9 million in 2008 as against P609 million in 2007) due to higher incidence of fire and catastrophe-related (i.e., typhoon) marine losses. Claims incurred included large fire and marine losses including, among others, losses from Carlos Gothong Lines, Negros Navigation, Sulpicio Lines, Baclaran Terminal Plaza and Makati Supermarket. Loss ratio for 2008 was 79.7% as against 51.8% in 2007.

Commissions - net

Net commission increased by 120.9% to P387.2 million in 2008 as against P175.3 million in 2007. Commission ratio increased to 24.5% from 14.3% last year. The increase was attributable to the Company's higher overall retention, which resulted in lower commission income, and to higher commission expense on certain new life business.

Investment income and other income

Investment income and other income declined by 2.37% to P449.2 million in 2008 from P460.1 million in 2007. The decline was largely due to trading losses owing to the steep drop in the Philippine stock market. Higher interest rates also negatively affected the valuation of the Company's investment portfolio, which is concentrated largely in fixed income investments.

Interest Income increased by 10% to P375 million in 2008 from P341 million in 2007 due to a higher level of investible funds. In 2008, the Company's foreign exchange gain amounted to P115.3 million compared to a foreign exchange loss of P179.3 million in 2007. This cushioned the impact of a significant decline in trading income for 2008.

General and administrative expenses

General and administrative expenses increased by 45.9% to P211.7 million in 2008 from P145 million in 2007. This was mainly due to an increase in salaries and employee benefits of P33.8 million and a provision for impairment amounting to P32.8 million. The increase in personnel costs relate to the payment in 2008 of employee bonuses for 2007 performance. The provision

for impairment reflects management's assessment as to the collectability of certain long-outstanding receivables. Without the impairment cost, the Company's overall expense ratio was flat at 11% for the years 2008 and 2007.

Provision for income tax

The income tax provision of P70.3 million for 2008 was 27.2% lower than the 2007 figure of P96.6 million due to the lower income before tax of P164.7 million in 2008 compared to P706 million in 2007.

Net Income

As a result of the aforementioned factors, net income in 2008 dropped by 84.5% to P94.4 million from P609.4 million in 2007.

Financial condition

Total resources increased by P753.9 million or 6.55% to P12,272 million in 2008 from P11,518 million in 2007. Material changes in the Company's resources which contributed to the increase are described below.

Reinsurance balances receivable increased by P1,444.6 million or 49.7% to P4,353.4 million in 2008 from P2,908.8 million in 2007 primarily due to an increase in reinsurance recoverable on losses. This represents the amount recoverable from the Company's retrocessionnaires as their share in the Company's claims and losses. The increase is consistent with the increase in the Company's losses in 2008 from its reinsurance operations.

Available-for-sale financial assets increased by P67 million or 1.3% to P5,284.6 million in 2008 from P5,217.5 million in 2007, reflecting additional investments in fixed income securities issued by the National Government.

Loans and receivables increased slightly by P1.7 million or .90% to P195.7 million in 2008 from P194 million in 2007 mainly due to an increase in accrued interest receivable.

Property and equipment, net of accumulated depreciation decreased by P4.8 million or 5.2% to P86.5 million in 2008 from P91.3 million in 2007, mainly due to recorded depreciation (P11.1 million) being higher than capital expenditure of P4.4 million in 2008.

Deferred acquisition costs declined by P6 million or 2.9% to P200.7 million in 2008 from P206.7 million in 2007, reflecting portions of deferred acquisition cost booked in 2007 that were charged to commission expense in 2008.

Deferred reinsurance premiums showed a decrease of 38.6% to P827.3 million in 2008 from P1,348.3 million in 2007. This account pertains to the portion of reinsurance premiums ceded out that relate to the unexpired periods of the policies as of December 31, 2008 and the decrease is consistent with the increase in the Company's retention, which resulted in lower level of outward cessions.

Deferred input value added tax decreased by P17.1 million or 21% to P64.5 million in 2008 from P81.6 million in 2007 largely because of the discontinuance of VAT on reinsurance premiums effective April 6, 2007 (BIR Revenue Regulation 4-2007).

Other assets decreased by 10.8% to P109.4 million in 2008 from P122.6 million in 2007. The decrease was mainly due to reclassification of accounts amounting to P26 million from deferred withholding VAT to deferred output value added tax.

Total liabilities increased by P1,481.3 million or 30.6% to P6,321.9 million in 2008 from P4,840.7 million in 2007. The increase in total liabilities is explained below:

Reinsurance balances payable increased by 76.2% or by P2,034.4 million to P4,705.6 million in 2008 from P2,671.2 million in 2007. The increase was largely due to additional provisions for claims in respect of the large losses that occurred during the year.

Accounts payable and accrued expenses increased by 6% or P2.6 million to P45.5 million in 2008 from P42.9 million in 2007. The increase was mainly due to increase in accruals of various expenses such as utilities, transportation, employee benefits and fringe benefit tax.

Reserve for unearned reinsurance premiums decreased by P492.4 million or 26.7% from P1,845.5 million in 2007 to P1,353.1 million in 2008. The decline represents the unearned portion of premium income recognized from policies in force as of December 31, 2007, which were deemed earned in 2008 under the 24th method.

Deferred reinsurance commission declined by P14.8 million or 12% from P123.1 million in 2007 to P108.3 million in 2007, reflecting the Company's lower level of commission income.

Deferred output value added continued to decline, decreasing by P46.9 million or 30% to P109.4 million in 2008 from P156.3 million in 2007 because of the non-VAT status of reinsurance premiums since April of 2007.

Deferred tax liabilities declined to zero in 2008 from P1.6 million in 2007 due to the Company's incurring a gross loss (for tax purposes) and utilization of net operating loss carryover (NOLCO) in 2008.

Total equity declined by P727.4 million mainly due to payment of P436 million in cash dividends, lower revaluation reserve due to the impact of mark-to-market adjustments in the Company's investment portfolio, and the reacquisition of 22,277,000 shares of stocks under the Company's stock repurchase program.

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

Income Statement items - 2008 versus 2007

4% increase in reinsurance premiums
Principally due to increase in volume of marine business both from treaty and facultative sources.

6% decrease in retroceded premiums
Due to increase in retention.

29% increase in net premiums retained
Due to higher retention rate, particularly for marine business.

45% decrease in reserve for unearned reinsurance premiums.
Primarily due to higher level of current relative to deferred reinsurance premiums.

107% increase in underwriting deductions
Due to higher volume of claims and losses during the year, particularly for marine and fire businesses.

119% decrease in net underwriting income
Due to increase in claims and losses for fire and marine business.

46% increase in general and administrative expenses
Principally due to increase in manpower related expenses and provision for impairment.

27% decrease in tax expense.
Principally due to lower taxable base arising from net underwriting loss.

85% decrease in net income.
Due to net underwriting loss and lower investment and other income.

Balance Sheet items - 2008 versus 2007

15% decrease in cash and cash equivalents
Mainly due to payment of cash dividends.

50% increase in reinsurance balances receivable
Largely due to increase in reinsurance recoverable on losses.

5% decrease in property and equipment, net
Due to lower capital expenditure during the year.

39% decrease in deferred reinsurance premiums
Principally due to lower level of retroceded premiums.

21% decrease in deferred input value added tax
Due to runoff on value added tax on reinsurance premiums.

11% decrease in other assets
Due to reclassification of accounts from deferred input to deferred output VAT.

76% increase in reinsurance balances payable
Largely due to increase in provision for claims pertaining to large losses.

6% increase in accounts payable and accrued expenses
Due to increase in accruals for various expenses (utilities, transportation, & manpower related expenses).

27% decrease in reserve for unearned reinsurance premiums
Due to lower level of deferred reinsurance premiums.

12% decrease in deferred reinsurance commissions
Due to lower commission income.

30% decrease in deferred output value-added tax
Due to payments of value added tax.

100% decrease in deferred income tax liabilities
Primarily due to utilization of NOLCO for 2008.

11% decrease in stockholders' equity
Primarily due payment of cash dividends and lower revaluation reserve.

Review of 2007 versus 2006

Results of operations

Reinsurance premiums – net of returns or Gross Premiums Written

Reinsurance premiums (net of returns) in 2007 increased by P535.1 million, or 14.2%, to P4,316.6 million from P3,781.5 million in 2006. The increase in reinsurance premiums was mainly due to new facultative accounts as well as larger shares on treaties renewed during the year. Reinsurance premiums from fire rose by 18% to P1,387.2 million in 2007 from P1,175.3 million in 2006, while reinsurance premiums from casualty and other lines went up by 21.4% to P2,042.1 million in 2007 from P1,682.1 million in 2006. Reinsurance premiums from the life business increased by 16.6% to P448.2 million in 2007 from P384.4 million in 2006. These increases were offset by a decline in reinsurance premiums from marine and aviation lines, which went down by 18.6% to P439.2 million in 2007 from P539.7 million the previous year.

Net premiums retained

Net premiums retained in 2007 increased by P273.5 million or 28.7% to P1,227.4 million from P953.9 million in 2006. Overall retention ratio thus increased to 28% in 2007 compared to 25% in 2006. The life business increased its retention ratio to 56% in 2007 from 50% in 2006. The retention ratio of non-life business also went up to 25.2% in 2007 from 22.4% in 2006. Retention rate of marine and aviation lines rose to 55% in 2007 compared to 52% in 2006. Retention rate of the fire business went up to 25.5% in 2007 from 20.2% in 2006 and the casualty business from 18.7% in 2007 to 14.4% in 2006.

Premiums earned

Consistent with the growth in net premiums retained, premiums earned in 2007 increased by 26.6% to P1,175.3 million from P928 million in 2006. The increase in reserve for unexpired risk amounted to P52.1 million in 2007 compared to P25.9 million in 2006. This difference reflects both increased volume of business as well as timing of booking of reinsurance contracts.

Share in claims and losses

Share in claims and losses in 2007 increased by P54.5 million or 9.8% to P609 million from P554.6 million in 2006. However, loss ratio improved to 51.8% in 2007 from 59.8% in 2006. Non-life claims and losses increased 14.6% to P553.9 in 2007 while life claims and losses decreased 22.7% to P55.1 in 2007. The loss ratio on both fire and marine/aviation business went up to 47.3% and 96.5% in 2007 from 36.4% and 95% in 2006, respectively. Loss ratio of casualty and other lines dropped to 44.6% from 50.6% the previous year. Loss ratio of life business declined significantly to 21% from 45.9% because of better claims experience in 2007.

Commissions - net

Commission expense (net) in 2007 decreased by P11 million or 6% to P175.3 million from P186.4 million in 2006. Likewise, commission ratio declined to 14.30% in 2007 from 19.6% in 2006. The drop in commission expense was mainly due to adjustments made to commissions paid to certain cedants in prior years.

Investment income and other income

Investment income and other income in 2007 amounted to P460.1 million, up by P155.7 million or 51.1%, from P304.4 million in 2006. The increase was comprised of realized trading gains from equity and fixed income securities in the Company's investment portfolio (P253 million), dividend income (P17.2 million) and rental income (P1.2 million). The company also incurred a foreign currency translation loss of P179.3 million in 2007 compared to a loss P90.7 million in 2006.

General and administrative expenses

General and administrative expenses ("GAE") in 2007 dropped by P74.1 million or 33.82% to P145 million from P219.2 million in 2006, which included non-recurring expenses amounting to

₱100 million relating to the merger with UMR. Non-recurring expenses in 2006 included the following: provision for doubtful accounts (₱58.0 million), alignment of retirement benefits (₱36.0 million), professional fees (₱3.0 million), and documentary stamps (₱3.0 million). Excluding the non-recurring expenses in 2006, expense ratio was flat at 12% in 2007.

Provision for income tax

Provision for income tax was up by ₱99 million consistent with the increase of income before tax.

Net Income

As a result of the above mentioned factors, net income for 2007 increased by ₱334.5 million, or 122%, to ₱609 million, compared to net income of ₱275 million for 2006.

Financial condition

Total resources increased by ₱2,401.4 million or 26.3% to ₱11,517.7 million in 2007 from ₱9,116.3 million in 2006. Material changes in the Company's resources which contributed to the increase are described below.

Reinsurance balances receivable decreased by ₱46.9 million or 1.6% to ₱2,908.8 million in 2007 from ₱2,955.7 million in 2006 due to collections made during the period. Due from ceding companies decreased from ₱2,072.9 million in 2006 to ₱1,630.8 million in 2007. However, funds held by ceding companies and reinsurance recoverable on losses increased to ₱87 million and ₱1,297.8 million in 2007 from ₱82.8 million and ₱906.8 million in 2006, respectively.

Deferred acquisition costs declined by ₱68.4 million or 24.9% to ₱206.7 million in 2007 from ₱275.1 million in 2006 due to lower commission expenses in 2007.

Investments increased by ₱1,772.1 million or 51.4% to ₱5,217.5 million in 2007 from ₱3,445.5 million in 2006. The increase resulted largely from the proceeds of the listing of the Company's shares on the PSE on April 27, 2007.

Loans and receivables increased by ₱39.1 million or 25.2% to ₱194 million in 2007 from ₱155 million in 2006 mainly due to increase in term loans (among the Company's investments) and accrued interest on available-for-sale ("AFS") investments.

Property and equipment-net increased by ₱1.3 million or 1.5% to ₱91.3 million in 2007 from ₱90 million in 2006 due to additional costs incurred in the renovation of an extension office intended for the Company's Accounting Department and new acquisition of various computers and peripherals.

Deferred reinsurance premium showed a decrease of 1.7% to ₱1,348.3 million in 2007 from ₱1,371.1 million in 2006 as portions of deferred reinsurance premiums at yearend 2006 were deemed earned under the 24th method of revenue recognition.

Deferred input value added tax decreased by ₱132.6 million or 61.9% to ₱81.6 million in 2007 from ₱214.2 million in 2006 largely because of the discontinuance of VAT on reinsurance premiums effective April 6, 2007 (BIR Revenue Regulation 4-2007).

Other assets went down by 9% or by ₱12.1 million to ₱122.6 million in 2007 from ₱134.8 million in 2006. The decrease was mainly due to disposal of a foreclosed property which was previously classified as other investment amounting to ₱12.1 million.

Total liabilities decreased by ₱444.7 million or 8% to ₱4,840.7 million in 2007 from ₱5,285.3 million in 2006. The decrease in total liabilities is explained below:

Reinsurance balances payable decreased by 6.73% or by P192.7 million to P2,671.1 million in 2007 from 2,863.9 million in 2006. The decrease was brought about by the settlement of reinsurance premiums due to retrocessionaires (from P1,537.3 million in 2006 to P981.3 in 2007). However, funds held for retrocessionaires and claims payable increased from P55.7 million and P1,270.9 million in 2006 to P61.6 million and P1,628.3 million in 2007 respectively.

Reserve for unexpired risks increased by P29.2 million or 1.6% to P1,845.5 million from P1,816.3 million due to higher volume of business accepted for 2007 compared to previous year.

Deferred reinsurance commission decreased by P97.9 million or 44.3% from P221 million in 2006 to P123.1 million in 2007 due to the related decline in commission expense.

Deferred output value added tax decreased by P168.6 million or 51.9% to P156.3 million in 2007 from P324.9 million in 2006 because reinsurance premiums were no longer subject to VAT.

Accounts payable and accrued expenses decreased by 27.5% or P16.3 million to P42.9 million in 2007 from P59.2 million in 2006. The decrease was mainly due to payment of taxes and expenses.

Deferred Income tax liabilities of P1.6 million for 2007 pertains to increase in deferred tax on deferred acquisition cost, revaluation reserve on AFS investments and excess of reserve for unexpired risk per books over tax basis.

Total equity rose by P2.8 billion largely due to proceeds of the Company's initial public offering of 741,902,600 shares at a price of P3.80 per share on April 27, 2007. Capital stock net of treasury shares grew by 63.6% or P848 million and additional paid in capital expanded 137% from P1.3 billion to P3 billion. Revaluation reserve decreased by 53.6% due to realization of gains from some of the Company's fixed income and equity investments. Retained Earnings also increased by 54.1%, reflecting earning for 2007 net of a P0.07 per share cash dividend paid on August 6, 2007 amounting to P152.7 million.

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

Income Statement items - 2007 versus 2006

14% increase in reinsurance premiums

Principally due to increase in volume of business both from life and non-life business.

9% increase in retroceded premiums

Due to higher volume of business ceded during the year.

29% increase in net premiums retained

Due to higher retention rate for casualty, fire and life businesses.

101% increase in reserve for unexpired risk

Primarily due to increase in reinsurance premiums for casualty and fire businesses.

6% increase in underwriting deductions

Due to higher number of marine claims during the year.

109% increase in net underwriting income

Due to overall improvement in loss experience and lower commission expense.

