COVER SHEET

8 0 1 1 8
SEC Registration Number

NATIONAL REINSURANCE
CORPORATION OF THE
PHILIPPINES
(Company's Full Name)

18th FLOOR PHILIPPINE AXA LIFE
CENTRE SEN. GIL PUYAT CORNER
TINDALO STREET MAKATI CITY
(Business Address: No., Street City / Town / Province)

Atty. Noel A. Laman
Atty. Ma. Pilar Pilares-Gutierrez
Contact Person

817-6791 to 95
Company Telephone Number

1 2 | 3 1
Month | Day
Fiscal Year

SEC Form 20-IS
Preliminary Information Statement
FORM TYPE

0 6 | 2 7
Month | Day
Annual Meeting

Secondary License Type, If Applicable

C F D
Dept Requiring this Doc

Amended Articles Number / Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [√] Preliminary Information Statement

   [ ] Definitive Information Statement

2. Name of Corporation as specified in its charter:
   National Reinsurance Corporation of the Philippines, doing business under the names and styles of Philippine National Reinsurance Company; PhilNaRe

3. Province, country or other jurisdiction of incorporation or organization: **Philippines**

4. SEC Identification Number: **80118**

5. BIR Tax Identification Code: **000-480-869**

6. Address of principal office Postal Code: **18th Floor, Philippine AXA Life Centre**
   Sen. Gil Puyat Avenue corner Tindalo Street
   Makati City 1200 Philippines

7. Corporation's telephone number, including area code: **(632) 759-5801 to 06**

8. Date, time and place of the meeting of security holders:
   June 27, 2012, Wednesday
   3:00 P.M.
   Carlos P. Romulo Auditorium
   Podium 4, Tower II, RCBC Plaza
   6819 Ayala Avenue, Makati City

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **June 1, 2012**

10. In case of Proxy Solicitations:

    Name of Person Filing the Statement/Solicitor: **The Management of the Corporation**

    Address and Telephone No.: **18th Floor, Philippine AXA Life Centre**
    Sen. Gil Puyat Avenue corner Tindalo Street
    Makati City 1200 Philippines

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

Title of Each Class	No. of Shares Outstanding	Amount
Common Shares	2,123,605,600	Php2,123,605,600.00
TOTAL	2,123,605,600	Php2,123,605,600.00

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

Yes (√) No ( )

PART I
INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, Time and Place of Meeting

The enclosed proxy is solicited for and on behalf of the Management of **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**, *doing business under the names and styles of Philippine National Reinsurance Company; PhilNaRe* (hereinafter called the "Corporation") for use in connection with the annual meeting of the stockholders to be held on June 27, 2012 (Wednesday), at 3:00 P.M. at the Carlos P. Romulo Auditorium, Podium 4, Tower II, RCBC Plaza, 6819 Ayala Avenue, Makati City.

The information statement and form of proxy will be sent to the stockholders of record as of May 15, 2012 (the "Record Date") on or before June 1, 2012.

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

The complete mailing address of the Corporation is:

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

Item 2. Dissenter's Right of Appraisal

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

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

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

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders thereof

(a) As of the Record Date which is May 15, 2012, the date to determine the stockholders entitled to notice and to vote at the annual stockholders meeting on June 27, 2012, the Corporation has the following outstanding shares:

Common shares (voting) - 2,123,605,600 shares

(b) Only holders of Common Shares as of the Record Date shall be entitled to vote in the election of directors in the manner provided hereunder. On the approval of the minutes of the previous meeting, ratification of all acts of the Board of Directors and officers during the previous year, amendment of the articles of incorporation to increase the number of directors, the amendment of the by-laws, the delegation to the Board of the authority to further amend the by-laws, and the appointment of the independent auditor, each share of outstanding common stock is entitled to one vote.

(c) In the election of directors, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of common shares of stock standing in his name at record date. A stockholder entitled to vote may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast by a stockholder shall not exceed the number of shares owned by him as shown in the books of the Corporation multiplied by the whole number of directors to be elected.

(d) Security Ownership of Certain Record and Beneficial Owners

The following table sets forth as of April 30, 2012, 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[1] (BPI has no relationship with the Company, except for its shareholdings of more than 10% of the Company's outstanding capital stock.)	Bank of Philippine Islands Ayala Avenue corner Paseo de Roxas, Makati City	Filipino	290,795,500	13.69%

1 Persons authorized to direct the voting of the aforementioned shares shall be based on the proxy forms to be submitted to the Corporation.

Common	PCD Nominee Corporation. (Filipino) G/F MSE Building 6754 Ayala Ave. Makati City (PCD has no relationship with the Company.)	MICO Equities Inc. Yuchengco Bldg., 484 Quintin Paredes Street, Manila	Filipino	273,717,100	12.89%
Common	PCD Nominee Corporation. (Filipino) G/F MSE Building 6754 Ayala Ave. Makati City (PCD has no relationship with the Company.)	Government Service Insurance System, New GSIS Headquarters, Financial Center, Pasay City	Filipino	546,466,200	25.73%
		Other shareholders (Except for MICO and GSIS above, no shareholder owns more than 5% of the outstanding shares of the Corporation through PCD Nominee Corporation.)	Filipino	665,833,133	31.35%

(e) Security Ownership of Management

The following table sets forth as of April 30, 2012, 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	Helen Y. Dee	100 Beneficial	Filipino	0.000005%
Common	Robert G. Vergara	1,000 Beneficial	Filipino	0.000047%

Common	Gregorio T. Yu	1,000 Beneficial	Filipino	0.000047%
Common	Alfonso Salcedo	100 Beneficial	Filipino	0.000005%
Common	Roberto B. Crisol	1,000 Record	Filipino	0.000047%
Common	Yvonne Yuchengco	26,000 Record	Filipino	0.001224%
Common	Malayan Insurance Company, Inc. (assigned to Yvonne S. Yuchengco as nominee director)	100 Beneficial	Filipino	0.000005%
Common	Ermilando D. Napa	1,000 Beneficial	Filipino	0.000047%
Common	Jose Teodoro K. Limcaoco	100 Beneficial	Filipino	0.000005%
Common	Romeo L. Bernardo	100 Record	Filipino	0.000005%
Common	Danilo A. Gozo	1000 Beneficial	Filipino	0.000047%
Common	Medel T. Nera	1,000 Beneficial	Filipino	0.000047%
Common	**TOTAL FOR DIRECTORS**	**32,500**		**0.00153%**
Common	Amerfil V. Basco	31,800 Record	Filipino	0.001497%
Common	Edgar Villasenor	50,000 Record	Filipino	0.002354%
Common	Vicente B. Villarama, Jr.	12,800 Record	Filipino	0.000603%
Common	**TOTAL FOR OTHER OFFICERS**	**94,600**		**0.00445%**
Common	**GRAND TOTAL**	**127,100**		**0.00599%**

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

(f) Voting Trust Holders of 5% or more

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

(g) Changes in Control

From January 1, 2012 to date, there has been no change in control of the Corporation. Neither is the Corporation aware of any arrangement which may result in a change in control of it.

Item 5. Directors and Executive Officers

(a) Incumbent Directors and Executive Officers.

The 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
Helen Yuchengco - Dee	Chairperson	67	Filipino
Robert G. Vergara	Vice Chairman	51	Filipino
Roberto B. Crisol	Director/President/Chief Executive Officer	59	Filipino
Alfonso L. Salcedo, Jr.	Director/Treasurer	56	Filipino
Yvonne S. Yuchengco	Director	57	Filipino
Gregorio T. Yu	Director	53	Filipino
Jose Teodoro K. Limcaoco	Director	49	Filipino
Danilo A. Gozo	Director	66	Filipino
Romeo L. Bernardo	Independent Director	57	Filipino
Ermilando D. Napa	Independent Director	62	Filipino
Medel T. Nera	Independent Director	56	Filipino

On April 19, 2012, the Board of Directors of the Corporation approved the amendment of the Corporation's articles of incorporation to increase the number of directors from 11 to 13, at least 3 of whom shall be independent directors. The directors who will occupy the additional two seats on the board will be elected at the annual stockholders meeting scheduled on June 27, 2012, but they will assume office only upon approval by the Securities and Exchange Commission ("SEC") of the amended articles of incorporation of the Corporation.

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	59	Filipino
John E. Huang	Senior Vice President and Chief Financial Officer	54	Filipino
Noel A. Laman	Corporate Secretary	72	Filipino
Ma. Pilar M. Pilares-Gutierrez	Assistant Corporate Secretary	35	Filipino
Roberto S. de Leon II	First Vice President - Non-Life Division	52	Filipino
Augusto C. Cipriano	First Vice President - Life Division	58	Filipino
Edgar B. Villaseñor	First Vice President – Corporate Services / Risk Management Division	58	Filipino

Amerfil V. Basco	Vice President for Reinsurance Accounting	51	Filipino
Regina S. Ramos	Vice President for Internal Audit	49	Filipino
Vicente B. Villarama, Jr.	Vice President for General Accounting	54	Filipino
Marissa P. Aldeano	Vice President - Treasury and Investments	50	Filipino
Rene de Guzman	Vice President for Information Technology	49	Filipino

(b) Term of office.

The term of office of the Directors and executive officers is one (1) year from their election as such until their successors are duly elected and qualified. As earlier discussed, however, the two directors who will be elected to occupy the two additional seats in the board will assume office only upon approval by the SEC of the Corporation's amended articles of incorporation.

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

Helen Yuchengco-Dee, Chairperson 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 of 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., Sun Life GREPA Financial, Inc., 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.

Robert G. Vergara, Vice Chairman of the Board, Director of the Corporation since June 2010. Mr. Vergara is the current President and General Manager of the Government Service Insurance System (GSIS). Prior to his appointment to GSIS, Mr. Vergara was Managing Director and the Founding Partner of Cannizaro Limited (Hong Kong), a multi-strategy hedge fund manager investing in Asian markets. He was Director of Dresdner Kleinwort Wasserstein Securities (Asia) Ltd. from June to August 2001, and Principal of Morgan Stanley Ltd. from 1997 to 2001 where he set up and managed the firm's Asian proprietary trading activities. Immediately before that, Mr. Vergara worked at IFM Trading, a pioneering hedge fund based in the city of London that specialized in arbitrage and derivative trading strategies in global capital markets. He graduated from the Harvard Graduate School of Business Administration in Massachusetts, USA, in 1986 and he earned his Bachelor of Science degrees in Management Engineering and Mathematics, *magna cum laude*, from the Ateneo de Manila University in 1982.

Roberto B. Crisol, Director, President and Chief Executive Officer since January 2009. Mr. 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. He subsequently joined Universal Reinsurance Corporation (URC) where attained the position of Vice President of the Non-Life Foreign Business & Retrocession Division. Mr. Crisol is a Member of the

Board of Trustees of the Insurance Institute for Asia and the Pacific (IIAP), where he also conducts training courses on reinsurance. He earned his Bachelor of Arts degree, major in Economics, *cum laude,* from the University of the Philippines.

Danilo A. Gozo, Director since June 2011. Mr. Gozo is currently the Chairman and CEO of Relationship Management Consultants. He is a member of the GSIS Board of Trustees, Executive Consultant of Lopez Holdings Corporation and Communications Adviser of SGV Foundation. He is a Board member of the Freedom Fund for Filipino journalists and member of the Public Relations Society of the Philippines. He was Assistant Vice President and PR Director of Ayala Corporation from 1989 to 2002, Board member of Philippine Amusement and Gaming Corporation from 1986 to 1988 and 2001 to 2008, Vice President and Head of PR Services of Ace Saatchi and Saatchi Advertising Co. from 1974 to 1986. Mr. Gozo earned his Bachelor of Arts degree in Journalism from the University of the Philippines in 1968. He also took the Advanced Course in Broadcast News Editing and Management as a Colombo Plan Scholar at the British Broadcasting Corp. School, UK, 1971.

Jose Teodoro K. Limcaoco, Director since June 2009. Mr. Limcaoco is the President of BPI Family Bank, the consumer banking subsidiary of the Bank of the Philippine Islands and BPI's Group head for the Insurance businesses He is also a Director of BPI Philam Life Assurance Corporation, BPI/MS Insurance Corporation and Ayala Plans, Inc. Prior to his assignment at BPI Family Bank, he was the President of BPI Capital Corporation. He is also a Managing Director at Ayala Corporation and has worked with Ayala since 1998. 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 Wharton School of the University of Pennsylvania.

Alfonso L. Salcedo, Jr., Director since June 2002. Mr. Salcedo is the Head of the Corporate Banking Division of Bank of the Philippines Islands since July, 2010. He is also a Director of BPI/MS Insurance Corporation. He has held the following positions: President of BPI Family Savings Bank, Inc. (2004-2010), BPI Insurance Group, BPI Bancassurance, Inc., Ayala Life Assurance, Inc., Ayala Plans, Inc.; 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 honors with a Bachelor of Arts degree in Economics Honors Program from the Ateneo de Manila University in 1977. He also took the Advanced Management Program at the Harvard Business School in 2006.

Gregorio T. Yu, Director since July 2010. Mr. Yu is a Trustee of the GSIS. He is also concurrently Chairman of CATS Motors Inc., Chairman of the Executive Committee of Philippine Bank of Communications, Vice Chairman of Sterling Bank of Asia, Director of Philippine Airlines, Philequity Fund, Iremit Inc., Unistar Credit and Finance Corporation, Prople BPO, Yehey Corporation, e-Ripple Corporation, WSI Corporation, Nexus Technologies, Jupiter Systems Corporation. He is also a Trustee of Xavier School Inc., and a Board Member of Ballet Philippines and The Manila Symphony Orchestra. He was formerly President and CEO of Belle Corporation, Tagaytay Highlands International Golf Club, Inc., Tagaytay Midlands Golf Club and the Country Club at Tagaytay Highlands, Vice Chairman of APC Group and Philcom. He was also formerly a director of International Exchange Bank and Vantage Equities Corporation. He was a Director for Corporate Finance of Chase Manhattan Asia in Hong Kong and a Vice President, Area Credit for the Chase Manhattan Bank Regional Office in Hong Kong. He received his MBA from the Wharton School of the University of Pennsylvania and his Bachelor of Arts in Economics (Honors Program) Summa Cum Laude from De La Salle University.

Yvonne S. Yuchengco, Director since June 2006. Ms. Yvonne S. Yuchengco is the President and Director of Malayan Insurance Company, Inc. since 1995, and MICO Equities, Inc. since 1995. She is currently the Chairperson of RCBC Capital Corporation; Director of Rizal Commercial Banking

Corporation; CFO, Treasurer and Director of Pan Malayan Management & Investment Corporation and Honda Cars Kalookan; Director of Pan Malayan Realty Corporation, Malayan Insurance (U.K), Malayan Insurance (H.K), Malayan International Insurance Corporation, Manila Memorial Park, Inc., Mapua Institute of Technology, La Funeraria Paz Sucat Inc., iPeople Inc., Seafront Resources Corporation, Petro Energy Resources Corp., Malayan High School of Science Inc., Yuchengco Museum, Inc., House of Investment, HYDee Management and Resource Corporation, Malayan College, Laguna and Luisita Industrial Park Corporation; Director and President of Philippine Integrated Advertising Agency, Inc.; President of PIA/Phil-Asia Assistance Foundation, Inc.; Chairperson of First Nationwide Assurance Corporation, XYZ Assets Corporation and Malayan Plaza Condominium Association Inc.; Board of Trustees member of AY Foundation; Assistant Treasurer of Enrique T. Yuchengco Inc. She graduated with a Bachelor of Arts degree from Ateneo de Manila University in 1977 and took up further studies in UAP under SBEP program.

Romeo L. Bernardo, Independent Director since June 2006. Mr. Bernardo is Managing Director of Lazaro Bernardo Tiu and Associates (LBT), a boutique financial advisory firm based in Manila, and GlobalSource economist in the Philippines. He is Chairman of ALFM Family of Funds and Philippine Stock Index Fund and a Director of several companies and organizations including Aboitiz Power, BPI, Globe Telecom, RFM Corporation, Philippine Investment Management, Inc. (PHINMA), Philippine Institute for Development Studies (PIDS), BPI-Philam Life Assurance Corporation and Institute for Development and Econometric Analysis. He previously served as Undersecretary of Finance and as Alternate Executive Director of the Asian Development Bank. He was an Advisor of the World Bank and the IMF (Washington D.C.), and served as Deputy Chief of the Philippine Delegation to the GATT (WTO), Geneva. He was formerly President of the Philippine Economics Society; Chairman of the Federation of ASEAN Economic Societies and a Faculty Member (Finance) of the University of the Philippines. Mr. Bernardo holds a degree in Bachelor of Science in Business Economics from the University of the Philippines (*magna cum laude*) and a Masters degree in Development Economics at Williams College (top of the class) from Williams College in Williamstown, Massachusetts.

Ermilando D. Napa, Independent Director since June 2011. Mr. Napa's business experience for the past five years includes directorships in Manila Consulting & Management Company, Inc., Century Woods, Inc. and Catanauan Resources and Development Corporation. Mr. Napa currently serves as Director and Chairman of the Audit Committee of the CIIF Oil Mills Group, Shareholder and Director of the L'Opera Group of Restaurants. He is the Founder and CEO of Manila Consulting & Management Company, Inc., Century Woods, Inc. and Catanauan Resources and Development Corporation. Previously, he was a Partner of SyCip Gorres Velayo & Company (Philippines) and also a Principal of Kassim Chan & Company in Kuala Lumpur, Malaysia, a former member firm of SGV Group and Delloite Haskins & Sells International. He was also formerly Manager of Arthur Andersen in New York. He has attended special training and various courses such as Strategic Management in St. Charles Chicago, Corporate Finance in New York and IMPACT Productivity Improvement in St. Charles, Chicago. Mr. Napa holds a degree of Bachelor of Science in Business Management from the Aquinas University where he graduated in 1970. He obtained his Masters in Management at the Asian Institute of Management in 1980.

Medel T. Nera, Independent Director since July 2011. Mr. Nera is President and CEO of House of Investments, Inc. and President of RCBC Realty Corp. He serves as Director of House of Investments and its significant subsidiaries and associates. He also serves as Director of Rizal Commercial Banking Corporation and Seafront Resources Corp. He was a former senior partner of SyCip, Gorres, Velayo and Co., CPAs (SGV) where he served as Financial Services Practice Head. He also serves as Director and Treasurer of CRIBS Foundation Inc. Mr. Nera holds a degree in Bachelor of Science in Commerce from Far Eastern University where he graduated in 1976. He obtained his Master of Business Administration degree from New York University in 1980.

Noel A. Laman, Corporate Secretary since June 2007. He is a founder and a Senior Partner of Castillo Laman Tan Pantaleon & San Jose Law Offices. He serves as a Director and/or Corporate Secretary of GlaxoSmithKline Philippines Inc, Boehringer Ingelheim (Phils.), Inc., Merck Inc. and Eli Lilly (Phils.), Inc. He also serves as Corporate Secretary of DMCI Holdings, Inc. and its various subsidiaries. He obtained his Bachelor of Jurisprudence and Bachelor of Laws degrees from the University of the Philippines College of Law. He obtained a Master of Laws degree in 1963 from the University of Michigan Law School as a De Witt Fellow. His law practice concentrates on corporation and business law. He is an active member of the Intellectual Property Association of the Philippines, the Intellectual Property Foundation, and the Philippine Bar Association. He acts as resource person of various foreign chambers of commerce. He is the firm representative to the State Capital Group, an international association of law firms.

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 is the Assistant Corporate Secretary of DMCI Holdings, Inc. and its various subsidiaries. She holds the position of Corporate Secretary/Assistant Corporate Secretary in several other Philippine corporations.

John E. Huang, Senior Vice President, Chief Financial Officer. He joined UMRe in 2004 as its Chief Finance Officer. Prior to joining UMRe, 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 Bachelor of Arts degree in Economics Honors, *magna 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.

Augusto C. Cipriano, First 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).

Roberto S. De Leon II, First Vice President, Non-Life Division. 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.

Edgar B. Villasenor, First 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.

Amerfil 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.

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 Baliuag University in 1982

Marissa P. Aldeano, Vice President for Treasury and Investments. Ms. Aldeano joined URC in 1982 and was head of UMRe'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.

Rene De Guzman, Vice President for Information Technology Services. Mr. De Guzman joined the Company in March 2009. Prior to that, 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.

(d) Independent Directors.

Mr. Romeo L. Bernardo, Mr. Ermilando D. Napa and Mr. Medel T. Nera are currently the Corporation's Independent Directors. Mr. Bernardo has been an independent director since June 2006, while Messrs. Napa and Nera have been independent directors of the Corporation since June 2011 and July 2011, respectively.

Under its By-Laws, the Corporation is required to have at least two (2) Independent Directors or such number of Independent Directors as shall be required under the applicable rules and regulations of the Insurance Commission and the Securities and Exchange Commission. For the year 2012-2013, the Corporation intends to have a total of three (3) independent directors. The Final List of Candidates for Independent Directors (Annex A) includes:

1. Mr. Romeo L. Bernardo who was nominated by Edgar B. Villasenor;
2. Mr. Ermilando D. Napa who was nominated by Vicente B. Villarama, Jr.; and
3. Mr. Medel T. Nera who was nominated by Amerfil V. Basco.

The nominees for independent directors are not related to the persons who have nominated them as such. The three (3) nominees for Independent Directors were selected by the Board Nomination Committee in accordance with the guidelines in the Manual of Corporate Governance, the Insurance Commission Circular No. 31-2005 dated September 26, 2005, the Revised Code of Corporate Governance (SEC Memorandum Circular No. 6, Series of 2009), and the Guidelines on the nomination and election of Independent Directors (SRC Rule 38). The Nomination and Compensation Committee is composed of the following:

Chairman:	Robert G. Vergara
Vice-Chairperson:	Yvonne S. Yuchengco
Members:	Ermilando D. Napa
	Alfonso L. Salcedo, Jr.
Ex-officio:	Rafael C. Gallaga

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

Robert G. Vergara	President and General Manager of GSIS
Helen Yuchengco-Dee	Director of the Philippine Long Distance Telephone Company; Chairman/President of Hydee Management & Resources, Inc.; President of Moira Management, Inc; Chairman and CEO of Tameena Resources, Inc.; Chairman of Landev Corp.; Member of the Mapua Board of Trustees; Chairman, President, and CEO of House of Investments; Chairman of HI-Eisai Pharmaceuticals, Inc.; Chairman of the Manila Memorial Park Cemetery, Inc.; Director of Petro Energy Resources; Director and Excom Member of Great Life Financial Assurance Corporation; Director of the South Western Cement Corp.; Director of the Seafront Resources Corp.; Chairman of the Mapua Information Technology Center, Inc.; Director of the Malayan Insurance Co.; Director of MICO Equities, Inc.; President of YGC Corporate Services, Inc.; Chairman/President of Grepalife Fixed Income Fund Corp.; Chairman/President of Grepalife Asset Management Corp.; Director of Pan Malayan Management & Investment Corp.; Vice Chairman of Pan Malayan Management & Investment Corporation; Board Member and Chairman of Rizal Commercial Banking Corporation; Director of Honda Cars Philippines, Inc.; Director of Isuzu Philippines, Inc.; Board Member of EEI Corporation;; Chairperson of Pan Malayan Realty Corp.; Director of Pan Malayan Express; Director of Honda Cars Kalookan; Director and Chairman of Excom of RCBC Forex Brokers Corp.; Chairperson/President & Director of Financial Brokers Insurance Agency, Inc.; President of GPL Holdings; and Director, Great Pacific Life Assurance Corporation; Chairman of the Malayan Insurance Company; Vice President of A.T. Yuchengco, Inc.; Chairperson of Merchants Bank; and Chairman of Xamdu Motors Inc.
Alfonso L. Salcedo, Jr.	Director of BPI/MS Insurance Corporation; Vice President of Bank of the Philippine Islands
Yvonne S. Yuchengco	President and Director of Malayan Insurance Company, Inc., and MICO Equities, Inc.
Gregorio T. Yu	Chairman of CATS Motors Inc., Vice Chairman of Sterling Bank of Asia, Director of Philequity Fund, Iremit Inc., Prople BPO, Yehey Corporation, e-Ripple Corporation, WSI Corporation, Nexus Technologies, and Jupiter Systems Corporation.
Romeo L. Bernardo	Independent Director of Bank of the Philippine Islands and Ayala Life Assurance, Inc.

Jose Teodoro K. Limcaoco	President of BPI Family Bank, Inc. and a Director of Ayala Life Assurance Inc., and BPI/MS Insurance Corporation

Mr. Romeo L. Bernardo, Mr. Ermilando D. Napa and Mr. Medel T. Nera are currently the Corporation's Independent Directors. To be considered independent directors under IC Circular Letter No. 31-2005, one: (i) has not been an officer or employee of the company for the last three years immediately preceding his term or incumbency; (ii) is not related by consanguinity or affinity to an officer in a senior management position in the company; and (iii) does not provide services, and receives no income for other professional services to the company. The Corporation has no transactions with Lazaro, Bernardo, Tiu & Associates. Neither does the Corporation have transactions with Messrs. Bernardo, Napa and Nera.

(f) Family Relationship

Ms. Helen Yuchengco-Dee and Ms. Yvonne S. Yuchengco, both directors of the Corporation, are sisters.

(g) Resignation/Re-election

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

(h) Involvement in Legal Proceedings

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

- Any bankruptcy petition filed by or against any business of which the person was a general partner or executive officer, either at the time of the bankruptcy or within 2 years prior to that time;

- Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, traffic violations and other minor offenses;

- Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

- Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

The Company, on the other hand, is presently 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 NRCP 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 NRCP and the other reinsurers, because the liability of the reinsurers is contingent on the liability of GSIS in the main complaint. In an Order dated December 12, 2008, the court suspended the proceedings against NRCP 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.

Trial in the main case is ongoing.

2. *National Reinsurance Corporation of the Philippines vs. Stronghold Insurance Company*
   Civil Case No. 10-1036
   Regional Trial Court, Makati City, Branch 142

This is a complaint filed by NRCP for sum of money with damages and application for attachment with respect to its claims against Stronghold Insurance Company, Inc. ("Stronghold").

On its first claim, NRCP is the reinsurer of a bankers blanket bond under GSIS Policy No. BBB-95021 between the Land Bank of the Philippines ("LBP") and GSIS as insurer. NRCP reinsured its risk with Stronghold. With the occurrence of the contingency insured under the bankers blanket bond, LBP filed an insurance claim from GSIS. GSIS paid the amount of ₱49,000,000.00 to LBP. GSIS then filed its claim with NRCP, which, in turn, filed its claim with Stronghold. NRCP has since paid GSIS's claim for ₱38,513,885.40. Despite demand by NRCP, Stronghold failed to pay.

With regard the second claim, GSIS and Bangko Sentral ng Pilipinas ("BSP") entered into a fire insurance contract. GSIS, in turn, reinsured its risk with NRCP. NRCP 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 covered by the insurance. GSIS paid BSP's claim and NRCP then paid its share of the GSIS claim amounting to ₱63,321,280.00 for the buildings and ₱9,254,912.01 for the contents of the building which were lost due to fire. Thereafter, NRCP notified Stronghold of the total amount of its share in the loss, which amounts to ₱57,564,800.39 for the buildings and ₱8,413,556.67 for its contents. Despite repeated demands, Stronghold refused to pay its share of the loss to NRCP.

The hearing on the application for the issuance of a *writ* of preliminary attachment is on-going.

3. *National Reinsurance Corporation of the Philippines vs. Stronghold Insurance Company, Inc.*
   I.C. Adm. Case No. RD-422
   Insurance Commission, Manila

This is a complaint filed by NRCP with the Insurance Commission against Stronghold for the revocation or cancellation of Stronghold's license to conduct insurance business, with respect to NRCP's claim as discussed in item No. 2 above.

Despite several meetings between the parties, they were not able to come up with a settlement. The parties have filed their respective position papers, and the case has been submitted for resolution.

(i) Significant employees

Although the Corporation has and will likely continue to rely significantly on the continued individual and collective contributions of its senior management team, the Corporation is not dependent on the services of any particular employee. It does not have any special arrangements to ensure that any employee will remain with the Corporation and will not compete upon termination.

(j) Certain Relationships and Related Transactions

The 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 2010 and 2011:

SHAREHOLDER/ DIRECTOR CORPORATION	2010				2011			
In Million PHP	**Inward**	**Outward**	**Receivable**	**Payable**	**Inward**	**Outward**	**Receivable**	**Payable**
GSIS	**795.25**	**13.31**	**524.40**	**553.25**	**921.62**	**.27**	**419.62**	**651.67**
Ayala Life Assurance, Inc.	16.61	2.63	10.69	3.91	(3.92)	3.00	6.31	6.63
BPI/MS Insurance Corporation	184.87	(.14)	51.50	249.9	184.50	-	50.27	149.27
FGU Insurance Corporation	.84	.27	.03	.18	-	-	.35	.65
Total BPI Group	**202.32**	**2.76**	**62.22**	**253.99**	**180.58**	**3.00**	**56.93**	**156.55**
First Nationwide Assurance Corp.	-	-	.04	50.07	-	-	.13	50.11
Great Pacific Life Assurance Corp.	4.05	-	5.47	3.65	2.5	.46	3.70	3.55
Malayan Insurance Company, Inc.	63.66	150.98	17.25	99.69	37.60	74.60	5.10	99.86
Malayan Zurich Insurance Company, Inc.	-	-	-	-	-	-	.12	-

Tokio Marine Malayan Insurance Corporation	10.20	.39	5.30	30.25	4.00	-	1.6	5.69
Total Malayan Group	**77.91**	**151.37**	**28.06**	**183.66**	**44.10**	**75.06**	**10.65**	**159.21**

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 depositary of such securities. For services rendered, BPI is entitled to the custodianship fees based on the net asset value of the fund. The Agreement shall continue in full force and effect unless sooner terminated by either of the parties concerned for any reason whatsoever upon giving the other party at least 30 days advance written notice of termination.

2. *Investment Management Agreement.* On December 14, 2006, the Corporation entered into an Investment Management Agreement with BPI for purposes of appointing BPI as Investment Manager and to invest and reinvest the funds deposited in an investment management account with BPI. As compensation for services, BPI shall be entitled to collect such reasonable compensation to be paid out of the fund. The Agreement shall continue in full force and effect unless sooner terminated by either of the parties concerned for any reason whatsoever upon giving the other party at least 30 days advance written notice of termination.