73% increase in investment and other income

Principally due to higher interest income on investments and realized trading gains from equity and fixed income securities.

34% decrease in general and administrative expenses

Principally due to non-recurring expenses in 2006 (provision for doubtful accounts, retirement benefits, professional fees and documentary stamp tax) which did not occur in 2007.

122% increase in net income.

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

Balance Sheet items - 2007 versus 2006

201.4% increase in cash and cash equivalents

Mainly due to proceeds of the Company's IPO on April 27, 2007.

24.9% decrease in deferred acquisition cost

Due to commissions booked in 2006 that were charged to commission expense in 2007.

51.4% increase in investments

Mainly due to proceeds of the Company's IPO which were invested in available-for-sale securities.

25.2% increase in loans and receivables

Due to increase in accrued investment income.

61.9% decrease in deferred input value added tax

Due to discontinuance of VAT on reinsurance premium which became effective April 6, 2007.

100% decrease in deferred tax assets

Due to prior years' minimum corporate income tax (MCIT) initially classified as deferred tax assets and subsequently claimed as deductions against taxable income and regular corporate income tax in 2007.

44.3% decrease in deferred reinsurance commissions

Due to commissions on retrocessions booked in 2006 that were charged to commission income in 2007.

51.9% decrease in deferred output value-added tax

Due to discontinuance of VAT on reinsurance premium which became effective April 6, 2007.

27.5% decrease in accounts payable and accrued expenses

Due to payment of taxes and other expenses.

100% increase in deferred income tax liabilities

Due to increase in deferred tax liabilities for the following: deferred acquisition cost, revaluation reserves on investments and excess of reserves for unexpired risk per books over tax basis.

74.3% increase in stockholders' equity

Largely due to issuance of 741,902,600 shares of stock on April 27, 2007 thru IPO.

Key Performance Indicators

	2009	2008	2007
Net Income	P 103 million	P 94 million	P609 million
Earnings per share	P .05	P .04	P .31
Retention ratio	38%	35%	28%
Combined ratio	124%	118%	78%
Return on average equity	1.7%	1.5%	11.6%

The company's key performance ratios for the last three years are described hereunder:

Net income (NI) - Net income for 2009 increased by 9.5% to P103 million from P94 million in 2008. Net Income for 2008 went down by P515 million or 85% compared to net income of P609 million in 2007.

Earnings per share (EPS) - EPS is computed by dividing net income by weighted average number of shares issued and outstanding. The company's EPS was P0.05, P0.04 and P0.31 for the years ended December 31, 2009, 2008 and 2007, respectively.

Retention ratio - indicates the total amount of business risk retained by the company, computed by dividing reinsurance premiums retained by reinsurance premiums (Gross premiums written or GPW). Retention ratio for 2009 was at 38%, which is an increase from 35% in 2008 and 28% in 2007.

Combined ratio - a measure of performance used by the Company to measure profitability of its insurance 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 in claims and expenses than it is receiving from premiums. Combined ratio is the sum of loss ratio, commission ratio and expense ratio. The combined ratio was at 124% in 2009, 118% in 2008 and 78% in 2007.

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 1.7%, 1.5% and 11.6% for 2009, 2008 and 2007 respectively.

Material Event/s and Uncertainties:

Other than the disclosures described in the preceding sections, the Company 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.

Item 7. Financial Statements

Please refer to the attached Audited Financial Statements for 2009, audited by the accounting firm of Punongbayan & Araullo, and signed by partner Mr. Leonardo D. Cuaresma, Jr.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Punongbayan & Araullo has served as the independent auditor of the Company's financial statements since 2003. 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:

	2009	2008	2007
Audit and audit-related fees	2,137,108	852,663	526,096
Other assurance and related services	73,164	-	-
Tax fees	-	-	-
Total	2,210,272	852,663	526,096

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 appointment of the external audit service provider for the subject audit year. The Board approves the appointment subject to ratification by the stockholders during the Company's annual stockholders meeting.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

(1) Directors, Including Independent Directors, and Executive Officers

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

Name	Position	Age	Citizenship
Winston F. Garcia	Chairman	51	Filipino
Helen Yuchengco - Dee	Vice Chairman	65	Filipino
Roberto B. Crisol	Director/President/Chief Executive Officer	58	Filipino
Alfonso L. Salcedo, Jr.	Director/Treasurer	54	Filipino
Yvonne S. Yuchengco	Director	56	Filipino
Noel M. Juan	Director	51	Filipino
Jose Teodoro K. Limcaoco	Director	48	Filipino
Consuelo D. Manansala	Director	56	Filipino
Romeo L. Bernardo	Independent Director	55	Filipino
Rizalino S. Navarro	Independent Director	71	Filipino
Primitivo C. Cal	Independent Director	65	Filipino

Following is the list of the Corporation's key executive officers as of the date of this report:

Name	Position	Age	Citizenship
Roberto B. Crisol	President and Chief Executive Officer	58	Filipino
Armando S. Malabanan	Executive Vice President and Chief Operating Officer	60	Filipino
John E. Huang	Senior Vice-President, Chief Financial Officer	52	Filipino
Raymundo T. Bautista	Senior Vice President, Head of Life Division and Corporate Services Division	59	Filipino
Rodolfo M. Nayve	Senior Vice President, Head of Non-Life Division	57	Filipino
Noel A. Laman	Corporate Secretary	70	Filipino
Ma. Pilar M. Pilares-Gutierrez	Assistant Corporate Secretary	33	Filipino
Eileen D. Clemente	Vice President-Non-Life (Facultative)	44	Filipino
Augusto C. Cipriano	Vice President-Life Division	56	Filipino
Amerfil V. Basco	Vice President for Reinsurance Accounting	50	Filipino
Rene de Guzman	Vice President for Information Technology Services	47	Filipino
Regina S. Ramos	Vice President for Internal	48	Filipino

	Audit		
Ma. Lourdes M. Santos	Vice President-Non-Life (Treaty)	54	Filipino
Vicente B. Villarama, Jr.	Vice President for General Accounting	52	Filipino
Marissa P. Aldeano	Vice President-Treasury and Investments	48	Filipino
Edgar B. Villasenor	Vice President-Corporate Services/Risk Management	57	Filipino
Roberto S. de Leon II	Vice President-Non-Life Marketing and Special Accounts Management	50	Filipino

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.

Business experience of the Directors and Officers during the past five (5) years/ Other directorships held in reporting companies naming each company

Winston F. Garcia, Chairman of the Board, Director of the Corporation since June 2002. Atty. Winton F. Garcia is President and General Manager of the Government Service Insurance System (GSIS), a position he has held since January 2001. He is also the Vice Chairman of the Board of Trustees of the GSIS; Chairman of GSIS Mutual Fund, Inc. since September 2002; Director of the Philippine Health Insurance Corporation since January 2001; Treasurer of the Philippine Social Security Association, Inc. since April 2006; Director of ASEAN Forum, Inc. since January 2001; Independent Director of San Miguel Corporation since February 2001; Director of the Philippine National Construction Corporation since February 2001. He is also a Member the International Social Security Association, Federation of Afro-Asian Insurers and Reinsurers, and International Insurance Society, Inc. since January 2001. He graduated with an AB in 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, Cebu City.

Helen Yuchengco-Dee, Vice-Chairman of the Board, Director of the Corporation since January 2010. Ms. Helen Y. Dee is the Chairperson of Rizal Commercial Banking Corporation. Ms. Dee is also the Chairperson and President of HyDee Management & Resource Corporation and House of Investments. She also holds Chairmanship positions in various companies, including Landev Corporation, Hi-Eisai Pharmaceutical Inc., Mapua Information Technology Center, Inc. and Manila Memorial Park. She is the Vice Chairperson of Pan Malayan Management & Investment Corporation. She likewise holds directorship positions in Philippine Long Distance Telephone Company, Petro Energy Resources Corp., Great Life Financial Assurance Corporation, Malayan Insurance Company, Inc. and MICO Equities, Inc. Ms. Dee is a Trustee of the Mapua Institute of Technology and the Yuchengco Center. She graduated from Assumption College with a Bachelor of Science degree in Commerce and completed her Masters in Business Administration at De La Salle University.

Roberto B. Crisol, Director, President and Chief Executive Officer since January 2009. Mr. Roberto B. Crisol served as Executive Vice President and COO of the Corporation from January 1, 2002 to January 31, 2007. Prior to this, he was the Deputy Regional Manager of MAPFRE RE Asian Regional Office in Manila from 1990. Mr. Crisol started his career in insurance in 1974 with the Insular Life-FGU Insurance Group as a management trainee. He subsequently joined Universal Reinsurance Corporation (URC) where he rose to the position of Vice President of the Non-Life Foreign Business & Retrocession Division. He earned his Bachelor of Arts degree major

in Economics, *cum laude*, from the University of the Philippines. He has attended various insurance, reinsurance and management courses locally as well as overseas in London, Paris and Stockholm.

Alfonso L. Salcedo, Jr., Director and Treasurer since June 2002. Mr. Salcedo is President of BPI Family Savings Bank as well as a Director of that bank since May 2004. He is also a Director of BPI/MS Insurance Corporation. He has served as President of Allstate 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 an AB degree in Economics from the Ateneo de Manila University in 1977. He also took the Advanced Management Program at the Harvard Business School in 2006.

Noel M. Juan, Director since July 2008. Mr. Noel M. Juan is Vice President of Underwriting and Claims of the GSIS, a position he has held since December 2007. He was formerly Vice President for Special Product Lines of PhilNaRe; Consultant for Bellwether Advisory, Inc.; Assistant Vice President (Head of Claims Division-All Lines) of Generali Pilipinas Insurance Co.; and Assistant Vice President (Assistant Head-Fire Underwriting Operations) of FGU Insurance Corporation. He is a licensed Mechanical Engineer and obtained his Bachelor of Science in Mechanical Engineering from the Mapua Institute of Technology.

Consuelo D. Manansala, Director since March 2010. Ms. Manansala is the Executive Vice President, Operations Sector of the GSIS. She has spent 23 years with the GSIS, occupying senior positions in the Controller Group and Operations Sector. She is also a Member of the Board of Governors of the Center for International Trade Expositions and Missions (CITEM) and a Director of GSIS Mutual Fund, Inc. She graduated with a BSBA Management degree from St. Theresa's College in 1975, a BSC Accounting degree from University of the East in 1985 and earned her MBA degree from De La Salle University in 1996. She is a Certified Public Accountant and has Career Service Professional Eligibility.

Jose Teodoro K. Limcaoco, Director since 2009. Mr. Limcaoco is the President of BPI Capital Corporation, a position he has held since April of 2007. He is also a Director of BPI Philam Life Assurance Corporation, BPI/MS Insurance Corporation and Ayala Plans, Inc. Prior to joining BPI Capital Corporation, he was Managing Director of Ayala Corporation. Mr. Limcaoco earned a Bachelor of Science degree in Mathematical Sciences (Honors Program) from Stanford University and an MBA degree, major in finance and investments from the Wharton School of the University of Pennsylvania.

Yvonne S. Yuchengco, Director since June 2006. She is 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; 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., Seafont 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 an AB degree in Communication Arts from the Ateneo de Manila University in 1977.

Romeo L. Bernardo, Independent Director since June 2006. He is 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 BS degree in 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.

Mr. Primitivo C. Cal, Independent Director since July, 2007. 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 Communications 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.

Mr. Rizalino S. Navarro, Independent Director since July, 2007. Mr. Rizalino S. Navarro is Senior Adviser and a Director of Rizal Commercial Banking Corporation. He was the Bank's Executive Vice Chairman and Chief Executive Officer from 2004 to 2007. Currently, he is Chairman (Non-Executive) of Clark Development Corp. and Member of the Subic-Clark Area Development Council. He is also Chairman of EEI Corporation, Seafront Resources Corporation, Petroenergy Corporation, Bankard, Inc., and a Director of Great Pacific Life Assurance Corporation, Mapua Institute of Technology, House of Investments, Malayan Insurance, YGC Corporate Services, and Upline Food Corporation. He has held various positions in the government including that of Secretary of Trade and Industry and member of the Monetary Board. Mr. Navarro graduated from the University of the East with a Bachelor of Science degree in Business Administration. He received his Masters in Business Administration from Harvard Business School.

Noel A. Laman, Corporate Secretary since June 2007. He is the Chairman of the Executive Committee and a Senior Partner of Castillo Laman Tan Pantaleon & San Jose Law Offices. He is the Corporate Secretary of DMCI Holdings, Inc. and DMCI Power Corporation. His other positions include: Chairman of the Board of Directors of Trans-Orient Overseas Contractors, Inc., Manpower Resources of Asia, Inc., and Sealanes Marine Services (each being a part of the DCL group of Companies); Regular Director and Corporate Secretary of GlaxoSmithKline Philippines Inc, Boehringer Ingelheim (Phils.), Inc., Solvay Pharma, Inc., Philippines, and Merck, Inc. He is an active member of the Intellectual Property Association of the Philippines, the Intellectual Property Foundation, the Philippine Bar Association, and as resource person of various foreign chambers of commerce.

Ma. Pilar M. Pilares-Gutierrez, Assistant Corporate Secretary since December, 2002. She is presently a Partner at Castillo Laman Tan Pantaleon San Jose Law Offices. She obtained her Bachelor of Science degree major in Legal Management from the Ateneo de Manila University in 1997 and her Bachelor of Laws Degree from the University of the Philippines, College of Law in 2001. She holds the position of Corporate Secretary/Assistant Corporate Secretary in various other Philippine corporations.

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 various department including Life, Claims, Human Resources, Corporate Planning, Finance and Administration. Prior to joining the Company, he was a Vice President 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.

Amando S. Malabanan, Executive Vice President and Chief Operating Officer. He joined the Company on March 1, 2007. Prior to joining PhiNaRe, he was the General Manager and CEO of Asian Reinsurance Corporation and Chief Accountant of the Charter Insurance Company (now Philippine Charter Insurance Company). 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 in 1969. Mr. Malabanan is a Certified Public Accountant.

John E. Huang, Senior Vice President, Chief Financial Officer. He joined UMRc in 2004 as its Chief Finance Officer. Prior to joining UMRc, he held the positions of 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, *magistra cum laude*, from the Ateneo de Manila University in 1978, and obtained his Masters degree in Business Administration from the Harvard Business School in 1982.

Rodolfo M. Nayvo, Senior Vice President, Head of Non-Life Division. He joined URC in 1974 and was Vice President and Head of the Non-Life Division of UMRc before the merger with the Company. He graduated with a Bachelor of Science Degree in Business Administration from the Philippine School of Business Administration in 1974. He has also attended the Advanced Insurance Management Course at the Asian Institute of Management.

Augusto C. Cirnano, Vice President, Life Division. He joined URC in 1981 and became Vice President and Head of that company's Life Division in 1997. He completed a degree in AB Economics at the Ateneo de Manila University in 1973. He is also an instructor/lecturer at the Insurance Institute for Asia & the Pacific ("IIAP").

Eileen D. Clemente, Vice President – Non Life (Facultative). Prior to joining the Company in February 2010, Ms. Clemente held the positions of Assistant Vice President of Generali Pilipinas Insurance Co. handling the Consumer Lending Group of Banco de Oro, Senior Assistant Vice President of Philam Insurance Company Inc (now Chartis Insurance Company) as the Profit Center Manager for Property, and Underwriting Manager of FGU Insurance Corporation. She graduated from De La Salle University in 1996 with a Bachelor of Science degree in Applied Mathematics.

Amertil V. Basco, Vice President for Reinsurance Accounting. Ms. Basco has served in various capacities in the Corporation for over 17 years. She is a Certified Public Accountant and obtained her Bachelor of Science in Commerce, Major in Accounting from the Far Eastern University in 1982.

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 & Co. She is a Certified Public Accountant as well as a Certified Internal Auditor. She obtained her Bachelor of Science in Commerce, major in Accounting from St. Paul College, Manila in 1982.

Ma. Lourdes M. Santos, Vice President-Non-Life (Treaty). Ms. Santos has been with the Corporation since 1994. She was previously employed with the Rizal Empire Insurance Co., and the Cologne Reinsurance Company (Manila Representative Office). She obtained her Bachelor of Commercial Science degree from Jose Rizal University in 1978.

Vicente B. 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 obtained his Bachelor of Science in Commerce, major in Accounting from the Baluag University in 1982.

Marissa P. Aldeano, Vice President for Treasury and Investments. Ms. Aldeano joined URC in 1982 and was head of UMRc's General Accounting Department prior to the merger with the

Company. She is a Certified Public Accountant and obtained her Bachelor of Science in Commerce, major in Accounting from the University of Santo Tomas.

Edgar B. Villasenor, Vice President for Corporate Services and Risk Management. Mr. Villasenor served in various capacities with URC and UMRe and was head of the latter's MIS Department prior to the merger with the Company. He graduated with a Bachelor of Arts degree, Major in Political Science from Far Eastern University in 1973.