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

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

Item 6. Compensation of Directors and Executive Officers

ANNUAL COMPENSATION IN PHILIPPINE PESOS

Name	Year	Salary	Bonus	Other annual compensation	Total
CEO and key executive officers named	2010	18,756,000	3,126,000	1,067,423	22,949,423
All other officers and directors as a group unnamed		15,065,600	2,510,933	4,922,642	22,499,175

CEO and key executive officers named	2011	19,254,346	3,182,370	1,501,401	23,938,117
All other officers and directors as a group unnamed		15,445,077	2,686,717	4,654,894	22,786,687
CEO and key executive officers named	2012 (Estimates)	18,193,140	3,032,190	1,142,115	22,367,445
All other officers and directors as a group unnamed		12,081,510	2,013,585	4,849,856	18,944,951

Officers and directors named for 2011 include the following:

1. Roberto B. Crisol, President and CEO
2. Armando Malabanan, Executive Vice President and COO (retired on February 29, 2012);
3. John E. Huang, Senior Vice President and CFO;
4. Roberto S. De Leon, First Vice President, Non-life Division; and
5. Augusto A. Cipriano, First Vice President, Life Division

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 therein 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, and the performance bonus system approved by the stockholders during the June 23, 2008 annual stockholders' meeting, 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, is covered by an employment contract. The contract with Mr. Crisol has a term of two years or until December 31, 2013, renewable for another year at the sole option of the Corporation.

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

Item 7. Independent Public Accountant

(a) The auditing firm of Punongbayan & Araullo will be recommended to the stockholders for appointment as the Corporation's principal accountant for the ensuing fiscal year. Conformably with SRC Rule 68(3)(b)(iv), the Corporation's independent public accountant shall be rotated, or the handling partner shall be changed, every 5 years. A two-year cooling off period shall be observed in the re-engagement of the same signing partner or individual auditor. Mr. Leonardo D. Cuaresma, Jr., audit partner of Punongbayan & Araullo, has been on the engagement for less than five years.

(b) Punongbayan & Araullo was the same principal accountant of the Corporation for the fiscal year most recently completed (December 31, 2011).

(c) Representatives of Punongbayan & Araullo are expected to be present at the stockholders' meeting to be held on June 27, 2012. They will have the opportunity to make a statement if they desire to do so and they are expected to be available to respond to appropriate questions.

(d) Punongbayan & Araullo has neither shareholdings in the Corporation nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Corporation. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines.

(e) There are no disagreements on any matter of accounting principle or practices, financial statement disclosures, etc., between Punongbayan & Araullo and the Corporation.

(f) The Company's Audit Committee is composed of the following:

Chairman:	Mr. Medel T. Nera
Vice-Chairman:	Mr. Romeo L. Bernardo
Member:	Mr. Ermilando D. Napa

Item 8. Compensation Plan

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

C. <u>ISSUANCE AND EXCHANGE OF SECURITIES</u>

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

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

Item 10. Modification or Exchange of Securities

There are no matters or actions to be taken up with respect to the modification or exchange of the Company's securities.

Item 11. Financial and Other Information

The audited financial statements as of 31 December 2011, Management's Discussion and Analysis, Market Price of Shares and Dividends and other data related to the Company's financial information are attached hereto as "Annex B."

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

There is no action to be taken with respect to any merger, consolidation or acquisition.

Item 13. Acquisition or Disposition of Property

There is no action to be taken with respect to any acquisition or disposition of property.

Item 14. Restatement of Accounts

There is no action to be taken with respect to the restatement of any asset, capital, or surplus account of the Company.

D. OTHER MATTERS

Item 15. Action with respect to Reports

Summary of Items to be Submitted for Stockholders' Approval

(1) Approval of the Minutes of the Annual Stockholders' Meeting held on June 30, 2011

The minutes of the annual stockholders' meeting held on June 30, 2011 will be submitted for approval of the stockholders at the annual meeting to be held on June 27, 2012. Below is a summary of the items and/or resolutions approved at the annual stockholders' meeting held on June 30, 2011:

(a) The Chairman of the Board of Directors of the Corporation called the meeting to order. The Secretary of the meeting certified that a quorum existed for the transaction of business.

(b) The stockholders approved the minutes of the annual stockholders' meeting held on June 29, 2010.

(c) The Chairman delivered his message.

(d) The President of the Corporation presented the management report. He presented the highlights of the performance of the Corporation, the details of which were incorporated into the Corporation's annual report as distributed to the stockholders. The management report included a discussion on underwriting, operations, investment, financial report, outlook and plans. Upon motion duly made and seconded, the management report was approved.

(e) Upon motion duly made and seconded, the stockholders ratified the acts of the officers and the Board of Directors of the Corporation performed or undertaken in the year 2010 and until June 30, 2011.

(f) Upon motion duly made and seconded, the accounting firm Punongbayan & Araullo was appointed as external auditors of the Corporation for the then current fiscal year.

(g) The following were elected as directors of the Corporation for the then current year, to serve as such for a period of one year and until their successors shall have been elected and qualified:

Regular Directors:

Helen Y. Dee
Robert G. Vergara
Roberto B. Crisol
Yvonne S. Yuchengco
Alfonso L. Salcedo, Jr.
Jose Teodoro K. Limcaoco
Danilo A. Gozo
Gregorio T. Yu

Independent Directors:
Romeo L. Bernardo
Ermilando D. Napa
Rizalino S. Navarro

(i) Upon motion duly made and seconded, the annual stockholders' meeting was adjourned.

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

Resolutions, contracts, and acts of the board of directors and management for ratification refer to those passed or undertaken by them during the year and for the day to day operations of the Company as contained or reflected in the minute books, annual report and financial statements. These acts are covered by resolutions of the Board of Directors duly adopted in the normal course of trade or business involving approval of the budget for the current year, approval of investments, treasury matters involving opening of accounts and bank transactions, appointment of signatories and amendments thereof, engagement of consultants, sale of company vehicles, election of new directors and members of the various Board committees.

(3) Appointment of Independent Auditors

The auditing firm of Punongbayan & Araullo will be recommended to the stockholders for appointment as the Corporation's principal accountant for the ensuing fiscal year.

Item 16. Matters Not Required to be Submitted

No action is to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

Item 17. Amendment of Charter, By-laws or Other Documents

The following matters will be submitted for stockholders' ratification:

(a) Amendment of the Articles of Incorporation to Increase the Number of Directors from 11 to 13, at least 3 of whom shall be independent directors

At the meeting of the Board of Directors on April 19, 2012, the Board approved the proposal to amend the articles of incorporation of the Corporation to increase the number of directors from 11 to 13, at least 3 of whom shall be independent directors. The consequent amendment of Article Sixth of the Corporation's Amended Articles of Incorporation to increase the number of directors will provide additional representatives to the Board of Directors of the Corporation. The same will also fix the minimum number of independent directors to three.

In accordance with Section 29 of the Corporation Code, any directorship to be filled by reason of an increase in the number of directors shall be filled only by an election at a regular or at a special meeting of stockholders or members duly called for the purpose, or in the same meeting authorizing the increase of directors if so stated in the notice of the meeting. Thus, the additional two seats in the Board will be filled at the June 27, 2012 annual stockholders' meeting, provided that the directors so elected to occupy the two additional seats will assume office only upon approval by the SEC of the amended articles of incorporation of the Corporation.

(b) Amendment of the following provisions of the By-Laws

(a) Title page of the Amended By-Laws to add the business name PhilNaRe, and thus make the same consistent with the Articles of Incorporation.

(b) Article II, Section 1 to change the schedule of annual meeting from the fourth Monday of June to the fourth Wednesday of June of each year. The amendment is intended to give management sufficient time to prepare for the annual stockholders' meetings.

(c) Article II, Section 5 to provide that the deadline for submission of proxies in connection with stockholders' meetings is 10 days prior to the meeting. This is in accordance with SRC Rule 20 (11) (b) (viii) which provides that *"If the by-laws provide for a cut-off date for the submission of proxies, the same should strictly be followed. In the absence of a provision in the by-laws fixing a deadline, proxies shall be submitted not later than ten (10) days prior to the date of the stockholders' meeting".*

(d) Article III, Section 4 to provide that nominations for directors should be submitted to the Chairman or Vice Chairman at least 60 days before the annual stockholders' meeting and the Chairman or Vice Chairman should then refer the same to the Nomination Committee. The foregoing amendment is intended to provide the Nomination Committee sufficient time to evaluate the qualifications of nominees for directors and confirm that such nominees do not possess any of the disqualifications under the relevant issuances of the Insurance Commission and the Securities and Exchange Commission.

(e) Article IV, Section 1 to remove the requirement that the Treasurer should be elected from among the members of the Board. Since the law does not require that the Treasurer should be elected by the Board from among the members of the Board, the foregoing amendment will enable the Corporation to ensure that the Treasurer to be elected will have the necessary qualifications and time demanded by the position of Treasurer.

(f) Delegation to the Board of the power to further amend the by-laws as necessary. In accordance with Section 48 of the Corporation Code, the owners of 2/3 of the outstanding capital stock of the Corporation may delegate to the Board of Directors the power to amend or repeal the by-laws or adopt new by-laws, provided, however, that any power delegated to the board to amend or repeal the by-laws or adopt new by-laws shall be considered as revoked whenever stockholders owning or representing a majority of the outstanding capital stock shall so vote at a regular or special meeting.

Item 18. Other Proposed Action

No action is to be taken with respect to any matter not specifically referred to herein.

Item 19. Summary of Voting Matters/Voting Procedures

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

(1) Approval/ratification of the minutes of the annual meeting of stockholders held on June 30, 2011. Approval of said minutes shall constitute confirmation of all the matters stated in the minutes.

(2) Resolutions, contracts, and acts of the board of directors and management for ratification refer to those passed or undertaken by them during the year and for the day to day operations of the Company as contained or reflected in the minute books, and attached management report and financial statements. These acts are covered by resolutions of the Board of Directors duly adopted in the normal course of trade or business involving approval of the budget for the current year, approval of investments, treasury matters involving opening of accounts and bank transactions, appointment of signatories and amendments thereof, engagement of consultants, sale of company vehicles, and election of new directors and members of the various Board committees.

(3) Selection of Punongbayan & Araullo as independent auditors.

(4) Election of Directors

Election of a Board of thirteen (13) directors, at least 3 of whom shall be independent, and 11 of whom will hold office for a period of one year and until the next annual meeting of stockholders and until his or her successor is elected and qualified. The directors elected to fill the two additional seats in the Board will hold office upon approval by the SEC of the amended articles of incorporation of the Corporation. The nominees for directors are:

For Regular Directors:

Helen Y. Dee
Robert G. Vergara
Roberto B. Crisol
Yvonne S. Yuchengco
Alfonso L. Salcedo, Jr.
Jose Teodoro K. Limcaoco
Danilo A. Gozo
Gregorio T. Yu
Rafael C. Gallaga
Rafael G. Ayuste, Jr.

For Independent Directors:

Romeo L. Bernardo
Ermilando D. Napa
Medel T. Nera

Except for Messrs. Rafael G. Ayuste, Jr. and Rafael C. Gallaga, all of the above nominees are currently directors of the Corporation. The business experience of Messrs. Ayuste and Gallaga are attached as Annex A-2 and A-3 of this information statement. Of the 10 nominees for regular directors, Messrs. Gallaga and Danilo A. Gozo will occupy the two additional seats in the Board to be created by the amendment of the Corporation's Articles of Incorporation. Thus, they will assume office only upon SEC approval of the Amended Articles of Incorporation.

The nominees for Independent Directors[3] of the Corporation for the Annual Stockholders' Meeting of June 27, 2012 within the purview of SRC Rule 38 are Romeo L. Bernardo, Ermilando D. Napa, and Medel T. Nera.

(b) Voting Procedures

(1) Approval/ratification of the minutes of the annual stockholders' meeting held on June 30, 2011.

(A) Vote required: A majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.

(B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.

(2) Ratification of the acts of the Board of Directors and Officers

(A) Vote required: A majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.

(B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.

(3) Appointment of Independent External Auditors

(A) Vote required: A majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.

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

(B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.

(4) Amendment of the Articles of Incorporation to Increase the Number of Directors to 13

(A) Vote required: 2/3 of the outstanding common stock present in person or by proxy, provided constituting a quorum.

(B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.

(5) Amendment of the By-Laws , particularly the (a) title page, (b) Article II, Section 1 to change the schedule of annual meeting from the fourth Monday of June to the fourth Wednesday of June of each year, (c) Article II, Section 5 to provide that the deadline for submission of proxies in connection with stockholders' meetings is 10 days prior to the meeting, (d) Article III, Section 4 to provide that nominations for directors should be submitted to the Chairman or Vice Chairman at least 60 days before the annual stockholders' meeting, and (e) Article IV, Section 1 to remove the requirement that the Treasurer should be elected from among the members of the Board.

(A) Vote required: A majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.

(B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.

(6) Delegation to the Board of the Power to further Amend the By-Laws

(A) Vote required: 2/3 of the outstanding common stock present in person or by proxy, provided constituting a quorum.

(B) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be counted by a show of hands or, upon motion duly made and seconded, by secret ballot.

(7) Election of Directors

(A) Vote required: The 10 candidates for regular directors and 3 candidates for independent directors receiving the highest number of votes cast for regular directors and votes cast for independent directors shall be declared elected. The candidates for regular directors who shall receive the ninth and tenth highest number of votes cast for regular directors will assume office only upon SEC approval of the Amended Articles of Incorporation increasing the number of directors to 13.

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

(5) At the regular meeting of the Board of Directors held on February 16, 2012, Punongbayan & Araullo was appointed as Board of Canvassers. The Board of Canvassers shall have the power to count and tabulate all votes, assents and consents; determine and announce the result; and to do such acts as may be proper to conduct the election or vote with fairness to all stockholders.

PART II
INFORMATION REQUIRED IN A PROXY FORM

Item 1. Identification

This proxy is being solicited for and on behalf of the Management of the Corporation. The Chairperson of the Board of Directors or, in her absence, the President of the Corporation will vote the proxies at the annual stockholders' meeting to be held on June 27, 2012.

Item 2. Instruction

(a) The proxy must be duly accomplished by the stockholder of record as of Record Date. A proxy executed by a corporation shall be in the form of a board resolution duly certified by the Corporate Secretary or in a proxy form executed by a duly authorized corporate officer accompanied by a Corporate Secretary's Certificate quoting the board resolution authorizing the said corporate officer to execute the said proxy. Attached is a sample board resolution to designate a proxy for the annual stockholders' meeting.

(b) Duly accomplished proxies shall be submitted to the Corporate Secretary of the Corporation not later than June 22, 2012, 3:00 P.M. (not less than 5 calendar days prior to the date of the stockholders' meeting) at the following address:

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

(c) In case of shares of stock owned jointly by two or more persons, the consent of all co-owners must be necessary for the execution of the proxy. For persons owning shares in an "and/or" capacity, any one of them may execute the proxy.

(d) Validation of proxies will be held by the Corporate Secretary and/or Stock Transfer Agent on June 22, 2012 at 3:00 p.m. at the principal office of the Corporation at the 18th Floor, Philippine AXA Life Centre Senator Gil Puyat Avenue corner Tindalo Street, Makati City, Philippines.

(e) Unless otherwise indicated by the stockholder, a stockholder shall be deemed to have designated the Chairman of the Board of Directors, or in her absence, the President of the Corporation, as proxy for the annual stockholders meeting to be held on June 27, 2012.

(f) If the number of shares of stock is left in blank, the proxy shall be deemed to have been issued for all of the stockholder's shares of stock in the Corporation as of Record Date.

(g) The manner in which this proxy shall be accomplished, as well as the validation hereof shall be governed by the provisions of SRC Rule 20 (11)(b).

(h) The stockholder executing the proxy shall indicate the manner by which he wishes the proxy to vote on any of the matters in (1), (2), (3), (4), (5) (6) and (7) below by checking the appropriate box. Where the boxes (or any of them) are unchecked, the stockholder executing the proxy is deemed to have authorized the proxy to vote for the matter. **(Note: If you intend to submit a proxy, please fill up and submit the enclosed proxy instrument, not the following Item 2(h).)**

(1) Approval/ratification of the minutes of the annual stockholders' meeting held on June 30, 2011

☐ FOR ☐ AGAINST ☐ ABSTAIN

(2) Ratification of the acts of the Board of Directors and Officers

☐ FOR ☐ AGAINST ☐ ABSTAIN

(3) Appointment of Punongbayan & Araullo as Independent External Auditors

☐ FOR ☐ AGAINST ☐ ABSTAIN

(4) Amendment of the Articles of Incorporation to Increase the Number of Directors to 13

☐ FOR ☐ AGAINST ☐ ABSTAIN

(5) Amendment of the By-Laws

(a) title page to add the trade name PhilNaRe

☐ FOR ☐ AGAINST ☐ ABSTAIN

(b) Article II, Section 1 to change the schedule of annual meeting from the fourth Monday of June to the fourth Wednesday of June of each year

☐ FOR ☐ AGAINST ☐ ABSTAIN

(c) Article II, Section 5 to provide that the deadline for submission of proxies in connection with stockholders' meetings is 10 days prior to the meeting

☐ FOR ☐ AGAINST ☐ ABSTAIN

(d) Article III, Section 4 to provide that nominations for directors should be submitted to the Chairman or Vice Chairman at least 60 days before the annual stockholders' meeting

☐ FOR ☐ AGAINST ☐ ABSTAIN

(e) Article IV, Section 1 to remove the requirement that the Treasurer should be elected from among the members of the Board.

☐ FOR ☐ AGAINST ☐ ABSTAIN

(6) Delegation to the Board of the Power to Further Amend the by-Laws as Necessary

☐ FOR ☐ AGAINST ☐ ABSTAIN

(i) Election of Directors. **(Note: If you intend to submit a proxy, please fill up and submit the enclosed proxy instrument, not the following Item 2(i).)**

☐ FOR all nominees listed below, except those whose names are stricken out

☐ WITHHOLD authority to vote for all nominees listed below.

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

For Regular Directors:

Helen Y. Dee
Robert G. Vergara
Roberto B. Crisol
Yvonne S. Yuchengco
Alfonso L. Salcedo, Jr.
Jose Teodoro K. Limcaoco
Gregorio T. Yu
Rafael G. Ayuste, Jr.

Danilo A. Gozo (effective upon SEC approval of the Amended Articles of Incorporation increasing the number of directors to 13)
Rafael C. Gallaga (effective upon SEC approval of the Amended Articles of Incorporation increasing the number of directors to 13)

For Independent Directors:

Romeo L. Bernardo
Ermilando D. Napa
Medel T. Nera

Item 3. Revocability of Proxy

Any stockholder who executes the proxy enclosed with this statement may revoke it at any time before it is exercised. The proxy may be revoked by the stockholder executing the same at any time by submitting to the Corporate Secretary a written notice of revocation not later than the start of the meeting, or by attending the meeting in person and signifying his intention to personally vote his shares. Shares represented by an unrevoked proxy will be voted as authorized by the stockholder.

Item 4. Persons Making the Solicitation

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

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

No director, officer, nominee for director, or associate of any of the foregoing, has any substantial interest, direct or indirect, by security holdings or otherwise, on any matter to be acted upon at the annual stockholders' meeting to be held on June 27, 2012, other than election to office.

PART III
SIGNATURE

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

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

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

ALL REQUESTS MAY BE SENT TO THE FOLLOWING:

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

Attention: The Corporate Secretary

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati, May 14, 2012.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

By:

Ma. Pilar Pilares-Gutierrez
Assistant Corporate Secretary

ANNEX A
FINAL LIST OF CANDIDATES FOR INDEPENDENT DIRECTORS

Romeo L. Bernardo, Independent Director since June 2006. Mr. Bernardo is Managing Director of Lazaro Bernardo Tiu and Associates (LBT), a boutique financial advisory firm based in Manila, and GlobalSource economist in the Philippines. He is Chairman of ALFM Family of Funds and Philippine Stock Index Fund and a Director of several companies and organizations including Aboitiz Power, BPI, Globe Telecom, RFM Corporation, Philippine Investment Management, Inc. (PHINMA), Philippine Institute for Development Studies (PIDS), BPI-Philam Life Assurance Corporation and Institute for Development and Econometric Analysis. He previously served as Undersecretary of Finance and as Alternate Executive Director of the Asian Development Bank. He was an Advisor of the World Bank and the IMF (Washington D.C.), and served as Deputy Chief of the Philippine Delegation to the GATT (WTO), Geneva. He was formerly President of the Philippine Economics Society; Chairman of the Federation of ASEAN Economic Societies and a Faculty Member (Finance) of the University of the Philippines. Mr. Bernardo holds a degree in Bachelor of Science in Business Economics from the University of the Philippines (*magna cum laude*) and a Masters degree in Development Economics at Williams College (top of the class) from Williams College in Williamstown, Massachusetts.

Ermilando D. Napa, Independent Director since June 2011. Mr. Napa's business experience for the past five years includes directorships in Manila Consulting & Management Company, Inc., Century Woods, Inc. and Catanauan Resources and Development Corporation. Mr. Napa currently serves as Director and Chairman of the Audit Committee of the CIIF Oil Mills Group, Shareholder and Director of the L'Opera Group of Restaurants. He is the Founder and CEO of Manila Consulting & Management Company, Inc., Century Woods, Inc. and Catanauan Resources and Development Corporation. Previously, he was a Partner of SyCip Gorres Velayo & Company (Philippines) and also a Principal of Kassim Chan & Company in Kuala Lumpur, Malaysia, a former member firm of SGV Group and Delloite Haskins & Sells International. He was also formerly Manager of Arthur Andersen in New York. He has attended special training and various courses such as Strategic Management in St. Charles Chicago, Corporate Finance in New York and IMPACT Productivity Improvement in St. Charles, Chicago. Mr. Napa holds a degree of Bachelor of Science in Business Management from the Aquinas University where he graduated in 1970. He obtained his Masters in Management at the Asian Institute of Management in 1980.

Medel T. Nera, Independent Director since July 2011. Mr. Nera is President and CEO of House of Investments, Inc. and President of RCBC Realty Corp. He serves as Director of House of Investments and its significant subsidiaries and associates. He also serves as Director of Rizal Commercial Banking Corporation and Seafront Resources Corp. He was a former senior partner of SyCip, Gorres, Velayo and Co., CPAs (SGV) where he served as Financial Services Practice Head. He also serves as Director and Treasurer of CRIBS Foundation Inc. Mr. Nera holds a degree in Bachelor of Science in Commerce from Far Eastern University where he graduated in 1976. He obtained his Master of Business Administration degree from New York University in 1980.

ANNEX A-1
Business Experience of Mr. Rafael G. Ayuste, Jr.

Mr. Rafael G. Ayuste, Jr. is being nominated for the first time as a director of National Reinsurance Corporation of the Philippines. He is a Filipino and 48 years of age. He is the First Senior Vice President and Head of the Trust Banking Group of Philippine National Bank since 2009. Prior to this, he was the Vice President and Head of Retail Branch Business, Citibank Savings of Citibank N.A. Philippines from August 2008 to November 2009; Senior Vice President/Deputy Group Head of Trust Banking of the Metropolitan Bank and Trust Company through merger with Global Business Bank from 2000 to 2008; Vice President/Head- Securities Distribution of the Banco Santander Philippines, Inc. from 1999 to 2000; Vice President/Head-Trust Division, Security Bank Corporation from 1996 to 1999; Assistant Vice President and Head of Peso and Dollar Trading Desks of the Citibank, N.A., Citibank Global Asset Management (CGAM) from 1989 to 1996.

Concurrently, he is the President and Director of the Trust Officers Association of the Philippines (TOAP) and former Director from 2003 to 2006 where he was elected President in 2005.

He obtained his Bachelor of Science degree major in Business Administration from the University of Sto. Tomas where he graduated in 1986.

He has attended various seminars such as Risk Management, Citibank Phils., 1995; Financial Risk Management, Pi Eta Singapore, 2004; Risk Management, BNP Paribas, 2006; Corporate Governance, Bankers Association of the Philippines (BAP), 2007.

ANNEX A-2
Business Experience of Mr. Rafael Gallaga

Mr. Rafael C. Gallaga is the President and Chief Operating Officer of Sterling Insurance Company, Inc. since 2001. Prior to this, Mr. Gallaga was the President and Chief Operating Officer of EAB Insurance Brokers, Inc. from June 1999 to December 2000. He was the President and Chief Operating Officer of MAPFRE Insular Insurance Corporation (formerly Provident Insurance Corporation) from March 1986 to February 1997. He had previously served as Senior Vice President of Provident Insurance Corporation from May 1980 to February1986.

He serves as Board Adviser of the National Reinsurance Corporation of the Philippines and a former Board member from 1995 to 2008. He has held the following positions: Chief Delegate-Philippines of the East Asian Insurance Congress (EAIC) in 1992 and Executive Board Member from 1993-1994 and Member of the 20th EAIC Organizing Committee from 1999 to 2000; Chairman of the Third World Insurance Congress (1991); President, ISAP, Inc. (presently PIRA, Inc) from 1990-1991 and Vice President from 1988 to 1989; President of the Philippine Insurers Club from 1986 to 1987. He also served as Trustee and Treasurer of the Insurance Institute for Asia and the Pacific from 1988 to 1992 and Trustee from 1995 to 1997.

He has attended various insurance, reinsurance and management courses. He earned his Bachelor of Science degree major in Business Management from San Beda College in 1964.

ANNEX B

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

Description of Business

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 the vehicle for the Philippines' 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.

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 (in terms of gross premiums written) and MRC had been ranked third. At present, PhilNaRe has no subsidiaries.

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 2011, casualty & others accounted for 54% of the Company's Gross Premiums Written ("GPW") and 37% of Net Premiums Written ("NPW"), fire accounted for 26% of GPW and 26% of NPW, life accounted for 13% of GPW and 24% of NPW and marine and aviation accounted for 7% of GPW and 13% 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 2009, 2010 and 2011 are 10%, 11% and 9%, 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.

Review of 2011 versus 2010

Results of operations

Reinsurance premiums – net of returns or Gross Premiums Written
Gross premiums written in 2011 decreased by P755 million, or 17.7%, to P3,524.3 million from P4,279.4 million in 2010, reflecting the Company's conservative underwriting stance and its focus on profitability. Declines resulted across all premium sources, as greater selectivity on risk acceptances prevailed. Premiums from non-life facultative business decreased by P375.3 million or 18.37% from P2,043.1 million in 2010 to P1,667.7 million in 2011. Non-life treaty premiums declined by P359.6 million or 20.6% from P1,744.9 million in 2010 to P1,385.3 million in 2011, and life premiums decreased by P20.2 million or 4.1% from P491.4 million in 2010 to P471.3 million in 2011.

Net premiums retained
Reinsurance premiums retained also declined, by P471.4 million (29.5%) to P1,126.5 million in 2011 from P1,597.8 million in 2010. The percentage of decline in net premiums for 2011 was greater than the percentage decline in gross premiums for the year due to a lower retention ratio – 32% in 2011 as against 37% in 2010.

Premiums earned
In line with the decline in premiums retained, premiums earned decreased by P434.5 million (26.9%) to P1,182.1 million in 2011 compared to P1,616.6 million in 2010. In 2011, the decrease in the unearned premium reserve was P55.6 million as against a decrease in unearned premium reserve of P18.8 million in 2010. The relatively large decline in 2011 resulted from the drop in the Company's premiums during the year, which resulted in the release of reserves for unearned premium under the 24th method of accounting for reinsurance premiums.

Share in claims and losses
Share in claims and losses for 2011 decreased by P895.4 million or 48.7% from P1,838.8 million in 2010 to P943.4 million in 2011, resulting in an improved loss ratio of 79.8% in 2011 from 113.7% in 2010. The

improvement in loss ratio reflects lower catastrophe losses and claims received/advised during the year and provides justification for the Company's tighter underwriting standards.

Commissions - net
Consistent with the decline in reinsurance premiums retained, net commissions decreased by P90.1 million or 20.7% from P435.7 million in 2010 to P345.6 million in 2011. However, commission ratio (as a percentage of net premiums retained) increased from 27.3% in 2010 to 30.7% in 2011.

Investment income and other income
Investment and other income grew by 56.4% to P768.2 million in 2011 from P491.2 million in 2010, as positive trends continued in the Company's main investment markets of Philippine equities and fixed income securities in 2011.

Interest income decreased by 1.8% to P371.5 million in 2011 from P378.4 million in 2010 as the general low level of interest rates prevailed through most of the year. However, trading gain on equities and fixed income securities amounted to P354 million in 2011, more than double the realized gains of P99.3 million in 2010. Foreign currency translation gains also reversed from negative P21.1 million in 2010 to positive P7.8 million in gains for 2011. Dividend income slightly increased from P33.8 million in 2010 to P38 million in 2011.

General and administrative expenses
General and administrative expenses (GAE) had a marginal increase of 3.4% to P248.8 million in 2011 from P240.6 million in 2010. While the Company successfully controlled operating costs, an allowance for impairment amounting to P32.5 million was booked in 2011 as against a comparable figure of P21.6 million in 2010. Also, depreciation and amortization expenses increased from P20.1 million in 2010 to P28.8 million in 2011 due to additional amortization of capitalized costs related to computerization.

Tax expense
The Company's tax expense was flat at P72.1 million in 2011 as against P72.6 million in 2010. Tax expense largely represents the final tax on interest income from the Company's fixed-income portfolio.

Net Profit (Loss)
As a result of the aforementioned factors, the Company registered a net income of P340.4 million in 2011 as compared to a net loss of P480 million in 2010.

Financial condition

As of December 31, 2011, total resources of the Company stood at P12,638 million, just slightly higher than total resources of P12,553 million as of December 31, 2010. Material changes in the Company's resources which contributed to the increase are described below.

Reinsurance balances receivable, net of allowance for impairment of P315.6 million, decreased by P318.3 million or 7.6% to P3,892.2 million in 2011 from P4,210.4 million in 2010 largely as a result of collections and lower level of business volume during the year.

Reinsurance balances receivable include: (1) premiums due from ceding companies (decreased from P1,180.2 million in 2010 to P1,076.6 million in 2011); (2) reinsurance recoverable on unpaid losses (decreased from P2,725.7 million in 2010 to P2,589.6 million in 2011); (3) reinsurance recoverable on paid losses (decreased from P454.5 million in 2010 to P396.6 million in 2011); and, (4) funds held by ceding companies (increased from P133.2 million in 2010 to P145 million in 2011). Reinsurance recoverable on losses, which is the largest component of this asset, represents amounts that the Company stands to recover from its retrocessionaires.

Available-for-sale financial assets (AFS) declined by P931.5 million or 14.8% to P5,365.6 million in 2011 from P6,297.1 million in 2010 due to the sale of AFS securities, the proceeds of which were transferred to cash and short-term investments..

Loans and receivables grew by P223.9 million or 62.1% to P584.6 million in 2011 from P360.7 million in 2010 principally due to additional investments in term loans and the inclusion of certain accounts receivable for collection in early 2012 (proceeds from sale of various equity investments which were sold at the end of the year).

Property and equipment (PPE), net of accumulated depreciation increased by P49.5 million or 63.6% to P127.4 million in 2011 from P77.8 million in 2010. The increase was the result of a reclassification of certain condominium units owned by the company from investment properties to PPE. These units, located at Ayala Life FGU Center were, until March of 2011, being leased to an unrelated party. The lease has since been cancelled and the property after being renovated is now being used by the Company for its own purposes.

Deferred acquisition costs, which mainly consist of commissions, decreased by P60.5 million or 30.5% to P137.9 million in 2011 from P198.4 million in 2010 in line with the decrease in gross reinsurance premiums and net premiums retained.