Roberto S. De Leon II, Vice President for Non-Life Marketing and Special Accounts Management, Mr. De Leon joined FGU Insurance Corporation as a Management Trainee in 1982 before joining URC in 1989 as Assistant Manager, handling marketing and underwriting for both treaty and facultative accounts. He graduated from the De La Salle University with a Bachelor of Science degree in Commerce, major in Marketing, in 1982.

Rene De Guzman, Vice President for Information Technology Services. Mr. De Guzman joined PhilNaRe in March 2009. Prior to joining the Company, he was a lecturer for the Masters in Management Program of the University of the Philippines Extension Program in Clark and Subic. He was Information Technology Manager at Janssen Pharmaceutica, a division of Johnson & Johnson, Phils., Inc. from 1994 to 2008. He obtained his Master's Degree in Business Administration in 2007 and Master's Degree in Information Management in 2004, both from the Ateneo de Manila University. He graduated with a degree Bachelor of Science in Industrial Engineering from the University of the Philippines in 1984.

(2) 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 with the Company upon termination.

(3) Family Relationships

Ms. Helen Yuchengco-Dee and Ms. Yvonne S. Yuchengco, both directors of the Corporation, are sisters, and thus, are related to each other within the second degree of consanguinity.

(4) Involvement in Certain 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 report 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.

Item 10. Executive Compensation

ANNUAL COMPENSATION IN PHILIPPINE PESOS

Name	Year	Salary	Bonus	Other annual compensation	Total
CEO and key executive officers named	2008	16,139,707	5,299,799	2,237,510	23,677,016
All other officers and directors as a group unnamed		18,076,174	14,196,318	5,693,227	37,965,719
CEO and key executive officers named	2009	18,808,800	3,059,800	823,468	22,692,068
All other officers and directors as a group unnamed		16,389,204	2,731,534	4,953,643	24,074,381
CEO and key executive officers named	2010 (Estimates)	19,379,040	3,229,840	1,091,532	23,700,412
All other officers and directors as a group unnamed		17,941,140	2,990,190	5,141,447	26,072,777

Officers and directors named for 2009 include the following:

1. Roberto B. Crisol, President and CEO
2. Armando Malabanan, Executive Vice President and COO;
3. John E. Huang, Senior Vice President and CFO;
4. Rodolfo M. Nayve, Senior Vice President; and
5. Raymundo T. Bautista, 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 after tax of the corporation during the preceding year."

Each director of the Corporation receives a per diem based on the following schedule for attendance in meetings of the Board of Directors/ Committees:

A. Board Meetings	
Chairman	₱ 50,000
Vice-Chairperson	45,000
Director/Treasurer	37,500
Independent Directors	20,000
Regular Directors	17,000

B. Committees' Meetings	
Independent Directors	₱ 6,000
Regular Directors	5,000

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. Roberto B. Crisol, and the current Executive Vice President and Chief Operating Officer, Mr. Armando S. Malabanan have employment contracts. The contract with Mr. Crisol has a term of three years, which will expire on December 31, 2011. The contract with Mr. Malabanan has a term of five years, which will expire in February 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 11. Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

The following table sets forth as of December 31, 2009, 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	Bank of Philippine Islands, Ayala Avenue corner Paseo de Roxas, Makati City	Bank of Philippine Islands, Ayala Avenue corner Paseo de Roxas, Makati City	Filipino	290,795,500	13.46%
Common	PCD Nominee Corporation (Filipino) ¹ , G/F MSE Building, 6754 Ayala Avenue, Makati City	Government Service Insurance System ² , New GSIS Headquarters, Financial Center, Pasay City	Filipino	523,628,200	24.25%
Common	MICO Equities Inc., Yuchengco Bldg., 484 Quintin Paredes Street Manila	MICO Equities Inc., Yuchengco Bldg., 484 Quintin Paredes Street Manila	Filipino	260,448,000	12.06%

^{1,2}The PCD is not related to the Company. The 523,628,200 shares beneficially owned by GSIS form part of the 1,440,185,320 shares registered in the name of PCD Nominee Corporation (Filipino).

(2) Security Ownership of Management

The following table sets forth as of Dec. 31, 2009, the record or beneficial stock ownership of each Director of the Corporation and all Officers and Directors as a group.

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	0.020480%

Common	GSIS (assigned to Winston F. Garcia as nominee director)	100 Beneficial	Filipino	.000005%
Common	Adelita Vergel de Dios ¹	171,500 Record	Filipino	0.007941%
Common	Alfonso Salcedo	1,316,000 Record	Filipino	0.060935%
Common	FGU Insurance Corporation (assigned to Alfonso L. Salcedo, Jr. as nominee director)	100 Beneficial	Filipino	.000005%
Common	Yvonne Yuchengco	26,000 Record	Filipino	0.001204%
Common	Malayan Insurance Company, Inc. (assigned to Yvonne S. Yuchengco as nominee director)	100 Beneficial	Filipino	.000005%
Common	Noel M. Juan	2000 Record	Filipino	.000093%
Common	Emilio S. De Quiros ²	282,749 Record	Filipino	.013092%
Common	Bank of Philippine Islands (assigned to Emilio S. de Quiros ² as nominee director)	100 Beneficial	Filipino	.000005%
Common	GSIS (assigned to Josefina L. Valera ³ as nominee director)	100 Beneficial	Filipino	.000005%
Common	Romeo L. Bernardo	100 Record	Filipino	.000005%
Common	Primitivo C. Cal	100 Record	Filipino	.000005%
Common	Rizalino S. Navarro	710,000 Record	Filipino	.032875%
	TOTAL FOR DIRECTORS	2,951,249		.136652%
Common	Armando Malabanan	600,000 Record	Filipino	0.027782%
Common	Raymundo T. Bautista	106,500 Record	Filipino	0.004931%
Common	Rodolfo Nayve	53,000 Record	Filipino	0.002454%
Common	Buenaventura P. Duran ⁴	146,000 Record	Filipino	0.006760%
Common	Amerfil V. Basco	31,800 Record	Filipino	0.001472%
Common	Edgar Villasenor	50,000 Record	Filipino	0.002315%
Common	Vicente B. Villarama, Jr.	12,800 Record	Filipino	0.000593%
	TOTAL FOR OTHER OFFICERS	1,000,100		0.046308%
	GRAND TOTAL	3,951,349		.182960%

¹Resigned as of January 21, 2010.

²Resigned as of June 22, 2009.

³Resigned as of March 4, 2010.

⁴Resigned as of February 28, 2010.

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.

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.

Changes in Control

From January 1, 2010 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 12. Certain Relationships and Related Transactions

The following table presents (in millions of Philippine Pesos) premiums written (inward) and ceded (outward), receivables and payables between the Corporation, its Principal Shareholders and companies represented by other members of the Board of Directors for 2008 and 2009:

SHAREHOLDER/ DIRECTOR CORPORATION	2008				2009				
	In Million PHP	Inward	Outward	Receivable	Payable	Inward	Outward	Receivable	Payable
GSIS		1,296.5	(7.90)	539.4	(36.5)	1,062.9	(16.70)	310.0	(55.1)
Ayala Life Assurance, Inc.		48.8	3.10	(3.8)	(.8)	18.0	2.86	(6.7)	-
BPI/MS Insurance Corporation		161.2		48.0	(7.4)	140.6	.14	27.3	(3.1)
FGU Insurance Corporation		-	-	.04	.30	(1.0)	-	(.70)	.33
Total BPI Group		210.0	3.10	44.24	(7.9)	157.6	3.00	19.90	(2.77)
First Nationwide Assurance Corp.		-	-		-	-	-		-
Great Pacific Life Assurance Corp.		14.10	.80	3.9	(.50)	23.0	2.20	4.5	.54
Malayan Insurance Company, Inc.		228.90	71.80	33.4	9.0	54.9	64.90	12.4	20.9
Malayan Zurich Insurance Company, Inc.		-	-	(.12)	.03	-	-	(.13)	-
Tokio Marine Malayan Insurance Corporation		19.9	-	2.1	(.09)	15.1	(.1)	2.1	(.07)
Total Malayan Group		262.90	72.60	39.28	8.44	93.0	67.00	18.87	21.37

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.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

The Company is committed to the principles and practices of good corporate governance. The Company's Revised Manual on Corporate Governance was filed with the Insurance Commission and the Securities and Exchange Commission on April 13, 2010 in compliance with SEC Circular No. 6, series of 2009, as well as the Insurance Commission's Circular No. 31-2005 on corporate governance. The Manual provides for Board committees directly involved in issues of good corporate governance.

The Audit Committee of the Board of Directors is composed of three independent directors and its responsibilities include, among other things, monitoring the system of internal controls and corporate compliance with laws, regulations and code of ethics.

The Nomination and Compensation Committee of the Board of Directors is composed of three directors at least one of whom must be an independent director. The Committee reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other position requiring appointment by the Board. Relative to compensation, the Committee provides a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration of corporate officers and directors. It also provides oversight for over remuneration of senior management and other key personnel.

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.

The Company continues to improve corporate governance practice through continuous training of directors, officers and employees as well as through other initiatives. In 2009, the Company implemented an Enterprise Risk Management Process, which is an organization-wide approach to the identification, assessment, communication and management of enterprise risk, defined as issues which may prevent the Company from achieving its strategic objectives. This process has been fully integrated into the Company's operations and is overseen by a Risk Management Council, comprised of members of senior management. In addition, a Risk Management Committee has been established by the Company's Board of Directors to assist the Board in the development and oversight of the Company's risk management program. The Risk Management Council is required to provide the Board with a comprehensive enterprise risk assessment at least annually and to establish plans to ensure that risks are being managed and monitored effectively. The Risk Management Committee's main task is to oversee that risk management is an integral part of the planning and operations of the Company in order to meet corporate goals and objectives.

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.

PART V – EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports

(a) Exhibits – See accompanying Index of Exhibits

(b) Reports on SEC Form 17-C

Items reported under SEC Form 17C during the last six months include the following:

- December 31, 2009 re: Secretary's Sworn Certification on the attendance in Board meetings of each director for the year 2009, pursuant to Section 16, SEC Memorandum Circular No. 3, series of 2007..
- January 21, 2010 re: disclosure on the resignation of Atty. Adelita A. Vergel De Dios as Director and Vice-Chairman of the Corporation and the election of her replacement, Ms. Helen Yuchengco-Dee, as Director and Vice-Chairman of the Company effectively immediately, to serve as such for the unexpired term of Atty. Vergel De Dios. Ms. Dee likewise replaced Atty. Vergel De Dios in the following board committees: (a) Vice-Chairman, Underwriting Committee, (b) Member, IT Special Board Committee, (c) Board Representative, IT Steering Committee, and (d) Member, Risk Management Committee. Atty. Vergel De Dios was appointed as adviser of the Company. The retirement of the Assistant Corporate Secretary of the Corporation, Atty. Zenaida L. Salipsip, was also disclosed as well as the Board approval to reschedule the Annual Stockholders' Meeting from June 28, 2010 to June 29, 2010 at 3:00 p.m.

- February 18, 2010 re: disclosure of the Company's Annual Stockholders' Meeting to be held on June 29, 2010 (Tuesday) to be held at the SGV Hall, 3/F AIM Conference Center, Benavidez corner Trasierra Streets, Legaspi Village, Makati City. The record date shall be May 17, 2010.
- March 18, 2010 re: disclosure on the election of Ms. Consuelo Manansala as Director of the Corporation and as member of the following board committees: (a) Investment and Budget Committee, and (b) IT Special Board Committee effective immediately to serve as such for the unexpired term of her predecessor, Ms. Josefina Valera.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 28, 2010.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
Issuer

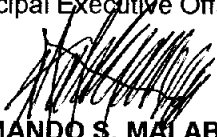
By:



ROBERTO B. CRISOL
Principal Executive Officer (CEO)



JOHN E. HUANG
Principal Financial Officer (CFO)



ARMANDO S. MALABANAN
Principal Operating Officer (EVP/COO)



VICENTE B. VILLARAMA, JR.
Principal Accounting Officer



NOEL A. LAMAN
Corporate Secretary

SUBSCRIBED AND SWORN to before me this 28th day of April 2010 affiant(s) exhibiting to me their Residence Certificates, as follows:

<u>NAMES</u>	<u>RES. CERT. NO.</u>	<u>DATE OF ISSUE</u>	<u>PLACE OF ISSUE</u>
Roberto B. Crisol	28596085	Jan. 27, 2010	Makati City
Armando S. Malabanan	01001698	Jan. 21, 2010	Makati City
John E. Huang	03479534	Jan. 08, 2010	Pasig City
Vicente B. Villarama	28596967	Jan. 22, 2010	Makati City
Noel A. Laman	28599101	Jan. 25, 2010	Makati City



ATTY. LOPE M. VELASCO

NOTARY PUBLIC

Until Dec. 31, 2011

TR O.R. No. 2087649 - Makati City

BP O.R. No. 803499 - Pasig City

TIN 212-965-939

Roll No. 28757

Doc. No.: 516
Page No.: 105
Book No.: 192
Series of 2010.

EXHIBIT TABLE

SECURITIES REGULATION CODE FORMS

	Description	17-A
3	Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession	n.a.
5	Instruments Defining the Rights of Security Holders, Including Indentures	n.a.
8	Voting Trust Agreement	n.a.
10	2008 Financial Statements and Independent Auditors' Report (with notarized Statement of Management Responsibility and SEC Supplementary Schedules)	Attached
13	Letter re: Change in Certifying Accountant	n.a.
15	Letter re: Change in Accounting Principles	n.a.
16	Report Furnished to Security Holders	n.a.
18	Subsidiaries of the Registrant	n.a.
19	Published Report Regarding Matters Submitted to Vote of Security Holders	n.a.
20	Consents of Experts and Independent Counsel	n.a.
21	(a) Power of Attorney (b) Power of Attorney—Foreign Registrant	n.a.
29	Additional Exhibits	n.a.

n. a. Not applicable or require no answer.



Punongbayan & Araullo

Member firm within Grant Thornton International Ltd

Financial Statements and
Independent Auditors' Report

National Reinsurance Corporation of the Philippines

December 31, 2009, 2008 and 2007



Punongbayan & Araullo

Report of Independent Auditors

26th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 886-5511
F +63 2 886-5506; +63 2 886-5507
www.punongbayan-araullo.com

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

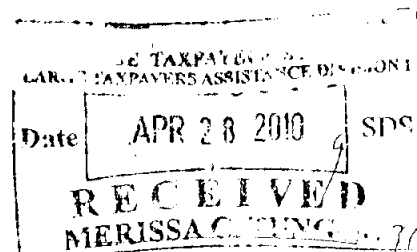
We have audited the accompanying financial statements of National Reinsurance Corporation of the Philippines, which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of income, comprehensive income, changes in equity and cash flows for each of the three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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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



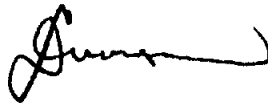
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

Opinion

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

PUNONGBAYAN & ARAULLO



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

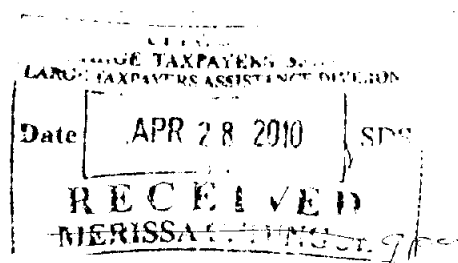
Firm BOA/PRC Cert. of Reg. No. 0002
Firm SEC Accreditation No. 0002-FR-2

April 21, 2010

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008
(Amounts in Philippine Pesos)

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

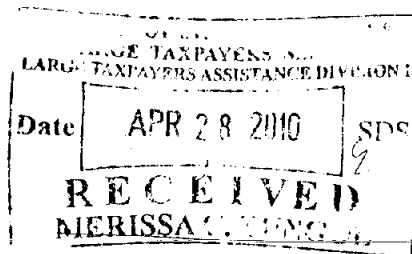
See Notes to Financial Statements.



NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2009	2008	2007
REINSURANCE PREMIUM INCOME				
Reinsurance premiums - net of returns	19	P 3,538,375,311	P 4,493,504,395	P 4,316,582,453
Retroceded premiums	19	<u>2,185,981,710</u>	<u>2,913,546,920</u>	<u>3,089,227,573</u>
Reinsurance premiums retained		1,352,393,601	1,579,957,475	1,227,354,880
Decrease (increase) in reserve for unearned reinsurance premiums	10	<u>118,471,598</u>	<u>(28,617,613)</u>	<u>(52,098,520)</u>
		<u>1,470,865,199</u>	<u>1,551,339,862</u>	<u>1,175,256,360</u>
UNDERWRITING DEDUCTIONS				
Share in claims and losses	14	1,032,572,094	1,235,916,617	609,018,943
Commissions - net	14	<u>406,973,774</u>	<u>387,202,440</u>	<u>175,325,371</u>
		<u>1,439,545,868</u>	<u>1,624,119,057</u>	<u>784,344,314</u>
NET UNDERWRITING INCOME (LOSS)		<u>31,319,331</u>	<u>(72,779,195)</u>	<u>390,912,046</u>
INVESTMENT AND OTHER INCOME - Net	13	<u>466,656,885</u>	<u>449,195,685</u>	<u>460,000,356</u>
PROFIT AFTER INVESTMENT AND OTHER INCOME		<u>497,976,216</u>	<u>376,416,490</u>	<u>851,012,402</u>
GENERAL AND ADMINISTRATIVE EXPENSES	15	<u>325,072,508</u>	<u>211,654,086</u>	<u>145,042,933</u>
PROFIT BEFORE TAX		<u>172,903,708</u>	<u>164,762,404</u>	<u>705,969,469</u>
TAX EXPENSE	17	<u>69,864,351</u>	<u>70,318,983</u>	<u>96,556,113</u>
NET PROFIT		<u>P 103,039,357</u>	<u>P 94,443,421</u>	<u>P 609,413,356</u>
Earnings Per Share	22	<u>P 0.05</u>	<u>P 0.04</u>	<u>P 0.31</u>

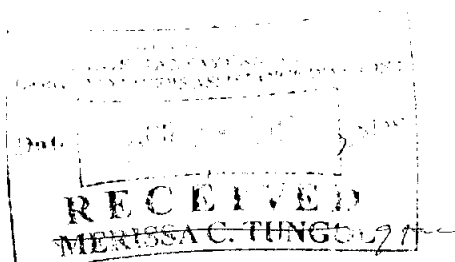
See Notes to Financial Statements.



NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

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

See Notes to Financial Statements.



NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 172,903,708	P 164,762,404	P 705,959,469
Adjustments for:				
Interest income	13	(382,426,619)	(375,001,848)	(340,942,749)
Impairment losses	6	128,325,407	32,795,155	-
Increase (decrease) in reserve for unearned reinsurance premiums	10	(118,471,598)	28,617,643	52,098,520
Dividend income		(29,972,727)	(29,972,727)	(17,161,730)
Unrealized foreign currency loss (gain)		25,264,356	(71,027,129)	81,036,843
Depreciation	9, 11	10,765,008	11,136,989	10,157,716
Operating income (loss) before working capital changes		(193,612,465)	(238,689,543)	491,158,059
Decrease (increase) in reinsurance balances receivable		1,330,812,182	(1,471,828,939)	86,859,634
Decrease in loans and receivables		66,534,371	7,249,688	39,359,982
Decrease (increase) in deferred acquisition costs		24,184,633	(8,773,478)	(29,479,995)
Decrease in deferred input value added tax		9,499,741	17,998,397	132,628,679
Decrease (increase) in other assets		(6,380,376)	10,849,240	(2,223,396)
Increase (decrease) in reinsurance balances payable		(1,219,616,664)	2,027,975,256	(148,456,533)
Increase (decrease) in accounts payable and accrued expenses		(11,038,073)	2,573,765	16,291,675
Decrease in deferred output value-added tax		(67,063,214)	(46,947,910)	(168,575,443)
Cash generated from (used in) operations		(66,679,865)	299,506,476	381,979,324
Cash paid for income taxes		(69,499,923)	(73,063,054)	(68,947,956)
Net Cash From (Used in) Operating Activities		(136,179,788)	226,441,422	316,031,368
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal/maturities of:				
Available for sale financial assets	7	3,747,134,327	1,333,553,912	200,227,592
Property and equipment	9	-	355,300	306,648
Interest received		373,618,987	371,547,597	250,580,727
Dividends received		29,972,727	24,429,144	17,161,730
Disposals (acquisitions) of:				
Available for sale financial assets	7	(4,327,663,119)	(1,675,082,737)	(2,279,359,092)
Property and equipment	9	(52,027,672)	(4,381,113)	(9,474,793)
Investment property	11	-	-	12,068,163
Net Cash From (Used in) Investing Activities		(228,964,750)	50,222,303	(1,808,489,083)
CASH FLOWS FROM FINANCING ACTIVITIES				
Acquisitions/payments of:				
Dividends	18	(86,387,104)	(436,399,920)	(152,736,822)
Treasury shares	18	-	(40,081,811)	(103,436,976)
Proceeds from issuance/reissuance of:				
Common shares	1	-	-	2,337,678,218
Treasury shares	18	-	-	358,076,611
Net Cash From (Used in) Financing Activities		(86,387,104)	(476,472,731)	2,439,581,033
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		(14,367,486)	2,451,642	(47,045,007)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(465,899,428)	(197,351,364)	900,978,307
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,149,558,287	1,346,912,651	446,834,344
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 683,659,159	P 1,149,558,287	P 1,346,912,651

See Notes to Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 General

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

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

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

1.2 Initial Public Offering

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

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

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

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

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

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

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

- (ii) PFRS 7 (Amendment), *Financial Instruments: Disclosures*. The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of financial position. These fair value measurements are categorized into a three-level fair value hierarchy, which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows. The change in accounting policy only results in additional disclosures (see Note 3.2).
- (iii) 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to International Financial Reporting Standards 2008* which became effective for the annual periods beginning on or after January 1, 2009. Among those improvements the following are the amendments relevant to the Company:
 - PAS 36 (Amendment), *Impairment of Assets*. Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The amendment has no significant effect on the 2009 financial statements as there were no impairment losses on assets recognized using discounted cash flows approach.

- PAS 40 (Amendment), *Investment Property*. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value. The adoption had no material effect on its 2009 financial statements as the Company has no property under construction or development for future use as investment property.

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

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

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

(c) *Effective Subsequent to 2009*

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

- (i) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective on or before January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19 surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its financial statements because it does not usually make substantial advance contribution to its retirement fund.
- (ii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective on or after July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:
- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;
 - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
 - if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
 - the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

- (iii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *2009 Improvements to Philippine Financial Reporting Standards*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009 or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Company's financial statements:
- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not have a material impact on the financial statements since only recognized assets are classified by the Company as cash flow from investing activities.
 - PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. Management has initially determined that this will not have material impact on the financial statements since the Company does not enter into a lease agreement that includes both land and building.
 - PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The Amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment prospectively but expects to have no significant effects in its 2010 financial statements.

2.3 Financial Assets

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

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

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

(a) *Loans and Receivables*

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

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

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

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

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

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

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

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

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

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

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

2.4 Property and Equipment

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

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

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

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

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

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

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

2.5 Investment Property

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

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

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

2.6 Financial Liabilities

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

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

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

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

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

2.7 Provisions

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

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

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

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

2.8 Revenue Recognition

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

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

2.9 Claim Costs Recognition

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

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

2.10 Acquisition Costs

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

2.11 Commissions on Retrocessions

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

2.12 Leases

The Company accounts for its leases as follows:

(a) Company as Lessee

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

(b) Company as Lessor

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

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

2.13 Foreign Currency Transactions

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

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

2.14 Impairment of Non-financial Assets

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

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

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

2.15 Employee Benefits

(a) Post employment Benefits

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

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

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

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

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

(b) *Compensated Absences*

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

2.16 Income Taxes

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

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

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

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

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

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

2.17 Equity

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

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

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

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

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

2.18 Earnings Per Share

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of Available for sale Financial Assets

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

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

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

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

(c) Operating and Finance Leases

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

(d) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 27 and relevant disclosures are presented in Note 23.

3.2 Key Sources of Estimation Uncertainty

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

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

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

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

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

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

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

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

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

(d) *Impairment of Non-financial Assets*

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

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

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

The Company adopted the amendments to PFRS 7, *Improving Disclosures about Financial Instruments*, effective January 1, 2009. These amendments require the Company to present certain information about financial instruments measured at fair value in the statement of financial position. In the first year of application, comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for December 31, 2009.

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

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

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

As of December 31, 2009, the available for sale financial assets are the only financial assets (nil for liabilities) measured at fair value in the statement of financial position. The fair values of available for sale financial assets amounted to P5,971,714,190 and P16,961,974 determined using Level 1 and Level 3 of the fair value hierarchy, respectively.

(f) Realizable Amount of Deferred Tax Assets

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

(g) Retirement and Other Benefits

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

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

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

4.1 Reinsurance Risk

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

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

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

	<u>Reinsurance Premiums</u>	<u>Retroceded Premiums</u>	<u>Retention</u>
December 31, 2009			
Casualty	P 1,651,954,464	P 1,211,491,631	P 440,462,833
Fire	971,167,470	578,473,322	392,694,148
Marine and aviation	384,081,749	168,934,964	215,146,785
Life	<u>531,171,628</u>	<u>227,081,293</u>	<u>304,089,835</u>
	<u>P 3,538,375,311</u>	<u>P 2,185,981,710</u>	<u>P 1,352,393,601</u>

		<u>Reinsured:</u> <u>Premiums</u>		<u>Retroceded</u> <u>Premiums</u>		<u>Retention</u>
December 31, 2018						
Casualty	P	2,254,804,278	P	1,823,281,187	P	431,523,091
Fire		944,039,580		593,294,587		350,744,993
Marine and aviation		784,010,071		262,731,015		521,279,056
Life		<u>510,650,466</u>		<u>234,240,131</u>		<u>276,410,335</u>
	P	<u>4,493,504,395</u>	P	<u>2,913,546,920</u>	P	<u>1,579,957,475</u>
December 31, 2017						
Fire	P	1,387,159,988	P	1,034,189,507	P	352,970,481
Marine and aviation		439,163,859		197,208,733		241,955,126
Casualty		2,042,102,760		1,660,547,509		381,555,251
Life		<u>448,155,846</u>		<u>197,281,824</u>		<u>250,874,022</u>
	P	<u>4,316,582,453</u>	P	<u>3,089,227,573</u>	P	<u>1,227,354,880</u>

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

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

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

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

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

	Outstanding Claims	Retrocessionaires' Share in Claims	Net
December 31, 2009			
Fire	P 1,371,288,710	P 848,145,301	P 523,143,409
Marine and aviation	782,941,752	282,565,060	500,376,692
Casualty	837,043,779	615,604,278	221,439,501
Life	56,823,130	13,914,215	42,908,215
	P 3,048,097,371	P 1,760,229,554	P 1,287,867,817
December 31, 2008			
Marine and aviation	P 1,214,932,522	P 708,955,720	P 505,976,802
Casualty	1,142,332,966	946,099,332	196,233,634
Fire	1,112,747,503	735,371,100	377,376,403
Life	46,223,606	12,873,227	33,350,379
	P 3,516,236,597	P 2,403,299,379	P 1,112,937,218
December 31, 2007			
Fire	P 796,152,818	P 269,838,565	P 526,314,253
Marine and aviation	438,462,914	136,536,567	301,926,347
Casualty	743,433,231	613,561,645	129,871,586
Life	50,264,817	16,522,560	33,742,257
	P 1,628,313,780	P 1,036,459,337	P 591,854,443

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

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

4.2 Credit Risk

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

	Notes	2009	2008
Cash and cash equivalents		P 683,624,091	P 1,149,523,219
Reinsurance balances receivable - net	6	2,874,413,754	4,153,404,620
Available for sale financial assets	7	5,272,721,479	4,775,833,605
Loans and receivables	8	253,464,887	195,738,148
		P 9,084,224,211	P 10,374,499,592

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

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

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

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

4.3 Liquidity Risk

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

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

	<u>Current</u>	<u>Non-current</u>
Reinsurance balances payable	P2,928,815,618	P 659,066,378
Accounts payable and accrued expenses	<u>9,198,755</u>	<u> </u>
	<u>P2,938,014,373</u>	<u>P 659,066,378</u>

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

	<u>Current</u>	<u>Non-current</u>
Reinsurance balances payable	P3,841,246,415	P 864,389,122
Accounts payable and accrued expenses	<u>14,692,460</u>	<u> </u>
	<u>P3,855,945,875</u>	<u>P 864,389,122</u>

4.4 Market Risk

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

(a) Foreign Currency Risk

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

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

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

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

	2009		2008	
	US Dollar	Other Currencies	US Dollar	Other Currencies
Financial assets	P 1,327,682,834	P 154,884,386	P 1,529,276,678	P 180,140,325
Financial liabilities	(448,921,891)	(11,274,471)	(729,642,349)	(22,151,722)
Total net exposure	P 878,760,943	P 143,609,915	P 799,634,329	P 157,988,603

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

	Reasonably possible change in rate	2009		2008	
		Effect on profit before tax	Effect in adjusted	Reasonably possible change in rate	Effect on profit before tax
PH - US					
Dollars	30.36%	(P 178,951,225)	(P 179,263,866)	30.13%	(P 264,131,337)
PH - Indonesia					
Rupiah	35.86%	(15,038,414)	10,526,883)	36.19%	(17,594,921)
PH - Euro	31.23%	(9,751,156)	6,803,095)	41.66%	(14,451,581)
PH - South Korean					
Won	47.83%	(8,621,630)	6,036,540)		
PH - Thailand/Bah	17.33%	(3,271,286)	2,290,250)	51.39%	(11,251,361)
PH - Malaysia					
Ringgit	13.15%	(1,737,289)	1,203,002)	23.11%	(3,662,197)
PH - Singapore					
Dollars	15.42%	(948,966)	661,276)	15.11%	(1,056,836)
PH - South African					
Rand	47.24%	(919,444)	642,909)	21.88%	(3,636,945)
PH - Indian Rupee	24.40%	(529,838)	376,887)	29.19%	(6,539,271)
PH - Pakistan Rupee	26.12%	(856,951)	109,866)	11.15%	(41,946,111)
PH - Hongkong					
Dollars	19.49%	(101,093)	70,063)	26.19%	(21,266,111)
PH - New Zealand					
Dollars	53.41%	64,237)	44,966)		
PH - Income Tax	44.67%	(34,688)	24,282)	12.16%	(9,671,556)
PH - Canada Dollar	33.40%	(12,611)	8,521)		
PH - Hong Kong	41.33%	1,521)	926)	11.15%	(27,631,111)
PH - Australian Dollar	39.81%	(59)	41)	51.91%	(111)
PH - China Yuan	-			47.99%	(2,275,911)
PH - Argentina Euro	-			28.15%	(1,867,111)
PH - Nigerian Rupee	-			31.98%	(599,611)
PH - Sri Lanka Rupee	-			25.69%	(18,364)
Total		(P 229,125,665)	(P 158,087,964)		(P 324,571,583)

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

(b) *Market Price Risk*

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

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

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

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

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

	2009		2008	
	Observed Volatility Rates	Effect in Other Comprehensive Income	Observed Volatility Rates	Effect in Other Comprehensive Income
Government bonds	3.01%	P 93,326,942	3.17%	P 227,177,263
Equity securities listed in the Philippines:				
Common shares	22.84%	118,664,696	33.11%	138,363,341
Preferred shares	1.82%	1,808,541	1.84%	1,829,991
Mutual funds	6.90%	5,703,525	14.5%	8,431,360
Corporate bonds	8.01%	1,022,115	0.88%	792,716
		P 219,401,219		P 475,022,172

(c) *Interest Rate Risk*

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

5. CASH AND CASH EQUIVALENTS

This account consists of:

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

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

6. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

	<u>2009</u>	<u>2008</u>
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	P 1,760,229,554	P 2,403,299,579
Due from ceding companies	912,656,154	1,668,805,661
Reinsurance recoverable on paid losses	349,601,459	308,841,014
Funds held by ceding companies	<u>119,846,620</u>	<u>112,053,192</u>
	3,142,333,787	4,492,999,246
Allowance for impairment	(<u>267,920,033</u>)	(<u>139,594,620</u>)
	<u>P 2,874,413,754</u>	<u>P 4,353,404,626</u>

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

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

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

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

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

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2009</u>	<u>2008</u>
Bonds	P 5,187,509,694	P 4,720,548,819
Equity securities	699,052,711	424,397,280
Investment in Asian Re-shares	76,961,974	84,355,004
Various funds	<u>85,241,785</u>	<u>55,284,786</u>
	<u>P 6,048,736,164</u>	<u>P 5,284,585,889</u>

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

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

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

	<u>2009</u>	<u>2008</u>
Due within one year	P 167,282,197	P 440,727,669
Due after one year through five years	2,855,765,781	3,280,497,987
Due after five years through ten years	2,126,627,642	762,614,423
Due after ten years	<u>37,834,074</u>	<u>236,712,820</u>
	<u>P 5,187,509,694</u>	<u>P 4,720,548,819</u>

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

	<u>2009</u>	<u>2008</u>
Cost:		
Quoted in the stock exchange	P 530,478,088	P 454,979,357
Not quoted in the stock exchange:	<u>194,543,557</u>	<u>135,608,314</u>
	<u>725,021,645</u>	<u>590,587,671</u>
Fair value losses:		
Quoted in the stock exchange:	(8,420,047)	(159,305,907)
Not quoted in the stock exchange:	<u>(17,548,887)</u>	<u>(6,984,464)</u>
	<u>(25,968,934)</u>	<u>(166,190,371)</u>
	<u>P 699,052,711</u>	<u>P 424,397,280</u>

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

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

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

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

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

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

8. LOANS AND RECEIVABLES

This account includes the following:

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

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

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

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

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

9. PROPERTY AND EQUIPMENT

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

	Condominium Units	Office Improvements	Office Furnitures and Equipment	Transportation Equipment	EDP Equipment	Total
December 31, 2009						
Cost	P 104,227,734	P 14,284,102	P 9,590,930	P 13,300,379	P 67,630,761	P 209,033,906
Accumulated depreciation and amortization	(37,032,968)	(12,003,316)	(9,081,416)	(7,417,028)	(13,464,174)	(78,998,972)
Net carrying amount	<u>P 67,194,766</u>	<u>P 2,280,786</u>	<u>P 509,514</u>	<u>P 5,883,281</u>	<u>P 54,166,587</u>	<u>P 130,034,934</u>
December 31, 2008						
Cost	P 104,227,734	P 14,284,102	P 9,524,897	P 12,921,777	P 16,151,264	P 157,109,774
Accumulated depreciation and amortization	(34,005,112)	(11,009,512)	(8,822,876)	(4,621,013)	(12,034,369)	(70,563,057)
Net carrying amount	<u>P 70,222,587</u>	<u>P 3,274,590</u>	<u>P 702,021</u>	<u>P 8,230,764</u>	<u>P 4,116,755</u>	<u>P 86,546,717</u>
January 1, 2008						
Cost	P 104,227,734	P 14,284,102	P 9,524,897	P 12,720,170	P 14,978,758	P 155,735,661
Accumulated depreciation and amortization	(30,977,327)	(9,870,207)	(8,553,973)	(4,337,959)	(10,668,142)	(64,407,615)
Net carrying amount	<u>P 73,250,407</u>	<u>P 4,413,895</u>	<u>P 970,924</u>	<u>P 8,382,211</u>	<u>P 4,310,609</u>	<u>P 91,328,046</u>

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

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

10. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts is as follows:

	Deferred Reinsurance Premiums		Reserve for Unearned Reinsurance Premiums	
	2009	2008	2009	2008
Balance at beginning of year	P 827,251,651	P1,318,267,605	P 1,353,110,258	P 1,805,001,599
Increase during the year	(55,563,705)	(50,010,924)	(174,034,703)	(192,323,311)
Balance at end of year	P 771,687,946	P 827,251,651	P 1,179,075,555	P 1,612,678,288

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

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

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

11. OTHER ASSETS

The Other Assets account includes the following:

	2009	2008
Creditable withholding tax	P 40,668,400	P 16,774,651
Investment property	36,349,456	38,575,009
Input value added tax (VAT)	26,287,002	31,352,419
Deferred withholding VAT	4,783,959	13,382,875
Prepayments	2,023,359	3,196,500
Deposit	577,695	571,907
Security fund	192,888	192,888
Others	2,351,721	5,395,837
	<u>P 113,234,480</u>	<u>P 109,444,086</u>

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

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

	<u>Note</u>	<u>2009</u>	<u>2008</u>
Balance at beginning of year		P 38,575,009	P 40,905,056
Depreciation and amortization charge for the year	15	(2,225,553)	(2,340,047)
Balance at end of year		<u>P 36,349,456</u>	<u>P 38,575,009</u>

The estimated fair value and the related carrying value of the building and improvements included in investment property amounted to P37,480,400 and P33,488,703, respectively in 2009 and P39,690,000 and P35,177,209, respectively in 2008. Rental income earned from investment property amounted to P1,704,151 in 2009, P1,623,000 in 2008 and P1,163,900 in 2007, and is recorded as part of Dividend and Other Income under Investment and Other Income account in the statements of income (see Note 13). Real estate taxes incurred related to the investment property amounted to P573,773 each in 2009 and 2008 and P791,606 in 2007.

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

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

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

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

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

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	<u>Note</u>	<u>2009</u>	<u>2008</u>
Defined benefit liability	16.2	P 22,016,459	P 28,897,908
Accrued expenses		6,828,049	12,175,498
Withholding taxes payable		3,210,598	1,866,518
Accounts payable and other liabilities		<u>3,170,706</u>	<u>2,523,962</u>
		<u>P 34,425,812</u>	<u>P 45,463,886</u>

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

13. INVESTMENT AND OTHER INCOMES

The details of this account follow:

	Notes	2009	2008	2007
Interest	(	P 382,426,619	P 375,001,848	P 340,942,749
Trading gain		33,028,642	2,121,968	155,174,302
Gain (loss) on sale of stocks		17,076,148 (	69,505,125)	96,798,983
Foreign exchange gain (loss)	4.4 (	24,337,582)	115,273,826 (	179,320,898)
Dividend and other income net	11, 16, 19	58,463,058	26,103,168	46,505,220
		<u>P 466,656,885</u>	<u>P 449,195,685</u>	<u>P 468,100,356</u>

14. UNDERWRITING DEDUCTIONS

14.1 Share in Claims and Losses

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

14.2 Commissions – net

This account consists of the following:

	2009	2008	2007
Commission expense	P 700,650,988	P 755,748,687	P 410,837,745
Reinsurance revenues	(293,677,214)	(368,546,242)	(235,512,374)
	<u>P 406,973,774</u>	<u>P 387,202,440</u>	<u>P 175,325,371</u>

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

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

15. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

	Notes	2009	2008	2007
Impairment losses	6	P 128,325,407	P 32,795,155	P -
Salaries and employee benefits	16.1	123,769,484	120,973,281	87,159,520
Professional fees		24,507,265	12,514,848	10,317,532
Depreciation and amortization	9, 11	10,765,008	11,136,989	10,157,716
Taxes, licenses and fees		8,072,682	6,186,789	3,023,875
Representation and entertainment		4,369,158	4,529,918	5,937,651
Contract labor		3,963,964	3,047,780	2,717,301
Transportation and traveling		3,957,312	3,667,552	4,395,209
Association and pool expense		2,932,945	3,018,624	3,218,565
Light and water		2,670,166	2,585,523	2,615,693
Communication and postages		2,278,551	2,175,849	2,417,776
Printing and office supplies		1,628,058	1,366,681	2,147,068
Repairs and maintenance		1,378,522	1,265,954	1,231,964
Advertising and publicity		1,313,182	2,591,942	1,809,738
Insurance		1,048,442	1,000,891	778,035
Miscellaneous	23	4,092,362	3,766,310	2,025,857
		<u>P 325,072,508</u>	<u>P 211,654,086</u>	<u>P 145,012,933</u>

16. SALARIES AND EMPLOYEE BENEFITS

16.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below:

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

16.2 Employee Retirement Benefit Obligation

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

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Present value of the obligation	P 137,244,682	P 129,757,565	P 62,132,830
Fair value of plan assets	(56,468,323)	(32,808,081)	(30,090,823)
Deficiency of plan assets	80,776,359	96,949,484	32,042,007
Unrecognized actuarial gains (losses)	(58,759,900)	(68,051,576)	2,465,688
Defined benefit liability	<u>P 22,016,459</u>	<u>P 28,897,908</u>	<u>P 34,502,695</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Balance at beginning of year	P 129,757,565	P 62,132,830	P 51,174,809
Actuarial (gains) losses	(3,740,728)	65,909,823	-
Current service cost and interest cost	19,549,243	11,456,596	10,958,021
Benefits paid by the plan	(8,321,398)	(2,741,684)	-
Balance at end of year	<u>P 137,244,682</u>	<u>P 129,757,565</u>	<u>P 62,132,830</u>

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

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

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

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

The amounts recognized as retirement expense are as follows:

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

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

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

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

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

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Present value of the obligation	P137,204,682	P109,257,265	P 62,132,830	P 51,174,009	P 24,159,148
Fair value of the plan assets	<u>56,468,323</u>	<u>32,866,081</u>	<u>30,099,573</u>	<u>19,636,808</u>	<u>18,963,528</u>
Deficit in the plan	P 80,736,359	P 76,391,184	P 32,042,007	P 31,537,009	P 5,202,220

17. TAXES

17.1 Current and Deferred Tax

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<i>Reported in statements of income</i>			
Current tax expense:			
Final tax at 20% and 7.5%	P 69,499,923	P 73,065,054	P 59,193,182
Minimum corporate income tax (MCTI)	364,428	-	-
Regular corporate income tax (RCTI)	-	-	9,754,271
	<u>69,864,351</u>	<u>73,065,054</u>	<u>68,947,453</u>
Deferred tax expense (income):			
Deferred tax relating to origination and reversal of temporary differences	-	(12,827,858)	27,608,177
Deferred tax resulting from reduction in tax rate	<u>-</u>	<u>10,081,782</u>	<u>-</u>
	<u>-</u>	<u>(2,746,076)</u>	<u>27,608,177</u>
	<u>P 69,864,351</u>	<u>P 70,318,978</u>	<u>P 96,555,630</u>
<i>Reported in statements of other manufacturing income (netted against related fair value gains (losses))</i>			
Deferred tax relating to origination and reversal of temporary difference	P -	P 3,500,766	P 2,200,803
Deferred tax resulting from reduction in tax rate	<u>-</u>	<u>(2,435,498)</u>	<u>-</u>
	<u>P -</u>	<u>P 1,135,268</u>	<u>P 2,200,803</u>

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

	<u>2009</u>	....	<u>2008</u>	.....	<u>2007</u>	..
Tax on pretax income at 30% in 2009 and 35% in 2008	P 51,871,112		P 57,666,841		P 247,089,314	
Adjustment for income subjected to lower tax rates	(42,956,335)		(55,935,271)		(57,362,085)	
Tax effects of:						
Unrecognized deferred tax assets	90,394,884		42,491,935		-	
Non-taxable income	(29,883,565)		(9,805,399)		(93,771,726)	
Non-deductible expenses	438,255		25,819,098		1,233,784	
Reduction in deferred tax rate	-		10,081,787		-	
Separation pay	-		-		(633,176)	
Tax expense reported in statements of income	<u>P 69,864,353</u>		<u>P 70,318,983</u>		<u>P 96,556,113</u>	

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

	<u>Statements of Financial Position</u>		<u>Statements of Income</u>		<u>Statements of Comprehensive Income</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Deferred Tax Assets						
Allowance for impairment	P 31,007,588	P 29,247,115	(P 6,377,895)	P -	P -	P -
Net operating loss carryover (NOL) carryforwards	59,665,359	-	(59,665,359)	131,284	-	-
Unrealized foreign exchange gain/loss	(26,409,750)	71,267,174	47,469,307	57,967,717	-	-
Deferred income tax	11,479,230	12,211,147	3,385,910	-	663,413	-
Non-deductible benefits	851,818	94,155	(87,865)	-	238,482	-
R&D	188,968	289,114	-	4,607,534	-	-
Deferred Tax Liabilities						
Income tax expense (benefit) from operations	(28,151,166)	(25,253,589)	14,074,580	14,931,082	-	-
Other long-term investments	(28,799,953)	(21,129,587)	(795,612)	-	15,917,958	-
Reduction in deferred tax rate for long-term investments	(18,183,752)	17,458,428	-	-	-	1,135,268
Other	-	-	-	-	-	2,224,821
Amount Tax Expense (Income) Reported Tax Liabilities	P -	<u>P 1,611,821</u>	<u>(P 2,496,078)</u>	<u>P 27,468,614</u>	<u>P 1,435,268</u>	<u>P 3,349,891</u>

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

	2009		2008	
	Tax Base	Tax Amount	Tax Base	Tax Amount
Deferred tax assets:				
NOLCO	P 451,669,054	P 136,499,716	P 141,619,787	P 12,911,795
Allowance for impairment	267,920,833	80,376,010	-	-
Excess of debit over obligation	22,016,459	6,604,038	-	-
Unrealized foreign exchange loss	5,250,599	1,575,893	-	-
Accrued leave benefits	3,172,176	1,001,651	-	-
Unrecognized prior period loss	664,371	199,311	-	-
MCFE	364,428	364,428	-	-
Deferred tax liabilities:				
Provision of reserves for unearned remuneration, premium pay benefits over tax base	(898,031,726)	(59,406,518)	-	-
Revaluation reserves on available-for-sale investments	(53,783,974)	(16,335,493)	-	-
Unfavorable acquisition costs	(45,141,562)	(13,562,596)	-	-
Net Unrecognized Tax Asset (Liability)	P 454,609,176	P 136,547,833	P 141,619,787	P 12,911,795

In 2008, the Company incurred NOLCO amounting to P340,524,979 which can be claimed as deduction against future taxable income until 2011. However, the Company did not fully recognize the deferred tax asset effect amounting to P102,157,494 relating to the 2008 NOLCO. The Company only recognized the deferred tax asset effect to the extent that it expects to have sufficient taxable profit that will be available against which such NOLCO can be utilized. Accordingly, of the total deferred tax asset for the 2008 NOLCO of P102,157,494, only P59,665,359 was recognized in 2008. In 2009, the Company incurred NOLCO amounting to P110,944,075 which can be claimed as deduction from future taxable income until 2012.

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

17.2 Optional Standard Deduction

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

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

17.3 Change in Applicable Tax Rate

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

18. EQUITY

18.1 Capital Stock

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

18.2 Stock Split

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

18.3 Treasury Shares

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

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

18.4 Appropriation for Contingencies

On April 18, 1989, the Company's BOD approved the establishment of a special reserve which will serve as cushion to the paid up capital in the event of extraordinarily high loss occurrences or severe catastrophic losses. The amount of P5,000,000 was initially appropriated from retained earnings for this purpose on April 30, 1989. Subsequently, at December 31 of each year where there is profit, 10% of such profit shall be set aside as additional reserve for contingencies. The reserve balance, which is shown as Appropriated under Retained Earnings account in the statements of changes in equity, should not exceed, at any time, the amount of paid up capital. The balance of appropriation for contingencies amounted to P231,638,743, P221,334,777 and P211,890,435 as of December 31, 2009, 2008 and 2007, respectively.

18.5 Declaration of Cash Dividends

The BOD approved the declaration of cash dividends of P0.04 per share (or a total of P86,387,106) on June 16, 2009, P0.20 per share (or a total of P436,390,920) on March 25, 2008 and P0.07 (or a total of P152,736,822) on June 19, 2007, payable to stockholders of record as of July 3, 2009, April 10, 2008 and July 16, 2007, respectively. The dividends were paid within their respective year of declaration and approval.

19. RELATED PARTY TRANSACTIONS

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

19.1 Reinsurance Contracts with Related Parties

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

	<u>2009</u>	<u>2008</u>
Premiums	P 1,313,818,543	P1,769,510,024
Retrocessions	53,278,609	67,839,767
Commission income	13,525,245	16,649,404
Commission expenses	174,173,857	201,305,754
Losses incurred	316,063,490	118,141,064
Loss recoveries	45,737,776	11,949,042

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

	<u>2009</u>	<u>2008</u>
Due from ceding companies	P 304,657,139	P 551,211,494
Reinsurance recoverable on losses	40,967,517	33,196,941
Funds held by ceding companies	41,293,832	45,448,771
Due to retrocessionaires	(35,594,833)	(36,881,959)
Funds held for retrocessionaires	(894,399)	(112,727)

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

19.2 Bank Accounts

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

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

19.3 Investment Management and Custodianship

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

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	P 22,611,956	P 9,005,099
Available for sale financial assets	1,201,491,263	1,028,945,237
Loans and receivables	<u>80,000,000</u>	<u>80,000,000</u>
	<u>P1,304,103,219</u>	P1,117,950,336

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

19.4 Retirement Fund Investment Management

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

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

19.5 Key Management Personnel Compensation

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Short-term benefits	P 46,766,449	P 61,642,715	P 43,287,218
Post-employment benefits	<u>2,615,573</u>	<u>2,238,886</u>	<u>1,948,613</u>
	<u>P 49,382,022</u>	<u>P 63,881,621</u>	<u>P 45,235,831</u>

20. MARGIN OF SOLVENCY

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

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

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

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
PFRS net profit	P 103,039,357	P 94,443,421	P 609,413,356
Difference in change in reserve for unearned reinsurance premiums net	(70,851,172)	(60,808,883)	(40,142,234)
Deferred acquisition costs - net	24,184,634	(8,773,478)	(29,479,995)
Tax effect of reconciling items	<u> - </u>	<u> 20,874,708</u>	<u> 24,367,280</u>
Statutory net income	P <u>56,372,819</u>	P <u>45,735,768</u>	P <u>564,158,907</u>

22. EARNINGS PER SHARE

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

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

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

23. COMMITMENTS AND CONTINGENCIES

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

23.1 Operating Lease Commitments - Company as Lessee

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

	<u>2009</u>	<u>2008</u>
Within one year	P 915,874	P 882,771
After one year but not more than five years	<u> 231,728</u>	<u> 1,47,602</u>
	P <u>1,147,602</u>	P <u>2,030,373</u>

Rental expense recognized amounted to P1,653,678, 1,953,418 and P1,021,463 in 2009, 2008 and 2007, respectively, and is presented in the statements of income as part of Miscellaneous account under General and Administrative Expenses (see Note 15).