Deferred reinsurance premiums increased by P50.2 million or 9.8% as of December 31, 2011. This is consistent with the lower retention ratio during the year. Deferred reinsurance premiums pertain to the portion of reinsurance premiums ceded out that relate to the unexpired periods of the policies at the end of each reporting period.

Other assets decreased by 5.3% to P266.1 million in 2011 from P281 million in 2010 largely due to reclassification of property no longer intended for rental.

Total liabilities decreased by P92.7 million or 1.4% to P6,512 million in 2011 from P6,605 million in 2010. The decrease in total liabilities is explained below:

Reinsurance balances payable slightly decreased by .64% or by P34.9 million to P5,427.8 million in 2011 from P5,462.7 million in 2010. This account principally includes amounts due to retrocessionaires, which decreased from P706.5 million in 2010 to P677.8 million in 2011; funds held for retrocessionaires which decreased from P91.8 million in 2010 to P88.6 million in 2011; and claims payable, which slightly decreased from P4,664.4 million in 2010 to P4,661.4 million in 2011. Claims payable represent 85.9% of the total reinsurance balances payable and are being established to provide for future amounts to pay claims related to insured events that have occurred and have been reported but have not yet been settled.

Accounts payable and accrued expenses decreased by P1.2 million or 1.1% from P108.6 million in 2010 to P107.5 million in 2011 principally due to lower withholding taxes payable at the end of 2011 amounting to P1.9 million compared to P7 million in 2010.

Reserve for unearned reinsurance premiums declined to P897.5 million in 2011 from last year's P902.9 million or by P5.4 million due to the decline in the Company's premiums written.

Deferred reinsurance commission decreased by P51.3 million or 39.3% from P130.5 million in 2010 to P79.2 million in 2011, consistent with the decrease in premiums and commissions.

Total equity as of December 31, 2011 grew to P6,126.1 million, or 3% from P5,948.4 million as of December 31, 2010. Contributing to the increase of P177.7 million was the net income posted for the year 2011 of P340.4 million less payment of cash dividends to stockholders on June 21, 2011 amounting to 43.2 million, lower revaluation reserve due to the impact of mark-to-market adjustments amounting to P59 million and repurchase into treasury by the Company of NRCP shares amounting to P60.4 million.

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

Income Statement items - 2011 versus 2010

18% decrease in reinsurance premiums
Principally due to lower acceptances for both life and non-life treaty and facultative business.

11% decrease in retroceded premiums
Due to decrease in reinsurance premiums.

30% decrease in net premiums retained.
Due to lower premium volume and lower retention ratio.

197% decrease in reserve for unearned reinsurance premiums.
Due to higher level of reinsurance premiums not subject to 24^{th} method of revenue recognition.

43% decrease in underwriting deductions.
Due to lower claims incurred during the year.

84% decrease in net underwriting loss
Largely due to lower claims incurred during the year.

56% increase in investment and other income
Attributable to higher trading gains on equities and fixed income securities.

171% increase in net income.
Largely due to smaller underwriting loss and higher investment income.

Balance Sheet items - 2011 versus 2010

177% increase in cash and cash equivalents.
Mainly due to investment shifted from available-for-sale financial assets (AFS) to short-term investments.

7% decrease in reinsurance balances receivable.
Due to collection of receivables.

15% decrease in available for sale financial assets.
Due to sale of AFS securities, the proceeds of which were transferred to cash and short-term investments.

62% increase in loans and receivables.
Primarily due to additional investments made in certain fixed rate corporate promissory notes and sale of equity securities, proceeds of which form part of this account and were still for collection.

64% increase in property and equipment, net
Mainly due to reclassification of certain condominium units owned by the Company from investment properties (included as part of other assets in 2010) to property and equipment (PPE) in 2011.

31% decrease in deferred acquisition cost.
Consistent with the decrease in reinsurance premiums written.

10% increase in deferred reinsurance premiums
Principally due to higher level of retroceded premiums subject to 24th method of revenue recognition.

5% decrease in other assets
Due to the reclassification of property no longer intended for rental (now under PPE)

39% decrease in deferred reinsurance commissions
Consistent with the decrease in reinsurance premium retroceded.

Review of 2010 versus 2009

Results of operations

Reinsurance premiums – net of returns or Gross Premiums Written
Gross premiums written in 2010 increased by P741 million, or 20.9%, to P4,279.4 million from P3,538.4 million in 2009. The growth was largely due to increases in premiums for the Company's non-life treaty and non-life facultative businesses, which benefitted from a favorable environment for premium rates. The firmer rates reflected risk aversion on the part of ceding companies due to the natural catastrophes encountered in prior years, as well as general compliance with minimum tariffs established by the Insurance Commission. Gross premiums from Company's non-life treaty business increased by P232.7 million or 15.4% from P1,512.2 million in 2009 to P1,744.9 million in 2010. Gross premiums from the Company's non-life facultative business grew by P548.1 million or 36.7% from P1,495 million in 2009 to P2,043.1 million in 2010. These increases more than offset a drop in gross premiums from the Company's life business, which saw gross premiums decrease by P39.7 million or 7.5% from P531.2 million in 2009 to P491.4 million in 2010.

Net premiums retained
Consistent with the increase in gross premiums written, net premiums retained also increased by P245.4 million or 18.2% to P1,597.8 million in 2010 from P1,352.4 million in 2009. Retention ratio was flat at 38% in 2010 relative to 2009

Premiums earned
Premiums earned in 2010, totaled P1,616.6 million, an increase of 9.9% over premiums earned in 2009 of P1,470.9 million. The rate of increase in premiums earned in 2010 was lower than the rate of increase in gross premiums written and net premiums retained because of a smaller decrease in the reserve for unearned reinsurance premiums. In 2010 the decrease in the unearned premium reserve was P18.8 million as against a decrease in unearned premium reserve of P118.5 million in 2009. The relatively large decline in 2009 resulted from the drop in the Company's premiums during that year, which resulted in the release of reserves for unearned premium under the 24th method of accounting for reinsurance premiums.

Share in claims and losses
Share in claims and losses for 2010 exceeded the previous year's figure by P806.3 million or 78.1% from P1,032.6 million in 2009 to P1,838.8 million in 2010. The increase was primarily associated with

Typhoon *Ondoy* claims from 2009 which were advised to the Company in 2010. Also contributing to the higher claims cost were additional loss reserves established after the Company's review of claims which had previously been denied due to, among other things, delayed payment of premiums by ceding companies.

Commissions - net
Despite double-digit premium growth, net commissions increased by only P28.7 million or 7.1% from P407.0 million in 2009 to P435.7 million in 2010. This was the result of average commissions of 27.3% in 2010 as against 30.1% in 2009.

Investment income and other income
Investment income and other income grew by 5.3% to P491.2 million in 2010 from P466.7 million in 2009. While the continuing appreciation of the Philippine Peso against the U.S. Dollar contributed to some foreign currency translation losses, positive trends continued to prevail in the Company's main investment markets of Philippine equities and fixed income securities.

Interest income decreased by 1% to P378.4 million in 2010 from P382.4 million in 2009. However, trading gain on equities and fixed income securities amounted to P99.3 million in 2010, almost double the realized gains of P50.1 million in 2009. Currency translation loss of P21.1 million in 2010 (as against P24.3 million 2009) was offset by dividend income of P33.8 million (P20.0 million in 2009).

As of December 31, 2010, the Company's stockholders' equity included revaluation reserves amounting to P393.7 million compared to P18.4 million as of December 31, 2009. The increase of P375.2 million represents the year's fair value gains, net of taxes, on the Company's investment portfolio, which gains are included in the Company's statement of comprehensive income.

In 2010, the Company booked a P6.4 million impairment charge on certain legacy investments. This expense has been recorded as part of general and administrative expenses (GAE).

General and administrative expenses
General and administrative expenses (GAE) decreased by 26% to P240.6 million in 2010 from P325.1 million in 2009, largely due to lower allowance for impairment (doubtful accounts) provided in 2010. The lower provision offset increases in employee benefits cost and amortization costs of the Company's computerization program. Excluding allowance for impairment, GAE in 2010 amounted to P219 million compared to P196.8 million in 2009, or an increase of 11.3%.

Tax expense
The Company's tax expense increased marginally by 3.9% or P2.7 million from P69.9 million in 2009 to P72.6 million in 2010. Tax expense was composed largely of the final tax on the Company's interest income on its investments.

Net Profit (Loss)
As a result of the aforementioned factors, the Company sustained a net loss of P480 million in 2010 as compared to a net income of P103 million in 2009.

Financial condition

As of December 31, 2010, total resources of the Company stood at P12,553 million, P1,457 higher than total resources of P11,096 million as of December 31, 2009. Material changes in the Company's resources which contributed to the increase are described below.

Reinsurance balances receivable, net of allowance for impairment of P283.1 million, increased by P1,336 million or 46.5% to P4,210.4 million in 2010 from P2,874.4 million in 2009 . This accounts for a substantial portion (more than 90%) of the increase in the Company's assets.

Reinsurance balances receivable include: (1) premiums due from ceding companies (increased from P912.7 million in 2009 to P1,180.2 million in 2010); (2) reinsurance recoverable on unpaid losses (increased from P1,760.2 million in 2009 to P2,725.7 million in 2010); (3) reinsurance recoverable on paid losses (increased from P349.6 million in 2009 to P454.5 million in 2010); and, (4) funds held by ceding companies (increased from P119.8 million in 2009 to P133.2 million in 2010). Reinsurance recoverable on losses, which is the largest component of this asset, represents amounts that the Company stands to recover from its retrocessionaires. The level as of December 31, 2010 reflects the high volume of claims and losses incurred by the Company in 2010.

Available-for-sale financial assets increased by P248.4 million or 14.1% to P6,297.1 million in 2010 from P6,048.7 million in 2009, reflecting mark-to-market gains as well as transfers from cash and cash equivalents to available-for-sale financial assets.

Loans and receivables grew by P107.2 million or 42.3% to P360.7 million in 2010 from P253.5 million in 2009 principally due to the Company's acquisition of new investment (term loans) during the year.

Property and equipment, net of accumulated depreciation increased by P24.4 million or 18.7% to P154.4 million in 2010 from P130 million in 2009, mainly due to capitalized cost of the Company's IT Project IRIS (Integrated Reinsurance System), which commenced 4th Qtr. 2009.

Deferred acquisition costs, which mainly consist of commissions, increased by P32.7 million or 19.8% to P198.4 million in 2010 from P165.7 million in 2009 in line with the increase in gross reinsurance premiums and net premiums retained.

Deferred reinsurance premiums decreased by P257.4 million or 33.4% as of December 31, 2010 due to recognition in 2010 of a portion of deferred reinsurance premiums as of December 31, 2009 as earned under the 24th method of revenue recognition..

Other assets increased by 21.6% to P204.4 million in 2010 from P168.2 million in 2009. Other assets primarily include accounts such as deferred input VAT (increased from P55 million in 2009 to P72.1 million in 2010), creditable withholding tax (increased from P40.7 million in 2009 to P58.3 million in 2010), investment property (decreased from P36.3 million in 2009 to P34.7 million in 2010), input VAT (decreased from P26.3 million in 2009 to P24.1 million in 2010) and deferred withholding VAT (increased from P4.8 million in 2009 to P9.1 million in 2010).

Total liabilities increased by P1,663 million or 33.7% to P6,605 million in 2010 from P4,941 million in 2009. The increase in total liabilities is explained below:

Reinsurance balances payable increased by 52.3% or by P1,874.8 million to P5,462.7 million in 2010 from P3,587.9 million in 2009. This account principally includes amounts due to retrocessionaires, which increased from P468.8 million in 2009 to P706.5 million in 2010; funds held for retrocessionaires which increased from P71 million in 2009 to P91.8 million in 2010; and claims payable, which increased from P3,048.1 million in 2009 to P4,664.4 million in 2010. Claims payable represent 85.4% of the total reinsurance balances payable and are being established to provide for future amounts to pay claims related to insured events that have occurred and have been reported but have not yet been settled. The high level of claims payable as of December 31, 2010 reflects the Company's poor underwriting results for the year and represents a substantial portion of the increase in the Company's total liabilities.

Accounts payable and accrued expenses increased by P31.9 million or 41.6% from P76.7 million in 2009 to P108.6 million in 2010 principally due to unreleased checks which were reverted back to cash with a corresponding liability account being lodged to this account amounting to P28.5 million as of December 31, 2010.

Reserve for unearned reinsurance premiums declined to P902.9 million in 2010 from last year's P1,179.1 million or by P276.2 million (23.4%) traced largely to reinsurance premiums no longer subject to 24th method of revenue recognition.

Deferred reinsurance commission increased by P32.9 million or 33.8% from P97.5 million in 2009 to P130.5 million in 2010 largely due to Increase in premiums and commissions ceded.

Total equity as of December 31, 2010 declined to P5,948.4 million, or 3.4% from P6,154.6 million as of December 31, 2009 principally due to the net loss sustained by the Company amounting to P480 million in 2010. This was partially offset by the positive movement of the company's revaluation reserve amounting to P375.2 million less dividend payment of P101.5 million in 2010.

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

Income Statement items - 2010 versus 2009

21% increase in reinsurance premiums
Principally due to increase in non-life facultative and treaty business.

23% increase in retroceded premiums
Due to increase in reinsurance premiums.

18% increase in net premiums retained.
Due to growth in non-life reinsurance premiums.

84% decrease in reserve for unearned reinsurance premiums.
Due to higher level of reinsurance premiums not subject to 24th method of revenue recognition.

58% increase in underwriting deductions
Due to late-reported losses relating to Typhoon Ondoy and additional loss reserves on previously denied claims.

2201% decrease in net underwriting income
Largely due to increased catastrophe losses.

5% increase in investment and other income
Attributable to higher trading gains on equities and fixed income securities.

26% decrease in general and administrative expenses
Principally due to lower provision for impairment.

566% decrease in net income (loss).
Largely due to negative underwriting results.

Balance Sheet items - 2010 versus 2009

11% decrease in cash and cash equivalents.
Mainly due to payment of P.047 cash dividend.

46% increase in reinsurance balances receivable
Due to increase in reinsurance recoverable on losses.

4% increase in available for sale financial assets.
Essentially due to additional investments and mark-to-market gains during the year.

42% increase in loans and receivables.
Primarily due to additional investments made in certain fixed rate corporate promissory notes.

19% increase in property and equipment, net
Mainly due to capitalized cost of computerization: Project IRIS (Integrated Reinsurance System)

20% increase in deferred acquisition cost.
Consistent with the increase in reinsurance premiums written.

33% decrease in deferred reinsurance premiums
Principally due to lower level of retroceded premiums subject to 24^{th} method of revenue recognition.

22% increase in other assets
Due to increase in deferred input value added tax.

52% increase in reinsurance balances payable
Due to higher level of claims payable.

42% increase in accounts payable and accrued expenses
Principally due to reclassification of accounts (unreleased checks).

23% decrease in reserve for unearned reinsurance premiums
Essentially due to lower level of reinsurance premiums subject to 24^{th} method of revenue recognition.

34% increase in deferred reinsurance commissions
Consistent with the increase in reinsurance premium retroceded.

3% decrease in stockholders' equity
Primarily due to net loss sustained by the Company in 2010.

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.

Key Performance Indicators

	2011	2010	2009
Net Profit (Loss)	P 340 million	(P480 million)	P103 million
Earnings per share	P 0.16	(P 0.22)	P 0.05
Retention ratio	32%	37%	38%
Combined ratio	133%	156%	124%
Return on average equity	5.6%	(7.9%)	1.7%

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

Net Profit (Loss) (NP) – The Company's net profit was P340 million in 2011 as compared to Net Loss of P480 million in 2010 and net profit of P103 million in 2009 respectively.