23.2 Legal Claims

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

23.3 Others

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

24. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

24.1 Comparison of Carrying Amounts and Fair Values

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

	Notes	2009		2008	
		Carrying Amount	Fair Values	Carrying Values	Fair Values
Financial assets					
Cash and cash equivalents					
Cash and cash equivalents	5	P 683,659,159	P 683,659,159	P 1,101,550,197	P 1,146,355,289
Receivables, balances receivables	6	2,874,415,754	2,874,415,754	4,351,494,630	4,351,494,630
Loans and receivables	8	253,164,887	253,464,887	121,736,158	125,630,348
		P3,811,239,800	P3,811,539,800	P5,674,780,985	P5,623,480,267
Available-for-sale financial assets					
Debt securities	7	P5,187,509,694	P5,187,509,694	P4,736,548,619	P4,736,548,619
Equity securities	7	699,052,741	699,052,741	431,861,290	431,861,290
Investment in Union Reserves	7	76,961,974	76,961,974	84,353,971	84,353,971
Various funds	7	85,211,785	85,211,785	5,228,196	55,861,786
		P6,049,736,194	P6,049,736,194	P5,261,995,080	P5,712,625,656
Financial liabilities					
Receivables, balances payable					
Receivables payable and other	6	P3,587,881,996	P3,587,881,996	P4,066,620,637	P4,066,620,637
Accrued expenses	10	9,198,755	9,198,755	14,099,160	14,099,160
		P3,597,080,751	P3,597,080,751	P4,080,719,797	P4,080,719,797

25. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are:

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

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

25.1 Minimum Capitalization

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

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

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

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

25.2 Risk-Based Capital Requirements

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

25.3 Limitation on Dividend Declaration

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

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

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

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

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

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

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
Index to Supplementary Schedules
December 31, 2009

Statement of Management's Responsibility for the Consolidated Financial Statements

Independent Auditor's Report on the SEC Supplementary Schedules
Filed Separately from the Basic Financial Statements

Supplementary Schedules to Financial Statements
(Form 17-A, item 7)

Schedule	No. of Pages
A Marketable Securities (Current Marketable Equity Securities and other Short-term Cash Investment)	N/A
B Accounts Receivable from Directors, Officers, Employees, Related Parties	2
C Non-current Marketable Equity Securities, Other Long-term Investments in stocks and Other Investments	3
D Indebtedness to Unconsolidated Subsidiaries and related parties	N/A
E Other assets	1
F Long term debt	N/A
G Indebtedness to related parties (Long term loans from related companies)	N/A
H Guarantees of securities of other Issuers	N/A
I Capital Stock	5

Supplementary Schedule to Financial Statements
(SEC Circular 11)

Reconciliation of Retained Earnings for Dividend Declaration	1
--	---



PhilNaRe

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

18TH FLOOR, PUBLISHERS AREA OFFICE CENTRE, 501 OR PUYA AVENUE CORNER DUNDALO STREET, MAKATI CITY, PHILIPPINES
TELS (632) 752-8801 TO 04 FAX (632) 759-5801 * WEBSITE: www.nrc.com.ph * E-MAIL: nrc@nrc.com.ph

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

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

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

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

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


Signed under oath by the following:



WINSTON F. GARCIA
Chairman of the Board



ROBERTO B. CRISOL
President & Chief Executive Officer



ALFONSO M. SALCEDO, JR.
Treasurer

SUBSCRIBED AND SWORN TO before me this APR 28 day of 2010 2010 at the City of Makati.
Alliants exhibited to me their Community Tax Certificate Nos.:

Name	Com. Tax Cert. No.	Date	Place of Issue
Winston F. Garcia	114-416-75	January 19, 2010	Cebu City
Roberto B. Crisol	285-960-85	January 27, 2010	Makati City
Alfonso M. Salcedo, Jr.	208-853-76	January 25, 2010	Muntinlupa City

Doc. No. 510
Page No. 103
Book No. 192
Series of 200

ATTY. JONAS M. VELASCO
NOTARY PUBLIC
Until Dec. 31, 2011
PTR O.R. No. 2087649 - Makati (01/01/10)
MP O.R. No. 803499 - Pasig City 12/01/09
TIN 212-965-989
Roll No. 28757



Punongbayan & Araullo

Report of Independent Auditors to Accompany SEC Schedules Filed Separately from the Basic Financial Statements

2011 Floor, Tower 1
The Enterprise Center
6765 Ayala Avenue
1200 Makati City
Philippines

+632 885-8511
+632 885-8106 / +632 886-0707
www.punongbayan.com.ph

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

We have audited the financial statements of National Reinsurance Corporation of the Philippines for the year ended December 31, 2009, on which we have rendered our report dated April 21, 2010. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules (see table of contents) of the Company as of December 31, 2009 and for the year then ended, required by the Securities and Exchange Commission, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in such supplementary schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

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

Firm BOA/PRC Cert. of Reg. No. 0002
Firm SEC Accreditation No. 0002-FR 2

April 21, 2010

NATIONAL REINSURANCE CORPORATION OF THE PHILS
Schedule B - Assurance Beneficiaries (Directors, Officers, Employees, Related Parties
and Principal Stockholders' (Openly Traded Parties)
December 31, 2019

Name of Employee	Date of Birth	Address	Declarations		Ending Balance		Balance at end of period
			Amount Collected	Amount Withheld	Cash	Free Comm	
A. Emergency Loans							
1 Aguirre, Nestor Antonio S.		10000000	2,010.00	-	2,010.00	-	2,010.00
2 Alkay, Rolo	3-28-75	10000000	2,250.00	-	2,250.00	-	2,250.00
3 Almirante, Tison S.	4-22-39	10,000,000	8,253.00	-	8,253.00	-	8,253.00
4 Anaya, Mar. Mercedes J.	6-10-50	10,000,000	9,006.70	-	9,006.70	-	9,006.70
5 Andrade, Mary Clara	3,000,000	10,000,000	10,000,000	-	2,000.00	-	2,000,000
6 Aranda, Aracely C.	7-27-83	10,000,000	1,250.00	-	8,415.00	-	8,415.00
7 Barrios, Juan	3-26-90	10,000,000	2,578.20	-	4,137.00	-	4,137.00
8 Bate, Josephine S.	4-12-65	10,000,000	10,000,000	-	4,072.00	-	4,072.00
9 Bernaldo, Justina H.	-	10,000,000	1,000.00	-	4,012.00	-	4,012.00
10 Bernaldo, Rolo N.	3-08-72	10,000,000	10,000,000	-	3,667.20	-	3,667.20
11 Carlos Arana	-	10,000,000	10,000,000	-	1,248.70	-	1,248.70
12 Castro, Len	4-22-20	10,000,000	10,000,000	-	4,232.20	-	4,232.20
13 Cepeda, Jennifer	4-12-80	10,000,000	10,000,000	-	4,212.00	-	4,212.00
14 Carrasco, Palma	5-20-70	10,000,000	4,288.00	-	4,217.00	-	4,217.00
15 Cepeda, Leonardo	6-24-25	10,000,000	4,000.00	-	4,208.00	-	4,208.00
16 Chabarro, Ismael I.	6-14-30	10,000,000	10,000,000	-	4,417.00	-	4,417.00
17 Conzur, Jennifer	-	10,000,000	11,500.00	-	1,200.00	-	1,200.00
18 Cuapio, Oscar	10,000,000	10,000,000	200.00	-	4,000.00	-	4,000.00
19 De Ara, Leni	3-12-77	10,000,000	8,853.72	-	4,267.00	-	4,267.00
20 Dela Cruz, Maria Rita	3,074.20	-	0.00	-	-	-	-
21 Del Mundo, George	6,485.70	10,000,000	10,000,000	-	-	-	-
22 Dela Cruz, R. Roberto	3,479.00	10,000,000	11,260.00	-	7,200.00	-	7,200.00
23 Diaz-Villa, Melissa	078.00	10,000,000	10,000,000	-	9,917.00	-	9,917.00
24 Dominguez, Mylene A.	3,079.00	10,000,000	1,000.00	-	3,467.20	-	3,467.20
25 Fernandez, Jocelyn M.	4-12-88	10,000,000	10,000,000	-	4,312.00	-	4,312.00
26 Ferrer, Jocelyn	-	10,000,000	10,000,000	-	4,017.00	-	4,017.00
27 Garcia, Patricia	-	10,000,000	8,000.00	-	1,000.00	-	1,000.00
28 Garcia, Delia S.	2,714.00	-	8,214.00	-	-	-	-
29 Garcia, Oscar Romeo	-	10,000,000	8,600.00	-	1,000.00	-	1,000.00
30 Gonzalez, Charis A.	3,467.20	10,000,000	10,000,000	-	3,467.20	-	3,467.20
31 Gonzalez, Maria Ines	-	10,000,000	10,000,000	-	3,800.00	-	3,800.00
32 Hernandez, Natividad G.	4,772.20	10,000,000	8,262.00	-	5,100.00	-	5,100.00
33 Iglesias, Ana Maria	7,200.00	10,000,000	10,000,000	-	7,200.00	-	7,200.00
34 Imperial, Leni D.	7,000.00	10,000,000	8,000.00	-	4,212.00	-	4,212.00
35 Jara, Rolo	5,265.00	10,000,000	10,000,000	-	5,000.00	-	5,000.00
36 Jimenez, Kenneth C.	3,467.20	10,000,000	10,000,000	-	3,467.20	-	3,467.20
37 Lanza, Rolo	-	10,000,000	8,000.00	-	1,000.00	-	1,000.00
38 Lanza, Rosalinda Isabel	4,017.00	-	3,614.00	-	-	-	-
39 Magallon, Rolo S.	7,000.00	10,000,000	8,000.00	-	6,000.00	-	6,000.00
40 Magallon, Wilfredo H.	3,467.20	10,000,000	10,000,000	-	3,467.20	-	3,467.20
41 Magallon, Mary Ann L.	7,200.00	10,000,000	8,000.00	-	7,200.00	-	7,200.00
42 Magallon, Rolo	6,410.00	10,000,000	10,000,000	-	4,100.00	-	4,100.00
43 Magallon, Rolando	-	10,000,000	3,200.00	-	1,000.00	-	1,000.00
44 Martinez, Aracely	1,000.00	10,000,000	10,000,000	-	1,000.00	-	1,000.00
45 Medina, Aracely	8,200.00	10,000,000	10,000,000	-	8,200.00	-	8,200.00
46 Pinar, Rolo	1,000.00	10,000,000	9,000.00	-	8,000.00	-	8,000.00
47 Rodriguez, Kenneth	3,800.00	10,000,000	10,000,000	-	3,800.00	-	3,800.00
48 Roman, Teresita R.	-	10,000,000	1,000.00	-	4,100.00	-	4,100.00
49 Rivas, Rolo	3,000.00	10,000,000	6,000.00	-	4,012.00	-	4,012.00
50 Rivas, Teresita Eul	7,017.00	-	1,017.00	-	-	-	-
51 Rojas, Lylieth	1,000.00	10,000,000	9,000.00	-	1,000.00	-	1,000.00
52 Salazar, Rolo	8,000.00	10,000,000	10,000,000	-	8,000.00	-	8,000.00
53 Salazar, Rolo	10,000.00	-	10,000.00	-	-	-	-
54 Salazar, Jose H.	3,800.00	-	3,800.00	-	-	-	-
55 Salazar, Rolo	4,000.00	10,000,000	4,000.00	-	8,014.00	-	8,014.00
56 Sarago, Ermano C.	5,000.00	10,000,000	5,000.00	-	5,000.00	-	5,000.00
57 Salazar, Maria Ines M.	-	10,000,000	7,000.00	-	2,000.00	-	2,000.00
58 Silva, Eugene C.	5,100.00	10,000,000	10,000,000	-	5,100.00	-	5,100.00
59 Sosa, Rolo	-	10,000,000	4,000.00	-	5,000.00	-	5,000.00
60 Toledo, Rolo	3,800.00	-	0.00	-	3,800.00	-	3,800.00
61 Valenzuela, Rolo M.	-	10,000,000	4,000.00	-	5,000.00	-	5,000.00
62 Valenzuela, Rolo M.	5,014.00	-	8,014.00	-	-	-	-
63 Valenzuela, Chalcepe C.	4,217.00	10,000,000	4,200.00	-	4,212.00	-	4,212.00
64 Valenzuela, R. Teresita H.	3,800.00	10,000,000	10,000,000	-	3,800.00	-	3,800.00
65 Yala, Rolo H.	4,000.00	10,000,000	4,000.00	-	6,000.00	-	6,000.00
	28,074.00	5,000,000.00	661,000.00	-	281,000.00	-	281,000.00

B. Emergency Casualty Loss

1 Alkay, Rolo	20,000.00	-	20,000.00	-	20,000.00	-	20,000.00
2 Aranda, Mary Clara	10,000.00	-	10,000.00	-	10,000.00	-	10,000.00
3 Bernaldo, Rolo	10,000.00	-	10,000.00	-	10,000.00	-	10,000.00
4 Bernaldo, Rolo	40,000.00	-	40,000.00	-	40,000.00	-	40,000.00
5 Bernaldo, Rolo	30,000.00	-	30,000.00	-	30,000.00	-	30,000.00
6 Carrasco, Palma	20,000.00	-	20,000.00	-	20,000.00	-	20,000.00
7 De Ara, Leni	24,000.00	-	24,000.00	-	24,000.00	-	24,000.00

Name of Employee	Net change of period	Additions	Accounts reduced	Accounts withdrawn	Current	New Current	Balance at end of period
1. ...	-	60,000.00	-	-	-	60,000.00	60,000.00
2. ...	-	60,000.00	-	-	-	60,000.00	120,000.00
10. ...	-	30,000.00	-	-	-	30,000.00	150,000.00
11. ...	-	60,000.00	-	-	-	60,000.00	210,000.00
12. ...	-	70,000.00	-	-	-	70,000.00	280,000.00
14. ...	-	100,000.00	-	-	-	100,000.00	380,000.00
16. ...	-	60,000.00	-	-	-	60,000.00	440,000.00
15. ...	-	45,000.00	-	-	-	45,000.00	485,000.00
		<u>320,000.00</u>				<u>320,000.00</u>	<u>705,000.00</u>

U. Guaranty Policy Total

1. ...	250,000.00		84,905.22		165,094.78		165,094.78
2. ...	221,457.90		72,011.35		149,446.55		149,446.55
3. ...	300,000.00		60,000.00		240,000.00		240,000.00
4. ...	121,000.00		72,000.00		49,000.00		49,000.00
5. ...	240,000.00	260,000.00	40,000.00		240,000.00		240,000.00
6. ...	310,000.00		70,000.00		240,000.00		240,000.00
7. ...	250,000.00		80,000.00		170,000.00		170,000.00
8. ...	340,000.00		60,000.00		280,000.00		280,000.00
9. ...	300,000.00		80,000.00		220,000.00		220,000.00
10. ...	290,000.00		70,000.00		220,000.00		220,000.00
11. ...	470,000.00		90,000.00		380,000.00		380,000.00
12. ...	310,000.00		100,000.00		210,000.00		210,000.00
13. ...	290,000.00		60,000.00		230,000.00		230,000.00
14. ...	270,000.00		60,000.00		210,000.00		210,000.00
15. ...	50,000.00		60,000.00		0.00		0.00
16. ...	200,000.00		100,000.00		100,000.00		100,000.00
17. ...	100,000.00		60,000.00		40,000.00		40,000.00
18. ...	100,000.00		60,000.00		40,000.00		40,000.00
19. ...	100,000.00		60,000.00		40,000.00		40,000.00
20. ...	250,000.00		80,000.00		170,000.00		170,000.00
21. ...	150,000.00		60,000.00		90,000.00		90,000.00
22. ...	200,000.00		70,000.00		130,000.00		130,000.00
23. ...	100,000.00		60,000.00		40,000.00		40,000.00
24. ...	150,000.00		60,000.00		90,000.00		90,000.00
25. ...	140,000.00		60,000.00		80,000.00		80,000.00
26. ...	200,000.00		60,000.00		140,000.00		140,000.00
27. ...	50,000.00		60,000.00		0.00		0.00
28. ...	200,000.00		70,000.00		130,000.00		130,000.00
29. ...	300,000.00		60,000.00		240,000.00		240,000.00
	<u>6,460,047.90</u>	<u>300,000.00</u>	<u>2,170,548.16</u>		<u>4,289,499.74</u>		<u>6,109,499.74</u>