Earnings per share (EPS) - EPS is computed by dividing net profit by the weighted average number of shares issued and outstanding. The company's EPS was P0.16, (P0.22) and P0.05 for the years ended December 31, 2011, 2010 and 2009, 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 2011 was at 32%, lower than retention ratio in 2010 and 2009 of 37% and 38% respectively.

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 133% in 2011, 156% in 2010 and 124% in 2009.

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 5.6%, (7.9%) and 1.7% for 2011, 2010 and 2009 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.

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:

	2011	2010	2009
Audit and audit-related fees	P1,248,534	P1, 592,828	P2,137,108
Other assurance and related services	40,000	-	73,614
Tax fees	-	-	-
Total	P1,288,534	P1,592,828	P2,210,272

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.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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:

	2010 High	2010 Low	2011 High	2011 Low	2012 High	2012 Low
1st Quarter	1.62	1.44	1.82	1.58	1.22	3.06
2nd Quarter	1.98	1.48	1.75	1.50	-	-
3rd Quarter	2.42	1.74	1.72	1.40	-	-
4th Quarter	2.22	1.76	1.86	1.30	-	-

The price information as of the latest practicable trading date, May 7, 2012, was P2.07 per share.

Dividends

The Insurance Code prescribes that any declaration or distribution of dividends by the Company must be attested in a sworn statement by the President or Treasurer of the Company that such dividends will be sourced from profits after retaining unimpaired the entire paid-up capital stock, the margin of solvency, the legal reserve funds required by law, and the sum sufficient to pay all net losses and liabilities for expenses and taxes. The Company is required to report such dividend declaration or distribution to the Insurance Commission within thirty (30) days from the date of such declaration or distribution. Other than the foregoing, the Company is not aware of any other restrictions that limit the payment of dividends on common stock.

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 May 19, 2011, the Company declared cash dividends amounting to a total of P43,193,552.00. 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.

Approximate Number of Holders as of 30 April 2012

There were approximately 288 common shareholders of the Company as of April 30, 2012. The Top 20 shareholders as of April 30, 2012, 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)	1,486,016,433	69.98%
	(Non-Filipino)	97,021,600	4,57%
2	Bank of the Philippine Islands	290,795,500	13.69%
3	FGU Insurance Corporation	36,126,000	1.70%
4	Malayan Insurance Company, Inc.	35,610,100	1.68%
5	Philippine Charter Insurance Corp.	15,305,900	.72%
6	First Nationwide Assurance Corp.	13,157,000	.62%
7	Philippines First Insurance Co., Inc.	11,075,200	.52%
8	Philippine American Life Insurance Co.	8,628,600	.41%
9	Pa, Ana Go &/or Go Ki	7,500,000	.35%
10	Empire Insurance Company	7,498,900	.35%
11	Industrial Insurance Co., Inc.	6,184,900	.29%
12	Phil. International Life Insurance Co., Inc.	5,110,900	.24%
13	New India Assurance Co., Ltd.	4,168,300	.20%
14	South Sea Surety & Insurance Co., Inc.	4,152,700	.20%
15	Equitable Insurance Corporation	4,045,000	.19%
16	Paramount Life & Gen. ins Corp	3,790,100	.18%
17	Federal Phoenix Assurance Company, Inc.	3,786,300	.18%
18	Oriental Assurance Corporation	3,560,800	.17%
19	Visayan Surety & Insurance Corporation	3,545,500	.17%
20	BPI/MS Insurance Corporation	3,347,500	.16%

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

The Company had no recent sales of unregistered or exempt securities, including recent issuances of securities constituting an exempt transaction.

Corporate Governance

Management and the Board of Directors of PhilNaRe recognize that a good corporate governance system is integral to the mandate given by the Company's shareholders. In this regard, the Company has established its Manual on Corporate Governance pursuant to: (a) Insurance Commission (IC) Circular Letter No. 12-2002, as amended by IC Circular Letter No. 31-2005, (b) the Revised Code of Corporate Governance of the Securities and Exchange Commission (SEC), and (c) other relevant IC and SEC issuances and regulations.

On an annual basis, the Company conducts a regular review of its corporate governance policies and practices through a self-assessment using scorecards and best-practice guidelines issued by the SEC, the IC, the Philippine Stock Exchange (PSE) and the Institute of Corporate Directors (ICD).

In 2011, the Board, through its Audit Committee, performed a self-evaluation in which the current and potential state of the Company's corporate governance practices were rated using best practice guidelines issued by the PSE. Through this assessment, the Company was able to evaluate its corporate governance system, measure the level of compliance with the Manual of Corporate Governance and identify areas for improvement to further strengthen its policies and procedures and protect the interests of the Company and its stakeholders.

PhilNaRe is committed to continuously improve its corporate governance practices. This effort was affirmed by the latest report from the ICD, in which the Company showed a significant increase in its rating of 64% in 2007 to 86.57% in 2010. The latest rating was also noted to be above the 77% average score for all the 199 participating publicly-listed companies.

Board Responsibility

The Board recognizes its responsibility in guiding corporate strategy, monitoring managerial performance and achieving an adequate return for shareholders while preventing conflicts of interest and ensuring compliance with applicable laws and regulations. The Board is composed of eleven (11) members, three (3) of whom are independent directors. Each member is elected by the stockholders during the Annual Stockholders' Meeting and will hold office for one year until their successors are elected and qualified in accordance with the Company's amended by-laws.

Strategic Planning Process

The Board is continually engaged in discussions of strategic business issues, to generate sustainable value for the Company's shareholders with due regard to its stakeholders, The Board oversees management's development of a business strategy in the context of the Company's vision, mission and value system and monitors and controls its implementation.

Complementing these business strategies is an execution process that incorporates performance management, changes in the Company's business environment, management style and culture. This execution process is performed through an annual planning conference held by Senior Management Committee together with key officers wherein organizational and departmental goals are set, and implementation plans, budget and performance measurement criteria are discussed and approved in line with overall Company strategy.

Independent Directors

An independent director refers to a person other than an officer or employee of the Corporation, its parent or subsidiaries, or any other individual having any relationship with the Corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from directors' fees and shareholdings, he should be independent of management and free from any business or other relationships which could materially interfere with the exercise of his independent judgment. He must also possess all the qualifications required and none of the disqualifications of an independent director provided under IC Circular Letter No. 31-2005, SRC Rule 38, the SEC Revised Code of Corporate Governance, and other relevant IC and SEC issuances and regulations.

Pursuant to the applicable rules and regulations of the IC and the SEC, independent directors are nominated and elected in the Annual Stockholders' Meeting and each director issues a certification confirming their independence within 30 days from their election. Messrs. Ermilando D. Napa, Romeo L. Bernardo and Medel T. Nera are currently the Company's Independent Directors.

Chairperson and President/Chief Executive Officer (CEO)

To ensure balance of power and authority, increased accountability, and greater capacity for independent decision making, the roles of Chairperson of the Board and President/CEO shall as a general rule not be combined. These positions are being held by two separate individuals, the Chairperson of the Board is Ms. Helen Y. Dee, while the President and Chief Executive Officer (CEO) is Mr. Roberto B. Crisol. Their respective roles are clearly defined in the existing Board structure and practices wherein the Board performs oversight function and the Management discharges its executive responsibilities for the business.

The President and CEO is on employment contract for two (2) years and his performance is evaluated by the Nomination & Compensation Committee before renewal.

Board Performance

The Board holds regular monthly meetings and special board meetings to deliberate on major issues affecting the Company. Ordinarily, the Board adopts a formal and sequential agenda for each regular meeting. The agenda includes brief reports or updates by the Chairperson and the Board Committees, reports on financial performance provided by the Chief Finance Officer, and operational performance provided by the President and Chief Operating Officer. The agenda also includes items for the Board's deliberation and approval. The Corporate Secretary provides assistance and advisory services to the directors on their responsibilities and obligations.

Discussions during board meetings are open and independent views are given due consideration.

Summarized below are the number of meetings and the attendance record of the individual directors for the year 2011.

Name	Meetings Attendance	
Bernardo, Romeo L.	100%	(12/12)
Crisol, Roberto B.	100%	(12/12)
Dee, Helen Y.	83%	(10/12)
Gozo, Danilo A. [1]	42%	(3/7)
Limcaoco, Teodoro K.	83%	(10/12)
Napa, Ermilando D. [1]	100%	(7/7)
Nera, Medel T. [2]	100%	(6/6)
Salcedo, Alfonso Jr.L.	75%	(9/12)
Vergara, Robert G.	91%	(11/12)
Yu, Gregorio T.	91%	(11/12)
Yuchengco, Yvonne S.	100%	(12/12)
Cal, Primitivo C. [3]	100%	(5/5)
Manansala, Consuelo D. [3]	80%	(4/5)

[1]Elected on June 2011
[2]Elected on July 2011
[3]Not re-elected in June 2011

Board Committees

Pursuant to Article V, Section 2 of the Company's By-Laws, the Board constituted the board committees on Nomination, Compensation and Audit to assist them in the implementation of good corporate governance. In addition, board committees on Risk Management, Underwriting, Investment and Budget and Information Technology were also created to provide oversight to Management on these key areas of operations.

Nomination and Compensation Committee

The Committee, headed by Mr. Robert G. Vergara, is composed of four (4) members, one of whom is 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 over remuneration of senior management and other key personnel.

The Nomination and Compensation Committee held six (6) meetings in 2011 and the individual attendance record of each member is shown below:

Name	**Meetings Attendance**	
Vergara, Robert G. (Chairman)	100%	6/6
Yuchengco, Yvonne S.(Vice Chairperson)	66%	4/6
Salcedo, Alfonso Jr. L.	66%	4/6
Napa, Ermilando D. [1]	100%	3/3
Cal, Primitivo C. [2]	100%	3/3
Gallaga, Rafael C. (Ex-Officio)	83%	5/6

[1]Replaced Mr. Cal as Member
[2]Not re-elected in June 2011

Risk Management Committee

The Committee,headed by Mr. Romeo L. Bernardo (an independent director), is composed of six (6) directors, two (2) of whom are independent directors. This was established to assist the Board in the development and oversight of the Company's risk management program. Its 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.

In 2011, the planned activities for the Enterprise Risk Management Process were reprioritized to incorporate Company endeavours on its computerization projects. The Committee, together with the Risk Management Council focused its efforts on effectively monitoring and managing the Company's top four risk areas: Claims, Investments, Underwriting, and impact of the IC's Increased Capitalization Requirement.

The Risk Management Committee held one (1) meeting in 2011 and the individual attendance record of each member is shown below:

Name	Meetings Attendance	
Bernardo, Romeo L.(Chairman)	100%	1/1
Yu, Gregorio T. (Vice Chairman)	100%	1/1
Napa, Ermilando D.	100%	1/1
Dee, Helen Y.	100%	1/1
Limcaoco, Teodoro K.	100%	1/1
Crisol, Roberto B.	100%	1/1

Audit Committee

The Committee is composed of three (3) independent directors, headed by Mr. Ermilando D. Napa. Its main task is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the company's process for monitoring compliance with laws and regulations and the code of conduct. To ensure continuing effectiveness of the Committee, its members conduct an annual performance self-evaluation to assess its strengths and weaknesses and identify areas for improvement. In 2011, the Board approved the revised Charter of the Committee, which include updates on its authority and responsibility.

The Audit Committee held nine (9) meetings in 2011 and the individual attendance record of each member is shown below:

Name	Meetings Attendance	
Napa, Ermilando D. [2] (Chairman)	100%	5/5
Navarro, Rizalino S.[1] (Chairman)	100%	4/4
Bernardo, Romeo L.	77%	7/9
Nera, Medel T. [3]	100%	5/5
Cal, Primitivo C. [4]	100%	4/4

[1]Passed away on July 2011

[2]Replaced Mr. Navarro as Chairman

[3]Elected on July 2011

[4] Not re-elected in June 2011

Independent Public Accountants

The Audit Committee recognizes its responsibility in confirming personal identification and professional qualifications of the Company's independent external auditor. It conducts due diligence checks with guidance from SEC and IC requirements on independent auditors for publicly listed insurance companies, maintains complete documentation of the selected independent auditor's accreditation certifications, and performs an annual evaluation of its independent auditor together with key Company officers.

In 2011, Punongbayan and Araullo was reappointed by the shareholders during the annual stockholders meeting. The engagement partner assigned to the Company since 2008 is Mr. Leonardo D. Cuaresma, Jr. who has extensive accounting and auditing experience. This appointment is in accordance with the SEC regulation that the audit partner principally handling the Company's account is rotated every five (5) years or sooner.

As a matter of good governance, the Independent Public Accountants also hold executive session with the Audit Committee, without the presence of Management. They are also present during the Annual Stockholders' Meeting to respond to questions of shareholders and to make a statement, if they so desired.

Internal Audit

The Board in performing their oversight role has established the Internal Audit function to provide independent and objective assurance and other non-assurance services designed to add value and improve the Company's operations. To ensure independence in fulfilling its duties and responsibilities, Internal Audit is governed by a separate Charter and organized to functionally report to the Audit Committee. An annual performance evaluation of the Department and its members is also conducted by the Audit Committee to ensure continuing effectiveness and value generation of the function.

Internal Audit had completed thirty one (31) engagements in 2011, which includes its approved work plan for the year and other special engagements requested by Management and Audit Committee. On a quarterly basis, its report to the Audit Committee and Management usually includes: the summary of its activities through an Action Plan Register maintained and made available for reference, significant and emerging risk exposures, control and regulatory issues, potential improvement areas, pertinent measurement goals and results, and other matters needed or requested by the Board.

In addition, the function introduced improvements in its organizational structure and responsibility areas, formalized its Operations Manual and conducted learning sessions for the Company.

Internal Control

While policies are set by the Board, Management is primarily responsible for the design, implementation and maintenance of the internal control system of the Company. The Board through its Audit Committee oversees the actions of Management and monitor the effectiveness of the internal control system put in place.

On an annual basis, the Chief Audit Executive issues an Internal Control Report indicating procedures performed by Internal Audit in evaluating the internal control system of the Company that includes its policies, procedures and processes as well as an attestation that a sound internal audit, control and compliance system is in place and working effectively.

Financial Reporting

The Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements, selecting and applying appropriate accounting policies, and making reasonable accounting estimates.

The Audit Committee, on the other hand reviews interim and annual financial statements prior to its presentation to and approval by the Board, with particular focus on changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, going concern assumptions and compliance.

The Company submits its interim and annual financial statements to the SEC and the PSE on a timely basis and provides regular updates on its operating performance and major market-sensitive information affecting share price performance, as necessary, to regulators.

Compliance Monitoring

The Board initially assigned the compliance function to Internal Audit and designated the Internal Audit Head to assume the role of the Compliance Officer. The main responsibility is to monitor the Company's adherence to its Revised Manual of Corporate Governance, and ensure compliance with all applicable laws, rules and other regulatory requirements. Assistance from the legal counsel is also sought to facilitate a more effective performance of the compliance role.

The Compliance Officer issues an annual certification on the extent of the Company's compliance with its corporate governance manual and provides explanations for deviations, if any. The Company also continuously identifies and develops initiatives to further strengthen and improve its corporate governance policies and practices such as the annual corporate governance scorecard evaluations and participation in corporate governance trainings.

Rights of the Shareholder

Shareholder Meeting

Stockholders are informed at least 15 business days before the scheduled date of the Annual Stockholders' Meeting. The notice includes the date, time, venue and agenda of the meeting, the record date of stockholders entitled to vote, and the date and place of proxy validation. The notice for the June 30, 2011 Annual Stockholders' Meeting was sent on June 3, 2011.