D. Receivables on Insurance coverage of Gu. Co. (Officers Above)

1. ...	6,000.00	1,000.00	4,000.00	4,000.00	4,000.00		4,000.00
2. ...	8,000.00	800.00	7,200.00	7,200.00	7,200.00		7,200.00
3. ...	1,000.00	1,000.00	0.00	0.00	0.00		0.00
4. ...	3,000.00	800.00	2,200.00	2,200.00	2,200.00		2,200.00
5. ...	2,000.00	1,000.00	1,000.00	1,000.00	1,000.00		1,000.00
6. ...	2,000.00	2,000.00	0.00	0.00	0.00		0.00
7. ...	3,000.00	2,000.00	1,000.00	1,000.00	1,000.00		1,000.00
8. ...	11,000.00	2,000.00	9,000.00	9,000.00	9,000.00		9,000.00
9. ...	5,000.00	1,000.00	4,000.00	4,000.00	4,000.00		4,000.00
10. ...	5,000.00	600.00	4,400.00	4,400.00	4,400.00		4,400.00
11. ...	2,000.00	2,000.00	0.00	0.00	0.00		0.00
12. ...	3,000.00	500.00	2,500.00	2,500.00	2,500.00		2,500.00
13. ...	4,000.00	2,000.00	2,000.00	2,000.00	2,000.00		2,000.00
14. ...	2,000.00	2,000.00	0.00	0.00	0.00		0.00
15. ...	1,000.00	2,000.00	1,000.00	1,000.00	1,000.00		1,000.00
16. ...	5,000.00	5,000.00	0.00	0.00	0.00		0.00
17. ...	9,000.00	9,000.00	0.00	0.00	0.00		0.00
18. ...	4,000.00	1,000.00	3,000.00	3,000.00	3,000.00		3,000.00
19. ...	5,000.00	2,000.00	3,000.00	3,000.00	3,000.00		3,000.00
20. ...	5,000.00	2,000.00	3,000.00	3,000.00	3,000.00		3,000.00
21. ...	2,000.00	2,000.00	0.00	0.00	0.00		0.00
22. ...	7,000.00	600.00	6,400.00	6,400.00	6,400.00		6,400.00
23. ...	5,000.00	500.00	4,500.00	4,500.00	4,500.00		4,500.00
24. ...	5,000.00	1,000.00	4,000.00	4,000.00	4,000.00		4,000.00
25. ...	2,000.00	1,000.00	1,000.00	1,000.00	1,000.00		1,000.00
26. ...	4,000.00	4,000.00	0.00	0.00	0.00		0.00
27. ...	4,000.00	1,000.00	3,000.00	3,000.00	3,000.00		3,000.00
28. ...	10,000.00	1,000.00	9,000.00	9,000.00	9,000.00		9,000.00
	<u>60,000.00</u>	<u>10,000.00</u>	<u>50,000.00</u>	<u>50,000.00</u>	<u>50,000.00</u>		<u>50,000.00</u>

E. Housing Loan

1. ...	30,000.00		20,000.00		10,000.00		10,000.00
2. ...	1,000,000.00		700,000.00		300,000.00		300,000.00
3. ...	500,000.00		110,000.00		390,000.00		390,000.00
4. ...	800,000.00		100,000.00		700,000.00		700,000.00
5. ...	500,000.00		200,000.00		300,000.00		300,000.00
	<u>3,100,000.00</u>		<u>380,000.00</u>		<u>2,720,000.00</u>		<u>2,720,000.00</u>

GROUP TOTAL 10,002,253.36 1,430,000.00 3,896,616.16 405,242.90 4,861,235.94 4,267,188.83

Name of issuing entity and description of investment	Number of shares or percentage amount of beneficial interest	Acquired as	Equity interests (percentage of ownership)	Cost	Carrying amount (percentage of premium)	Cost	Number of shares or percentage amount of beneficial interest	Number of shares	Number of shares owned less investment for the reporting period
SMAC Delta B SMAC Delta C SMAC Delta D SMAC Delta E SMAC Delta F				17,000,000.00 10,000,000.00		-	17,000,000.00 10,000,000.00	17,000,000.00 10,000,000.00	
	10,000,000.00 100,000,000.00	10,000,000.00 100,000,000.00		27,000,000.00		-	27,000,000.00	27,000,000.00	
		460,032,470.33		348,098,000.00		5,800,000.00	445,000,000.00	445,000,000.00	
LONG-TERM NEGOTIABLES	20,000,000.00	20,000,000.00					20,000,000.00	20,000,000.00	
LONG-TERM INVESTMENTS				6,250,000.00			48,353,000.00	48,353,000.00	
10001				47,670,000.00			47,670,000.00	47,670,000.00	
10002				20,000,000.00			20,000,000.00	20,000,000.00	
10003				24,012,400.00			24,012,400.00	24,012,400.00	
10004				28,000,000.00			28,000,000.00	28,000,000.00	
10005				23,383,400.00			23,383,400.00	23,383,400.00	
10006				6,250,000.00			49,194,000.00	49,194,000.00	
				230,644,752.00			230,644,752.00	230,644,752.00	
MARKET VALUE OF COMMON STOCK	4,500,000,000.00	4,500,000,000.00		3,600,000,000.00		5,000,000,000.00	4,500,000,000.00	4,500,000,000.00	
PREMIUMIZED INCOME FV	99,000,000.00	99,000,000.00		20,000,000.00			40,000,000.00	40,000,000.00	
TOTAL AVAILABLE FOR SALE PER AUDITED FINANCIAL STATEMENT 12/31/09								6,645,794,942.00	6,645,794,942.00

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
Schedule E - Intangible Assets/Other Assets
December 31, 2009

Description	Beginning balance	Additional cost	Dispositions		Other changes and adjustments	Ending balance
			Charged to cost & exp.	Charged to other assets		
1 Unfunded Withholding VAT (CSIS)	13,362,675	10,701	-	-	8,609,617	4,763,759
2 Investment properties	35,575,000	-	-	-	2,327,573	36,349,458
3 Input VAT	31,357,410	40,915,680	-	-	45,001,007	26,272,093
4 Creditable expanded withholding tax	16,774,661	23,859,740	-	-	-	40,634,401
5 Payments	3,136,500	2,016,561	-	-	3,189,792	2,023,269
6 Deposit	671,907	1,700	-	-	-	577,986
7 Security Fund	192,000	-	-	-	-	192,000
8 Unfunded expanded withholding tax	5,765,017	7,381,071	-	-	13,424,107	7,351,721
	<u>109,660,690</u>	<u>78,920,641</u>	<u>-</u>	<u>-</u>	<u>70,130,248</u>	<u>119,234,480</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

Subsidiary - Capital Stock

December 31, 2008

Name of Stockholders	Title of Issues	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversions and other rights	Number of shares held by		
				Retired public	Directors, officers and employees	Others
1. ANSANTHE COXIME ZACON INC. LAD. BANK N.	Common	254,160	NIL			254,160
2. ALEGAR CORPORATION	Common	32,800	NIL			32,800
3. AETHELIAN LIFE INSURANCE CORP.	Common	5,420,700	NIL			5,420,700
4. AETHELIAN LIFE INSURANCE CO. SECUR. CO., INC.	Common	1,578,900	NIL			1,578,900
5. AETHELIAN LIFE INSURANCE CO. SECUR. CO., INC.	Common	3,300	NIL			3,300
6. AETHELIAN, INC.	Common	77,100	NIL			77,100
7. ASIA UNITED INSURANCE, INC.	Common	1,757,300	NIL			1,757,300
8. AYALA LIFE ASSURANCE, INC.	Common	75,714,900	NIL	28,274,900		-
9. B.F. GENERAL INSURANCE CO., INC.	Common	70,400	NIL			70,400
10. BANCORP MTDI (PHIL) INC.	Common	8,300	NIL			8,300
11. BANK OF THE PHILIPPINE ISLANDS	Common	290,715,500	NIL	290,715,500		-
12. BANKERS ASSURANCE CORP.	Common	10,240,200	NIL			10,240,200
13. BENEFICIAL LIFE INSURANCE COMPANY INC.	Common	3,703,000	NIL			3,703,000
14. BF LIFE INSURANCE CORP.	Common	307,300	NIL			307,300
15. BPIERS INSURANCE CO. INC.	Common	3,347,500	NIL	3,347,500		-
16. BPIERS INSURANCE CORPORATION	Common	1,807,500	NIL			1,807,500
17. CENTENNIAL GUARANTEE ASSURANCE COY.	Common	201,200	NIL			201,200
18. CINCOR BATHING INSURANCE CO., INC.	Common	144,600	NIL			144,600
19. COOPERATIVE INSURANCE SYSTEM (PHIL) INC.	Common	72,300	NIL			72,300
20. CREDIT BANKING (PHIL) INC.	Common	2,230,300	NIL			2,230,300
21. CREDIT BANKING (PHIL) INSURANCE CO. INC.	Common	2,388,300	NIL			2,388,300
22. EASTVIEW ASSURANCE & SURETY CORP.	Common	1,377,400	NIL			1,377,400
23. EMMERT INSURANCE COMPANY	Common	7,428,500	NIL			7,428,500
24. EQUITABLE INSURANCE CORPORATION	Common	4,045,000	NIL			4,045,000
25. ETHERAL PHILIPPINE ASSURANCE COMPANY	Common	1,700,300	NIL			1,700,300
26. EQUUS INSURANCE CORPORATION	Common	39,128,000	NIL	39,128,000		-
27. FIDELITY INSURANCE COMPANY INC.	Common	818,500	NIL			818,500
28. FIRST GUARANTEE LIFE ASSURANCE CO.	Common	474,700	NIL			474,700
29. FIRST PHILIPPINE BUILDING & INS. CO. INC.	Common	243,300	NIL			243,300
30. FIRST NATIONAL ASSURANCE CO. INC.	Common	13,157,000	NIL	13,157,000		-
31. FIDELITY INSURANCE CORPORATION	Common	4,530,700	NIL			4,530,700
32. GENERAL INSURANCE & SURETY COMPANY	Common	313,300	NIL			313,300
33. GLOBAL EXCESS REINSURANCE CO. OF THE PHILS.	Common	544,700	NIL			544,700
34. HYDRE MANAGEMENT & RESOURCE CORP.	Common	284,100	NIL			284,100
35. INDUSTRIAL INSURANCE CO., INC.	Common	6,184,900	NIL			6,184,900
36. INSULAR LIFE ASSURANCE CO., LTD.	Common	3,401,100	NIL			3,401,100
37. INSURANCE CO. OF NORTH AMERICA	Common	705,600	NIL			705,600
38. INSURANCE OF THE PHILIPPINE ISLANDS CO., INC.	Common	50,100	NIL			50,100
39. INT'L LIFE ASSURANCE CORP.	Common	58,800	NIL			58,800
40. ILLION INSURANCE & SURETY CO., INC.	Common	32,300	NIL			32,300
41. M.J. SORIANO TRADING, INC.	Common	1,000	NIL			1,000
42. MVA GENERAL ASSURANCE PHILS., INC.	Common	271,100	NIL			271,100
43. MADASA & COMPANY, INC.	Common	30,700	NIL			30,700
44. MALAYAN INSURANCE CO. INC.	Common	258,010	NIL	258,010		-
45. MARIANA INSURANCE COMPANY INC.	Common	1,140,100	NIL			1,140,100
46. MARIANA SURETY & FIDELITY CO., INC.	Common	3,789,400	NIL			3,789,400
47. MERRILL LIFE INSURANCE CO., INC.	Common	2,387,300	NIL			2,387,300
48. MERIDIAN ASSURANCE CO. INC.	Common	1,711,500	NIL			1,711,500
49. MONARCH INSURANCE CO., INC.	Common	1,574,000	NIL			1,574,000
50. NEW HENNA ASSURANCE CO. LTD.	Common	4,158,400	NIL			4,158,400
51. NORTHWEST INSURANCE & SURETY CO., INC.	Common	2,854,200	NIL			2,854,200
52. ORIENTAL ASSURANCE CORPORATION	Common	2,580,800	NIL			2,580,800
53. PALM LIFE INSURANCE CO.	Common	1,301,600	NIL			1,301,600
54. PARAMOUNT LIFE & GENERAL INS. CO. INC.	Common	2,290,700	NIL			2,290,700
55. P&O MANIFEST CORP. (P)	Common	1,462,402,300	NIL			1,462,402,300
56. P&O MANIFEST CORP. (P)	Common	95,177,100	NIL			95,177,100
57. PHILIPPINE HANSHI ASIA INS. CORP.	Common	2,475,200	NIL			2,475,200
58. PHIL. BRITISH ASSURANCE CO. INC.	Common	1,520,400	NIL			1,520,400

Name of Stockholder	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Registered parties	Directors, officers and employees	Others
60 PHIL INTL LIFE INSURANCE CO., INC.	Common	5,110,000	NIL			5,110,000
61 PHIL PHIL INVESTMENT & INS. INC.	Common	174,800	300			174,800
62 PHIL PREIDENTIAL LIFE INS. CO., INC.	Common	1,271,000	NIL			1,271,000
63 PHILIPPINE AMERICAN LIFE INSURANCE CO.	Common	8,628,000	NIL			8,628,000
64 PHILIPPINE LLOYD'S INSURANCE CORP.	Common	15,305,000	NIL			15,305,000
65 PHILIPPINE LIFE MEDIA INSURANCE CLUB	Common	750,000	NIL			750,000
66 PHILIPPINE SEAMANTS CO., INC.	Common	290,000	NIL			290,000
67 PHILIPPINES FIRST INSURANCE CO., INC.	Common	11,070,000	NIL			11,070,000
68 PLARDEL SURETY & INSURANCE COMPANY	Common	107,000	NIL			107,000
69 PRINCIPAL GENERAL INSURANCE CO., INC.	Common	1,000	NIL			1,000
70 PRINCIPAL INSURANCE & SURETY CORPORATION	Common	2,450,000	NIL			2,450,000
71 REPUBLIC SURETY & INSURANCE COMPANY	Common	542,000	NIL			542,000
72 RIALTI GROUP, INC.	Common	10,700	100			10,700
73 RIVARA, INC.	Common	8,700	NIL			8,700
74 S&B SAVINGS & LOAN ASSOCIATION	Common	70,000	100			70,000
75 SEASIDE SURETY & INS. CO., INC.	Common	4,102,700	NIL			4,102,700
76 STERLING INSURANCE CO., INC.	Common	2,403,000	100			2,403,000
77 STRONGBOND INSURANCE CO., INC.	Common	2,017,000	NIL			2,017,000
78 SUN LIFE ASSURANCE CO. OF CANADA	Common	295,700	NIL			295,700
79 SUSANA REALTY	Common	100	NIL			100
80 TAMPACO HA INSURANCE CO., INC.	Common	1,270,700	NIL			1,270,700
81 TIMES SURETY & INSURANCE CO., INC.	Common	7,500	NIL			7,500
82 TRAVELERS INSURANCE & SURETY CORP.	Common	600,000	NIL			600,000
83 UNION BANK OF THE PHILS.	Common	5,000	NIL			5,000
84 UNION INSURANCE SOCIETY OF CANTON LTD.	Common	2,790,000	NIL			2,790,000
85 UNITED OVERSEAS LTD., INC.	Common	2,000,000	NIL			2,000,000
86 UNITED LIFE ASSURANCE CORP.	Common	2,518,000	NIL			2,518,000
87 UNITED ASSURANCE CLUB	Common	1,000,000	NIL			1,000,000
88 VISAYAN SURETY & INSURANCE CORP.	Common	2,545,000	NIL			2,545,000
89 WASHINGTON INSURANCE & SURETY CORP.	Common	100	100			100
90 ZENITH INSURANCE CORPORATION	Common	800,000	NIL			800,000
91 ANTONIO S. LLORIN MENDOZA	Common	100,000	100		100,000	100,000
92 ADRIANA VERGEL DE ENOS	Common	170,500	NIL			170,500
93 ANITA SABLONIA	Common	100	NIL			100
94 ALBERTO ARAN	Common	40,700	NIL			40,700
95 ALICIA S. CRUZ	Common	5,400	NIL			5,400
96 ALMIRA YALTIERRA MEXICANA S.A.	Common	40,000	NIL			40,000
97 ALVAREZ, JOSE P.	Common	100	NIL			100
98 ALVARO, JAIMI	Common	4,000	NIL			4,000
99 ANTONIO A. MALLARI	Common	1,000,000	NIL			1,000,000
100 ANTONIO M. V. PASCOE	Common	11,000	NIL		11,000	-
101 ANDRES E. SOCHI	Common	11,700	NIL			11,700
102 ANGELES ALI DE YBES	Common	2,000	NIL		2,000	-
103 ANSALDO GONZALEZ & CO., INC.	Common	2,000,000	NIL			2,000,000
104 ANTONIA ROSALES YCAZATELLO	Common	11,000	NIL			11,000
105 ANTONIO P. MATINGAY	Common	4,200	NIL			4,200
106 ANTONIO ROSAS CHUA	Common	1,000,000	NIL			1,000,000
107 ANTONIO S. ROMAS CHUA JR.	Common	24,000	NIL			24,000
108 ANTONIO DEL ROSA NIXON	Common	200	NIL			200
109 ANTONIO MONTE R.	Common	100	NIL			100
110 ANTONIO MANUELO ENOSES	Common	30,000	NIL			30,000
111 ANTONIO, ROBERTO A.	Common	6,000	NIL			6,000
112 ANTONIO ALONSO	Common	100	100			100
113 BERNARDO, ROMEO L.	Common	100	NIL		100	-
114 BILLY B. YAO	Common	10,000	NIL			10,000
115 BUENAVENTURA P. DURAN	Common	140,000	NIL		140,000	-
116 BUREAU HANDEL EXHIBIT	Common	100	NIL			100
117 CARMON CHUA, ANTONIO I.	Common	100	NIL			100
118 CALLAR, CYRIL C. DEL CALLAR & OR JOSE P.	Common	1,000,000	NIL			1,000,000
119 CAROLINA SABLONIA	Common	200	NIL			200
120 CASTANEDA JR., CONSTANCIO T.	Common	100	NIL			100
121 CHAVEZ, JESUS ENO	Common	8,000	100			8,000