Voting Rights and Voting Procedures

Each share entitles the holder to one vote that may be exercised in person or by proxy at shareholder meetings, including the Annual Stockholders' Meeting. Shareholders have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code. Voting procedures on matters presented for approval to the stockholders in the Annual Stockholders' Meeting are set out in the Definitive Information Statement, which is sent to all stockholders of record at least 15 days before the date of meeting.

Right to Information

Shareholders are provided through public records, communication media, and the Company's website, the disclosures, announcements and reports filed with the SEC, PSE, IC and other regulating agencies. All shareholders are also allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code. Moreover shareholders, upon request, are provided with periodic reports which disclose personal and professional information about the directors, officers and certain other matters such as their shareholdings, dealings with the Company, relationships among directors and key officers, and the aggregate compensation of directors and officers.

Dividends

The Board of Directors are authorized to declare dividends out of the unrestricted retained earnings of the Company, which may be payable in cash, in property, or in stock to all stockholders. Related provisions pertaining to dividend rights of shareholders are indicated in other parts of this submission.

Stakeholder Relations

Shareholder and Investor Relations

The Company has set-up communication channels that promote effective communication with its shareholders and the investing community. Aside from the regular reporting and disclosures to the various regulating agencies such as the SEC, PSE and IC, the Company actively maintains its website that provides timely information updates on its governance, operational, and financial performance. The Company also have designated relations officers to handle investor and shareholder queries and requests, and their contact information can easily be accessed through the Company's website.

Employee Relations

The Company explicitly articulates its recognition and protection of the rights and interests of its employees through its Employee Manual of Policies and Procedures. The manual also governs employee related matters to ensure uniformity and consistency of interpretation and implementation, promote harmonious employer-employee relationship as well as set-up guidelines in protecting the use of material inside information.

The Company provides post-employment employee benefits through a defined benefit plan and various contribution plans. Employees also participate in various industry and regulatory trainings and seminars that are designed for their career advancement and functional development, and are linked towards shareholder value creation.

Corporate Social Responsibility

The Company's efforts are currently focused on mitigating the consequences of natural catastrophes. It participates in conferences on this subject and is working with the Philippine non-life insurance industry to put in place mitigation measures. The Company also participates jointly in community related projects undertaken by other entities from time to time. Other environment-related and community involvement programs are being facilitated to further contribute to the insurance industry and the Philippine society.

Code of Ethics

PhilNaRe promotes a culture of good corporate governance by formally adopting a Code of Ethics that is founded on the Company's core business principles of fairness, accountability, integrity, transparency and honesty. The code guides individual behavior and decision making, and clarifies responsibilities and proper conduct for its directors, officers and employees.

Punongbayan & Araullo

Member firm within Grant Thornton International Ltd

Financial Statements and Independent Auditors' Report

National Reinsurance Corporation of the Philippines

December 31, 2011, 2010 and 2009

Punongbayan & Araullo

Report of Independent Auditors

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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

Report on the Financial Statements

We have audited the accompanying financial statements of National Reinsurance Corporation of the Philippines, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Reinsurance Corporation of the Philippines as at December 31, 2011 and 2010, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

Punongbayan & Araullo

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2011 required by the Bureau of Internal Revenue as disclosed in Note 26 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 3174799, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-3 (until Jan. 18, 2015)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-7-2011 (until Sept. 21, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

March 15, 2012

PhilNaRe

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **National Reinsurance Corporation of the Philippines** (the Company), is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010 in accordance with Philippine Financial Reporting Standards, including the following additional components attached therein:

a. Supplementary schedules required under Annex 68-E of the SRC
b. Reconciliation of retained earnings available for dividend declaration
c. List of standard and interpretations under Philippine Financial Reporting Standards as of December 31, 2011

This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

HELEN Y. DEE
Chairperson of the Board

ROBERTO B. CRISOL
President & Chief Executive Officer

JOHN E. HUANG
Chief Financial Officer

APR 1 0 2012

SUBSCRIBED AND SWORN TO before me this____day of April 2012 at the City of Makati. Affiants exhibited to me their Community Tax Certificate Nos.

Name	Com. Tax Cert. No.	Date	Place of issue
HELEN Y. DEE	17347294	February 20, 2012	Manila
ROBERTO B. CRISOL	07009884	January 24, 2012	Makati City
JOHN E. HUANG	11141617	January 14, 2012	Pasig City

Doc. No. 102
Page No. 27
Book No. XV
Series of 2012.

ATTY. ARNEL D. NAIDAS
NOTARY PUBLIC
UNTIL DEC. 31, 2012
PTR NO. 3229929 MAKATI CITY 2-9-12
IBP NO. 879902 ILOCOS NORTE 2-9-12
ROLL NO. 32979

ASSETS					
CASH AND CASH EQUIVALENTS	5	**P**	**1,699,806,389**	P	613,287,054
REINSURANCE BALANCES RECEIVABLE - Net	6		**3,892,173,173**		4,210,444,502
AVAILABLE-FOR-SALE FINANCIAL ASSETS	7		**5,365,644,659**		6,297,135,567
LOANS AND RECEIVABLES	8		**584,623,402**		360,688,116
PROPERTY AND EQUIPMENT - Net	9		**127,375,909**		77,840,121
DEFERRED ACQUISITION COSTS	2		**137,880,973**		198,420,037
DEFERRED REINSURANCE PREMIUMS	10		**564,483,447**		514,257,825
OTHER ASSETS	11		**266,094,166**		281,011,110
TOTAL ASSETS		**P**	**12,638,082,118**	P	12,553,084,332
LIABILITIES AND EQUITY					
REINSURANCE BALANCES PAYABLE	6	**P**	**5,427,830,997**	P	5,462,712,883
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	12		**107,474,813**		108,631,841
RESERVE FOR UNEARNED REINSURANCE PREMIUMS	10		**897,469,364**		902,887,425
DEFERRED REINSURANCE COMMISSIONS	2		**79,232,764**		130,486,488
Total Liabilities			**6,512,007,938**		6,604,718,637
EQUITY	18		**6,126,074,180**		5,948,365,695
TOTAL LIABILITIES AND EQUITY		**P**	**12,638,082,118**	P	12,553,084,332

See Notes to Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2011	2010	2009
REINSURANCE PREMIUM INCOME				
Reinsurance premiums - net of returns	19	P 3,524,300,496	P 4,279,413,638	P 3,538,375,311
Retroceded premiums	19	2,397,850,047	2,681,594,564	2,185,981,710
Reinsurance premiums retained		1,126,450,449	1,597,819,074	1,352,393,601
Decrease in reserve for unearned reinsurance premiums	10	55,643,683	18,757,409	118,471,598
		1,182,094,132	1,616,576,483	1,470,865,199
UNDERWRITING DEDUCTIONS				
Share in claims and losses	14	943,404,577	1,838,825,037	1,032,572,094
Commissions - net	14	345,606,618	435,697,462	406,973,774
		1,289,011,195	2,274,522,499	1,439,545,868
NET UNDERWRITING INCOME (LOSS)		(106,917,063)	(657,946,016)	31,319,331
INVESTMENT AND OTHER INCOME - Net	13	768,180,453	491,221,340	466,656,885
PROFIT (LOSS) AFTER INVESTMENT AND OTHER INCOME		661,263,390	(166,724,676)	497,976,216
GENERAL AND ADMINISTRATIVE EXPENSES	15	248,779,318	240,641,480	325,072,508
PROFIT (LOSS) BEFORE TAX		412,484,072	(407,366,156)	172,903,708
TAX EXPENSE	17	72,133,582	72,611,644	69,864,351
NET PROFIT (LOSS)		P 340,350,490	(P 479,977,800)	P 103,039,357
Earnings(Losses) Per Share	22	P 0.16	(P 0.22)	P 0.05

See Notes to Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Note	2011	2010	2009
NET PROFIT (LOSS)		P 340,350,490	(P 479,977,800)	P 103,039,357
OTHER COMPREHENSIVE INCOME (LOSS)				
Fair value gains (losses) - net of taxes	7	(59,004,832)	375,226,237	188,255,431
TOTAL COMPREHENSIVE INCOME (LOSS)		P 281,345,658	(P 104,751,563)	P 291,294,788

See Notes to Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	Capital Stock		Additional Paid-in Capital	Treasury Shares - At Cost	Revaluation Reserves	Retained Earnings		Total Equity
		No. of Shares	Amount				Appropriated	Unappropriated	
Balance as of January 1, 2011		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 40,081,811)	P 393,670,095	P 231,638,713	P 161,965,640	P 5,948,365,695
Re-acquisitions of shares during the year	18	-	-	-	(60,443,621)	-	-	-	(60,443,621)
Cash dividends	18	-	-	-	-	-	-	(43,193,552)	(43,193,552)
Appropriated for contingencies	18	-	-	-	-	-	34,035,049	(34,035,049)	-
Total comprehensive income (loss) for the year	7	-	-	-	-	(59,004,832)	-	340,350,490	281,345,658
Total equity as of December 31, 2011		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 100,525,432)	P 334,665,263	P 265,673,762	P 425,087,529	P 6,126,074,180
Balance as of January 1, 2010		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 40,081,811)	P 18,443,858	P 231,638,713	P 743,448,287	P 6,154,622,105
Cash dividends	18	-	-	-	-	-	-	(101,504,847)	(101,504,847)
Total comprehensive income (loss) for the year	7	-	-	-	-	375,226,237	-	(479,977,800)	(104,751,563)
Total equity as of December 31, 2010		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 40,081,811)	P 393,670,095	P 231,638,713	P 161,965,640	P 5,948,365,695
Balance as of January 1, 2009		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 40,081,811)	(P 169,811,573)	P 221,334,777	P 737,099,970	P 5,949,714,421
Cash dividends	18	-	-	-	-	-	-	(86,387,104)	(86,387,104)
Appropriated for contingencies	18	-	-	-	-	-	10,303,936	(10,303,936)	-
Total comprehensive income for the year	7	-	-	-	-	188,255,431	-	103,039,357	291,294,788
Total equity as of December 31, 2009		2,181,954,600	P 2,181,954,600	P 3,019,218,458	(P 40,081,811)	P 18,443,858	P 231,638,713	P 743,448,287	P 6,154,622,105

See Notes to Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2011	2010	2009
Depreciation and amortization	9, 11	28,843,853	20,057,975	10,765,008
Impairment losses	6, 7	32,500,000	21,607,076	128,325,407
Unrealized foreign exchange loss (gain)		(2,600,273)	15,539,295	25,264,356
Gain on sale of property and equipment	13	(6,786)	(5,407)	-
Operating loss before working capital changes		(77,826,027)	(870,015,455)	(210,688,613)
Decrease (increase) in reinsurance balances receivable		287,193,889	(1,366,160,354)	1,330,812,182
Decrease (increase) in loans and receivables		(239,409,009)	(117,315,691)	66,534,371
Decrease in deferred acquisition costs		9,285,340	199,158	24,184,633
Decrease (increase) in other assets		(31,140,922)	(37,947,877)	3,119,365
Increase (decrease) in reinsurance balances payable		(39,002,115)	1,884,541,144	(1,219,616,664)
Increase (decrease) in accounts payable and accrued expenses		(1,268,201)	31,890,704	(78,101,287)
Cash used in operations		(92,167,045)	(474,808,371)	(83,756,013)
Cash paid for income taxes		(72,022,408)	(72,611,644)	(69,499,923)
Net Cash Used in Operating Activities		(164,189,453)	(547,420,015)	(153,255,936)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal/maturities of:				
Available-for-sale financial assets	7	8,170,190,586	1,898,212,243	3,764,210,475
Property and equipment	9	279,369	1,256,012	-
Interest received		388,169,115	388,459,537	373,618,987
Dividends received		37,970,582	33,790,441	29,972,727
Acquisitions of:				
Available-for-sale financial assets	7	(7,213,870,663)	(1,698,465,088)	(4,327,663,119)
Property and equipment	9	(29,563,988)	(4,877,033)	(4,569,012)
Intangible assets	11	(3,030,370)	(39,109,337)	(47,458,660)
Net Cash From (Used in) Investing Activities		1,350,144,631	579,266,775	(211,888,602)
CASH FLOWS FROM FINANCING ACTIVITIES				
Acquisition of treasury shares	18	(60,443,621)	-	-
Payments of dividends	18	(43,193,552)	(101,504,847)	(86,387,104)
Net Cash Used in Financing Activities		(103,637,173)	(101,504,847)	(86,387,104)
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		4,201,330	(714,018)	(14,367,486)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,086,519,335	(70,372,105)	(465,899,128)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		613,287,054	683,659,159	1,149,558,287
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 1,699,806,389	P 613,287,054	P 683,659,159

Supplemental Information on Noncash Operating and Investing Activities:

In 2011, the Company transferred portion of its Investment Property (a condominium unit) with a carrying value of P30,955,944 to Property and Equipment upon commencement of owner-occupation (see Notes 9 and 11).

See Notes to Financial Statements.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

National Reinsurance Corporation of the Philippines (the Company) was incorporated on June 7, 1978 by virtue of Presidential Decree No. 1270, as a domestic professional reinsurance firm to provide life and non-life reinsurance capacity to the Philippines and neighboring insurance markets. Under the Decree, it became the vehicle for the Philippine insurance industry's participation in the Asian Reinsurance Corporation (Asian Re), a multi-government-initiated reinsurance entity, based in Bangkok, Thailand, which was established to foster regional cooperation among insurance companies doing business in Asia. The Company's shares are listed in the Philippine Stock Exchange (PSE).

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

The financial statements of the Company for the year ended December 31, 2011 (including the comparatives for the years ended December 31, 2010 and 2009) were authorized for issue by the Company's Board of Directors (BOD) on March 15, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2011 that are Relevant to the Company

In 2011, the Company adopted the following amendments, interpretations and annual improvements to PFRS that are relevant to the Company and effective for financial statements for the annual period beginning on or after January 1, 2011:

PAS 24 (Amendment)	:	Related Party Disclosures
Philippine Interpretations International Financial Reporting Interpretations Committee (IFRIC) 14 (Amendment)	:	Prepayment of a Minimum Funding Requirement
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
Various Standards	:	2010 Annual Improvements to PFRS

Discussed below are relevant information about these new and amended standards.

(i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Company's disclosures of related parties in its financial statements.

(ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayment of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Company is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its financial statements.

(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

The adoption of the interpretation did not have a material effect on the Company's financial statements as it did not extinguish financial liabilities through equity swap during the year.

(iv) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. Among those improvements, only the following amendments were identified to be relevant to the Company's financial statements but which did not have any material impact on its financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. As the Company's other comprehensive income only includes fair value changes in available-for-sale (AFS) financial assets, the Company has elected to continue presenting each item of other comprehensive income in the statement of changes in equity.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. The Company already provides adequate information in its financial statements in compliance with the disclosure requirements.

- PAS 34 (Amendment), *Interim Financial Reporting – Significant Events and Transactions* (effective from January 1, 2011). The amendment provides further guidance to illustrate how to apply disclosure principles under PAS 34 for significant events and transactions to improve interim financial reporting. It requires additional disclosure covering significant changes to fair value measurement and classification of financial instruments, and to update relevant information from the most recent annual report. The Company's interim financial reporting already provides adequate information in its financial statements in compliance with the disclosure requirements.