Name of Stockholder	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, annuities and other rights	Number of shares held by		
				Related parties	Officers, directors and employees	Others
122 CHLMO, OLGA D.	Common	100	NIL		100	
123 CHUA, JUST. RAFAEL CHUA & CO INC ANNE	Common	21,000	NIL		21,000	
124 CONCI TROLES ANANI LA	Common	750	NIL		750	
125 CONRADO RUIITEZ	Common	7,400	NIL		7,400	
126 CONSUELO M. MADRICAL	Common	1,250	NIL		1,250	
127 CHERNIS DE IGRO	Common	100	NIL		100	
128 CORTADO, HENRIKAI	Common	100	NIL		100	
129 COTOCO, NAZARO	Common	100	NIL		100	
130 CROCEL, ROSE RUIZ B	Common	1,000	NIL	1,000		
131 CRUZ, JUAN ROSAMBA	Common	100	NIL		100	
132 CRUZ, RAMON M DELA	Common	1,000	NIL		1,000	
133 CRUZ, NARCISON D CRUZ DE ACEVEDO	Common	5,000	NIL		5,000	
134 CUEVAS, FELICION R.	Common	500	NIL		500	
135 CUNYAN, FELIXO Y.	Common	15,500	NIL		15,500	
136 CUYO GRUPO INC, INCORPORATED	Common	100	NIL		100	
137 DAMILO J. GARCIA	Common	7,200	NIL		7,200	
138 DAVID C. COYUNOS	Common	200	NIL		200	
139 DAVID C. MORGANO	Common	27,500	NIL		27,500	
140 DE LA HELLEN Y.	Common	100	NIL	100	-	
141 DE SANTIAGO, JUAN D	Common	100	NIL		100	
142 DESUENO, HODOLFO O.	Common	100	NIL		100	
143 DIAZ, FLORENTINO I	Common	88,000	NIL		88,000	
144 DOMINGO, JUAN	Common	100	NIL		100	
145 DOMINIC, GERONIMO	Common	15,000	NIL	15,000		
146 EFRUARDI ECHAZ	Common	100	NIL		100	
147 EMBOLIO M. DELA Y	Common	257,500	NIL		257,500	
148 EUGENIA G. SILVA	Common	2,000	NIL	2,000	-	
149 ELIZABETH J. JARA D	Common	100	NIL		100	
150 FERNANDEZ, VICENTE T.	Common	100	NIL		100	
151 FRANCISCO DOMPLAS	Common	100	NIL		100	
152 FRANCISCO JOSE BUZALDE MURPALDE	Common	75,700	NIL		75,700	
153 FRANCISCO M. RAYBI	Common	1,100	NIL		1,100	
154 FRANCISCO, CLEOTILDE B.	Common	100	NIL		100	
155 FRANCISCO, HILARIO B	Common	100	NIL		100	
156 GARRA, MA. ANSELMA C.	Common	2,000	NIL		2,000	
157 GASAL, RUMON	Common	1,000	NIL		1,000	
158 GAITANER, RAFAEL C	Common	100	NIL		100	
159 GALVEZ, ANTONIO R.	Common	6,000	NIL		6,000	
160 GARCIA, LAYRON ENAY AGUIRRELA	Common	2,000	NIL		2,000	
161 GARCIA, ROSA GARCIA RUIZ GARCIA	Common	15,000	NIL		15,000	
162 GERNARDO A.S. MADRICAL	Common	1,000	NIL		1,000	
163 GIL LAZ, RAFAEL RUIZ	Common	3,000	NIL		3,000	
164 GO, BERNADETTE SY	Common	90,000	NIL		90,000	
165 GO, ANSELMO I	Common	1,000	NIL		1,000	
166 GO, HENE CHAN	Common	180,000	NIL		180,000	
167 HANSHI MI	Common	2,100	NIL		2,100	
168 HARLABDON M	Common	100	NIL		100	
169 HIRIKAYALA S. ILLON	Common	10,000	NIL	10,000		
170 HONOL REYNALDO P.	Common	100	NIL		100	
171 ISABELLA M. LAIBANIGRAY	Common	14,500	NIL		14,500	
172 JACINTO JR., FERNANDO P	Common	100	NIL		100	
173 JACQUELINE M. HALL III	Common	250,000	NIL		250,000	
174 JAMES E. C. DACTISTA	Common	280,100	NIL		280,100	
175 JEMPER C. MARTIN	Common	284,000	NIL		284,000	
176 JUDIC, MIP	Common	250,000	NIL		250,000	
177 JOSE R. RODAS	Common	100	NIL		100	
178 JUAN FRANCISCO I. JUAN	Common	100	NIL		100	
179 JUNTEREA, JR., FLEMON A.	Common	100	NIL		100	
180 KIRKES, HELEN JUDITH	Common	100	NIL		100	
181 KO PAO, RUFFE C.	Common	100	NIL		100	
182 KOLINI, NURINDI	Common	100	NIL		100	
183 KOKI, ANTONIO M.	Common	100	NIL		100	

Name of Stockholders	Title of Issue	No. of shares owned & underlying as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
184 LAZARUS, M. LINDA C.	Common	100,000	NIL	100,000	-	
185 LAYO, LUIS F.	Common	700	NIL	-	700	
186 LEE, JOSE C.	Common	100	NIL	-	100	
187 LEL, LLY B.	Common	250,000	NIL	-	250,000	
188 LEON, JAIMI S. III	Common	100	NIL	-	100	
189 LUCASOS JR., GREGORIO D.	Common	100	NIL	-	100	
190 LUCASOS, ABELARDO B.	Common	100	NIL	-	100	
191 LUY-SALASBA G. GRAC	Common	2,000	NIL	-	2,000	
192 LUY, DAN VINCE III (MRS) LUISA EXILIA LUIS	Common	60,000	NIL	-	60,000	
193 LUY, JAMES ORTEGA	Common	100	NIL	-	100	
194 LUY, PEDRO C.	Common	3,000	NIL	-	3,000	
195 LUY, ROGUE A.	Common	60,000	NIL	-	60,000	
196 LUPACUCU, JOSEL ALBUQUERQUE	Common	100	NIL	-	100	
197 LU, JOSE PHINE NUI	Common	21,000	NIL	-	21,000	
198 LUTCHER, JULIAN J.	Common	100	NIL	-	100	
199 LOURDES S. BONAS	Common	1,100	NIL	-	1,100	
200 LUCINA OCHOA P. LAGOS P.	Common	3,000	NIL	-	3,000	
201 LUCIANA C. TIBBT	Common	13,400	NIL	-	13,400	
202 LUY, MICHIEL M.	Common	17,400	NIL	-	17,400	
203 MA, LUISA MADRIGAL VASQUEZ	Common	400	NIL	-	400	
204 MACAHIA P. MARIANGAL	Common	2,000	NIL	-	2,000	
205 MACORJUN JR., BENARDO	Common	100	NIL	-	100	
206 MAE L. LUY, MARI FLORE	Common	100	NIL	-	100	
207 MACONAS, ALL JAHUHO P.	Common	100	NIL	-	100	
208 MAMA IZIA, ANEYVA	Common	2,100	NIL	-	2,100	
209 MANUEL A. TORRES JR.	Common	20,100	NIL	-	20,100	
210 MANUEL J. L. NISIBIE Z	Common	500	NIL	-	500	
211 MANUEL OYTOO	Common	500	NIL	-	500	
212 MARIANO L. OUI	Common	41,700	NIL	-	41,700	
213 MARIANO JR., JORGE T.	Common	100	NIL	-	100	
214 MAURO PINELLO	Common	11,000	NIL	-	11,000	
215 MARIANITA, JUDITH	Common	20,000	NIL	-	20,000	
216 MERCADO JR., DANIEL M.	Common	100	NIL	-	100	
217 MERRILL JR., DAVID P.	Common	100	NIL	-	100	
218 MERRITT, LUIS GONZALEZ	Common	200	NIL	-	200	
219 MORALES, RICHORDA B.	Common	100	NIL	-	100	
220 MORALES, J. MENDOZA	Common	100	NIL	-	100	
221 MATEO ANDRÉS, JAI	Common	4,000	NIL	-	4,000	
222 MORALES, MARIANA	Common	50,000	NIL	-	50,000	
223 MORRIMONY ANTONIO S. AGUIRRE	Common	10,000	NIL	10,000	-	
224 MORIS, ANTONIO C.	Common	100	NIL	-	100	
225 OLMA, DULCE MARIA S.	Common	20,000	NIL	-	20,000	
226 OMBRONCHI, LUCIO NICOLINI	Common	100	NIL	-	100	
227 OLAZAGA & OH CO. INC.	Common	7,000,000	NIL	-	7,000,000	
228 OLIVERA P. MAIZTERAI	Common	1,000	NIL	-	1,000	
229 OLIVERA RODRIGUEZ	Common	13,400	NIL	-	13,400	
230 OLIVERA, LAYLA	Common	100	NIL	-	100	
231 OLAZAGA, DE ROSAS	Common	6,200	NIL	-	6,200	
232 OLIVERA, SEBASTIAN	Common	15,000	NIL	-	15,000	
233 PETER T. ROSAS CHUA	Common	10,400	NIL	-	10,400	
234 OLIVERA, MARIANGAL	Common	100	NIL	-	100	
235 OLIVERA, CARMEN J.	Common	5,000	NIL	-	5,000	
236 OLIVERA G. CALLANZA	Common	13,500	NIL	-	13,500	
237 OLIVERA, KONSTANTIN	Common	100	NIL	-	100	
238 OLIVERA JR., JOSE M.	Common	100	NIL	-	100	
239 OLIVERA, CARLOS R.	Common	20,000	NIL	-	20,000	
240 REYES, OSCAR C.	Common	200	NIL	-	200	
241 OLIVERA, VICTOR H.	Common	100	NIL	-	100	
242 OLIVERA, ROMEO	Common	400	NIL	-	400	
243 OLIVERA DE, FERNANDO MARTIN G.	Common	1,000,000	NIL	-	1,000,000	
244 OLIVERA M. LUISA	Common	7,100	NIL	-	7,100	
245 OLIVERA, RUDAS	Common	400	NIL	-	400	

Name of Stockholders	Title of Issue	No. of shares issued & outstanding as shown under the related balance sheet caption	No. of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
246 TRIVARIN, PAUL GERARD B DEL	Common	24,020,000	NL			24,020,000
247 SALLUDO, R. ALI UNZUETI	Common	100	NL		100	-
248 SALVADOR, RICHARD NIÑO C	Common	100	NL			100
249 SANTOS, BENILDA S.	Common	2,112,000	NL			2,112,000
250 SAKULI, NILES RITTY	Common	100	NL			100
251 SANCHEZ, ADONIS PENALOSA	Common	1,000	NL			1,000
252 SEVERINO Y. ROMAS CHUA	Common	13,400	NL			13,400
253 SUDYEN, STEPHEN G.	Common	10,000	NL			10,000
254 SUDIMAN, DANIE LAHANI	Common	100	NL			100
255 SUNGA, PETER EUGENE J SUNGA AND PETS.	Common	300,000	NL			300,000
256 SUNGA, PRESIDENTE SUNGA AND GARIT	Common	375,000	NL			375,000
257 SURANO B. ORTIGAS	Common	1,100	NL			1,100
258 SY, PACITA L.	Common	20,000	LI			20,000
259 SY, WU KUN LU	Common	30,000	NI			30,000
260 TAN RUI CHUNG DE PUSKASCHINA	Common	80,000	NI			80,000
261 TAN, IZABELA	Common	100,000	NI			100,000
262 TAN HEEHONG DE TAN AXON DE MEXICO TAN	Common	270,000	NI			270,000
263 TANG, FURSTEN H.	Common	100	N-L			100
264 TE, MACARIO U.	Common	3,000,000	NI			3,000,000
265 TEO, SEPHIN F. DE LA CRUZ DE SIAH	Common	20,000	NI			20,000
266 THINCHAI AIRCRAFTS FINISCO AND BANK	Common	10,000	NI			10,000
267 TRINIDAD, ARMANDO G.	Common	100	NL			100
268 TURNER, PHILIP SCOTT BRUNN	Common	1,000	NL			1,000
269 UNSON JR., ALDAMIRO I	Common	100	NI			100
270 UNSON JR., DOMINICO I	Common	100	NL			100
271 UNSON, MA ANICAF.	Common	100	NL			100
272 UY JR., CARLOS F.	Common	100	NI			100
273 UY, FRANCISCO A.	Common	100,000	NI			100,000
274 UY, ROGELIO NOR MELDRE	Common	45,000	NL			45,000
275 VALENCIA, JESUS SAMILAN	Common	100	NI			100
276 VALERA, ESTEFANIA	Common	100	NL		100	-
277 VICENTE A.S. MAURICAL	Common	1,000	NI			1,000
278 VICENTE H. VELAZQUEZ	Common	2,000	NI		2,000	-
279 VICENTE M. BAYO I	Common	1,100	NI			1,100
280 VICTORIANO DE MEXICO	Common	300	NI			300
281 VILLANOR, ANTONIO B	Common	100	NL			100
282 VILLANOR, RICHARDA C.	Common	6,000	NI			6,000
283 WILLARDMAN, CESAR I	Common	2,000	NL			2,000
284 WENSHUP, GABRIEL	Common	400,000	NI		400,000	-
285 WONGAHAM, ANTHONY T.	Common	200	NL			200
286 YAN, LUKHUI YAN AXON DE SIAH Y	Common	50,000	NI			50,000
287 YAO CHIA YU & OR SELENA SY YAO & OR SH	Common	120,000	NL			120,000
288 YAO HUIHAI AOKIN	Common	100	NI			100
289 YAO, WILSON A.	Common	30,000	NL			30,000
290 YU, KUNYU DE YU AXON DE SIAH	Common	200,000	NI			200,000
291 YU, JIAN G. YU & OR JOHN PETER C.	Common	300,000	NL			300,000
292 YU HONGYU YU AXON DE SIAH	Common	100	NI		100	-
Total		2,181,964,000		407,311,000	757,800	1,773,896,000

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

18th Floor, Philippine AXA Life Center
Sen. Gil J. Puyat Avenue corner Tindalo Street, Makati city

**Reconciliation of Retained Earnings for Dividend Declaration
December 31, 2009**

UNAPPROPRIATED RETAINED EARNINGS FOR DIVIDEND DECLARATION AT BEGINNING OF YEAR		737,099,970
Net Income Realized for the year		
Net income per audited financial statements		103,039,357
Add (Less) Changes in Retained Earnings for the year		
Dividend declarations during the period	(86,387,104)	
Appropriations of retained earnings during the period	(10,303,936)	(96,691,040)
UNAPPROPRIATED RETAINED EARNINGS FOR DIVIDEND DECLARATION AT END OF YEAR		<u>743,448,287</u>