(b) Effective in 2011 but not Relevant to the Company

The following amendments and improvements to PFRS are mandatory for accounting periods beginning on or after January 1, 2011 but are not relevant to the Company's financial statements:

PAS 32 (Amendment)	:	Financial Instruments: Presentation - Classification of Rights Issues
PFRS 1 (Amendments)	:	First-Time Adoption of PFRS – Limited Exemption from PFRS 7 Comparative Disclosures
2010 Annual Improvements		
PAS 21 (Amendment)	:	The Effects of Changes in Foreign Exchange Rates
PAS 28 (Amendment)	:	Investments in Associates
PAS 31 (Amendment)	:	Interests in Joint Ventures
PFRS 1 (Amendment)	:	First-time Adoption of PFRS
PFRS 3 (Amendment)	:	Business Combinations
IFRIC 13 (Amendment)	:	Customer Loyalty Programmes – Fair Value Awards Credits

(c) Effective Subsequent to 2011 but not Adopted Early

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2011. Management has initially determined the following pronouncements, which the Company will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Company is yet to assess the impact of this new standard.

(ii) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Company's management expects that this will not affect the presentation of items in other comprehensive income since the Company's other comprehensive income only includes revaluation reserve on unrealized fair value gains and losses on AFS financial assets that can be reclassified subsequently to profit or loss when specified conditions are met.

(iii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset on an investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) measured at fair value that is held with an objective to consume substantially the economic benefits embodied in the asset over time, rather than through sale. As a result of the amendment, Standard Interpretation Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn. This amendment is not expected to have a significant effect on the Company's financial statements as its investment property only includes parcels of land which is not covered by this amendment.

(iv) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

Currently, the Company is using the corridor approach and its unrecognized actuarial losses as of December 31, 2011 amounted to P72,801,769 which will be retrospectively recognized as losses in other comprehensive income in 2013.

(v) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39 in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

The Company does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Company and is committed to conduct a comprehensive study of the potential impact of this standard early in 2012 to assess the impact of all changes.

(vi) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Company is yet to assess the impact of this new standard.

2.3 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards. Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recognized at fair value and transaction costs related to it are recognized in profit or loss.

The categories of financial assets that are currently relevant to the Company are fully described below.

(a) Loans and Receivables

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

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

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

(b) AFS 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. The Company's AFS financial assets include listed equity securities, corporate bonds, long-term negotiable instruments and government securities.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserve account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

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

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

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

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

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred.

2.4 Property and Equipment

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

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

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

Condominium units	40 years
Office improvements	10 years
Office furnitures and equipment	5 years
Transportation equipment	5 years
Electronic data processing (EDP) equipment	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

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

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

2.5 Investment Property

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

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

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

2.6 Intangible Assets

Intangible assets (presented as part of Other Assets account) include acquired software licenses which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition. Acquired computer software licenses are capitalized on the cost incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred. Capitalized costs are amortized on a straight-line basis over five years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.15.

2.7 Financial Liabilities

Financial liabilities, which include Reinsurance Balances Payable and Accounts Payable and Accrued Expenses [excluding deferred output value-added tax (VAT), defined benefit liability and withholding taxes payable], 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, using the effective interest method for maturities beyond one year, 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.

2.8 Provisions and Contingencies

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

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.9 Revenue Recognition

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

(a) *Reinsurance premiums* – Premiums from short duration insurance contracts over the period of the contracts using the "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 the end of the reporting periods are recognized in the statement of income.

(b) *Interest income* – This is recognized as the interest accrues taking into account the effective yield on the asset.

(c) *Dividends* – Revenue is recognized when the Company's right to receive the payment is established.

2.10 Claim Costs Recognition

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

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

2.11 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.

2.12 Commissions on Retrocessions

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

2.13 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.

2.14 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.

2.15 Impairment of Non-financial Assets

The Company's property and equipment, investment property and intangible assets 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.

2.16 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan, as well as various defined contribution plans.

(a) Post-employment Defined Benefit 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 pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to 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 profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in profit or loss, 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.

(b) Defined Benefit Contribution Plans

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 current liabilities or current assets as they are normally of a short term nature.

(c) 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.

2.17 Income Taxes

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

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

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

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

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

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

2.18 Related Party Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close member of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.19 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 acquiring such shares.

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

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

2.20 Earnings (Losses) Per Share

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

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

2.21 Events After the Reporting Period

Any post-year-end event that provides additional information about the Company's position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS 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. In 2010, the Company recognized impairment loss on its investment in equity securities amounting to P6,397,150 (nil in 2011) (see Note 7). Based on the recent evaluation of information and circumstances affecting the Company's AFS financial assets, management concluded that no other AFS financial assets are impaired as of December 31, 2011 and 2010. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

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

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

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

In 2011, management transferred a portion of its Investment Property with a carrying value of P30,955,944 to Property and Equipment upon commencement of owner-occupation (see Notes 9 and 11).

(c) Operating and Finance Leases

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

(d) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.8 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) Allowance 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.

The carrying value of reinsurance balances receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6. The carrying value of loans and receivables is shown in Note 8.

(b) 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.

The carrying values of the Company's AFS financial assets and the amounts of fair value changes recognized during the years in those assets are disclosed in Note 7.

(c) Useful Lives of Property and Equipment, Investment Property and Intangible Assets

The Company estimates the useful lives of property and equipment, investment property and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, investment property and intangible assets 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 are analyzed in Note 9, and of investment property and intangible assets in Note 11. Based on management's assessment as at December 31, 2011, there is no change in estimated useful lives of property and equipment, investment property and intangible assets during the year. Actual results, however, may vary due to changes in estimates brought about by the changes in factors mentioned above.

(d) Impairment of Non-financial Assets

The Company's policy on estimating the impairment of non-financial assets is discussed in Note 2.15. 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 2011, 2010 and 2009.

(e) Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. As of December 31, 2011 and 2010, no deferred tax assets were recognized by the Company since management believes that they will not be able to utilize the amount prior to its expiration.

(f) Post-employment Defined Benefits

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rate of return on plan assets, salary rate increase, and employee turnover. 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 amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 16.2

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

4.1 Reinsurance Risk

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

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

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

	Reinsurance Premiums	Retroceded Premiums	Retention
December 31, 2011			
Casualty	P 1,883,019,992	P 1,462,942,310	P 420,077,682
Fire	907,568,017	615,649,126	291,918,891
Life	471,265,379	200,522,435	270,742,944
Marine and aviation	262,447,108	118,736,176	143,710,932
	P 3,524,300,496	P 2,397,850,047	P 1,126,450,449

	Reinsurance Premiums	Retroceded Premiums	Retention
December 31, 2010			
Casualty	P 2,134,742,451	P 1,586,590,665	P 548,151,786
Fire	1,096,036,855	647,741,964	448,294,891
Life	491,439,546	153,971,655	337,467,891
Marine and aviation	557,194,786	293,290,280	263,904,506
	P 4,279,413,638	P 2,681,594,564	P 1,597,819,074
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
Life	531,171,628	227,081,793	304,089,835
Marine and aviation	384,081,749	168,934,964	215,146,785
	P 3,538,375,311	P 2,185,981,710	P 1,352,393,601

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 13% 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 BOD to assist the Board in the development and oversight of the Company's risk management program. The Risk Management Council is required to provide the Board with a comprehensive enterprise risk assessment at least annually and to establish plans to ensure that risks are being managed and monitored effectively. The Risk Management Committee's main task is to oversee that risk management is an integral part of the planning and operations of the Company in order to meet corporate goals and objectives.

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

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

	Outstanding Claims	Retrocessionaires' Share in Claims	Net
December 31, 2011			
Fire	P 1,737,565,947	P 1,075,632,493	P 661,933,454
Marine and aviation	1,230,741,339	375,394,441	855,346,898
Casualty	1,641,994,279	1,114,086,599	527,907,680
Life	51,125,515	24,472,792	26,652,723
	P 4,661,427,080	P 2,589,586,325	P 2,071,840,755
December 31, 2010			
Fire	P 1,812,741,166	P 1,180,636,029	P 632,105,137
Marine and aviation	1,257,352,299	417,572,467	839,779,832
Casualty	1,561,882,859	1,121,225,029	440,657,830
Life	32,405,329	6,247,616	26,157,713
	P 4,664,381,653	P 2,725,681,141	P 1,938,700,512
December 31, 2009			
Fire	P 1,371,288,710	P 848,145,301	P 523,143,409
Marine and aviation	782,941,752	282,565,060	500,376,692
Casualty	837,043,779	615,604,278	221,439,501
Life	56,823,130	13,914,915	42,908,215
	P 3,048,097,371	P 1,760,229,554	P 1,287,867,817

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

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

4.2 Credit Risk

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

	Notes	**2011**	2010
Cash and cash equivalents	5	**P 1,699,771,367**	P 613,252,054
Reinsurance balances receivable - net	6	**3,892,173,173**	4,210,444,502
Available-for-sale financial assets	7	**4,685,667,341**	5,363,752,653
Loans and receivables	8	**584,623,402**	360,688,116
		P 10,862,235,283	P 10,548,137,325

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 P35,022 and P35,000 as of December 31, 2011 and 2010, respectively.

Some of the unimpaired reinsurance balance receivables are past due as at the end of the reporting period. No other financial assets are past due at the end of the reporting period. The reinsurance balance receivables that are past due but not impaired are as follows:

	2011	2010
Not more than three months	**P -**	P -
More than three months but not more than six months	**-**	-
More than six months but not more than one year	**4,786,485**	-
More than one year	**355,992,238**	471,978,082
	P 360,778,723	P 471,978,082

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, 2011, the Company's obligations arising from reinsurance agreements and other financial liabilities have contractual maturities which are presented below.

	Current	Non-current
Reinsurance balances payable	P 4,450,821,418	P 977,009,579
Accounts payable and accrued expenses	52,541,192	-
	P 4,503,362,610	**P 977,009,579**

This compares to the maturity of the Company's financial liabilities as of December 31, 2010 as follows:

	Current	Non-current
Reinsurance balances payable	P 4,479,424,564	P 983,288,319
Accounts payable and accrued expenses	46,516,252	-
	P 4,525,940,816	P 983,288,319

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 currency gains of P7,754,821 in 2011 and net foreign currency losses of P21,092,442 in 2010 and P24,337,582 in 2009 (see Note 13).

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

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

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

	2011		2010	
	US Dollar	Other Currencies	US Dollar	Other Currencies
Financial assets	P 742,696,608	P 127,978,885	P 823,041,545	P 132,144,838
Financial liabilities	(171,147,612)	(18,570,980)	(344,746,609)	(19,284,268)
Total net exposure	P 571,548,996	P 109,407,905	P 478,294,936	P 112,860,570

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

	2011			2010		
	Reasonably Possible Change in Rate	**Effect in Profit Before Tax**	**Effect in Equity**	Reasonably Possible Change in Rate	Effect in Loss Before Tax	Effect in Equity
Php - US Dollars	16.23%	**(P 92,750,738)**	**(P 92,750,738)**	21.14%	P 85,721,497	P 85,721,497
Php - Indonesian Rupiah	23.73%	**(19,199,134)**	**(19,199,134)**	27.27%	21,189,848	21,189,848
Php - Euro	31.55%	**(7,118,943)**	**(7,118,943)**	30.76%	(2,072,566)	(2,072,566)
Php - Malaysian Ringgit	14.10%	**(2,956,450)**	**(2,956,450)**	18.36%	2,650,766	2,650,766
Php - Thailand Baht	13.70%	**(2,382,703)**	**(2,382,703)**	18.73%	3,046,984	3,046,984
Php - Singaporean Dollars	21.61%	**(2,134,272)**	**(2,134,272)**	17.70%	1,856,904	1,856,904
Php - Indian Rupee	17.50%	**(510,302)**	**(510,302)**	15.94%	323,546	323,546
Php - Japanese Yen	39.15%	**179,987**	**179,987**	39.74%	(146,029)	(146,029)
Php - New Zealand Dollars	42.71%	**53,009**	**53,009**	35.57%	(43,823)	(43,823)
Php - Hongkong Dollars	16.98%	**46,519**	**46,519**	21.75%	1,290	1,290
Php - British Pound	23.37%	**2,207**	**2,207**	31.63%	(838)	(838)
Php - South Korean Won	26.26%	**470**	**470**	26.99%	115,890	115,890
Php - Australian Dollar	39.43%	**(105)**	**(105)**	38.41%	103	103
Php - Pakistan Rupee	17.70%	**-**	**-**	21.10%	(56,885)	(56,885)
Total		**(P 126,770,455)**	**(P 126,770,455)**		P 112,586,687	P 112,586,687

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

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

(b) Market Price Risk

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

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

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

The Investment Committee regularly reviews and approves a list of publicly traded stocks authorized for investments on the basis of the foregoing considerations. Furthermore, the Investment Committee seeks to avoid unwarranted concentration of funds in a single asset class by regularly monitoring and limiting the proportion of equity investments to the Company's total investment portfolio. As of December 31, 2011 and 2010 investments in listed equities amounted to 8% and 10%, respectively, of the Company's total investment portfolio.

The observed volatility rates of the fair values of the Company's investments held at fair value and their impact on the Company's other comprehensive income (loss) as of December 31, 2011 and 2010 are summarized as follows:

	2011		2010	
	Observed Volatility Rates	**Effect in Other Comprehensive Loss**	Observed Volatility Rates	Effect in Other Comprehensive Income
Government bonds	**3.01%**	**P 101,147,674**	2.34%	P 78,436,969
Equity securities listed in the Philippines:				
Common shares	**16.98%**	**98,476,105**	16.51%	113,205,085
Preferred shares	**3.62%**	**6,247,352**	1.86%	3,663,911
Corporate bonds	**6.82%**	**36,536,977**	8.39%	15,374,839
Mutual funds	**6.16%**	**13,144,833**	9.96%	7,895,232
		P 255,552,941		P 218,576,036

(c) *Interest Rate Risk*

The Company has limited exposure to interest rate risk because of its fixed income investments which amounted to approximately 89% and 85% of the Company's total investment portfolio as of December 31, 2011 and 2010, respectively. The Company attempts to limit interest rate risk by establishing limits on the duration and average maturity of its variable income portfolio.

5. CASH AND CASH EQUIVALENTS

This account consists of:

	2011	2010
Short-term placements	**P 1,663,869,249**	P 582,571,993
Cash on hand and in banks	**35,937,140**	30,715,061
	P 1,699,806,389	P 613,287,054

Short-term placements include time deposits and special deposit accounts made for varying periods between one day and one month depending on the liquidity requirements of the Company. Peso short-term placements earn annual interest rates ranging from 1.25% to 4.75% in 2011 and from 1.25% to 4.25% in 2010 while dollar short-term placements earn annual interest rates ranging from 0.02% to 1.75% in 2011 and from 0.02% to 1.63% in 2010. 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$4,906,842 (or P215,547,761) as of December 31, 2011 and US$3,824,365 (or P167,832,271) as of December 31, 2010.

6. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

	2011	2010
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	**P 2,589,586,325**	P 2,725,681,141
Due from ceding companies	**1,076,598,889**	1,180,189,544
Reinsurance recoverable on paid losses	**396,607,866**	454,499,264
Funds held by ceding companies	**145,010,052**	133,204,512
	4,207,803,132	4,493,574,461
Allowance for impairment	**(315,629,959)**	(283,129,959)
	P 3,892,173,173	P 4,210,444,502
Reinsurance balances payable:		
Claims payable	**P 4,661,427,080**	P 4,664,381,653
Due to retrocessionaires	**677,808,010**	706,510,346
Funds held for retrocessionaires	**88,595,907**	91,820,884
	P 5,427,830,997	P 5,462,712,883

Reinsurance balances receivable pertains to the following:

- Reinsurance recoverable on unpaid losses represents amounts due from retrocessionaires under treaty and facultative agreements as their share in losses.
- Due from ceding companies refers to the premiums receivable from the cedants as a result of treaty and facultative acceptances.
- Funds held by ceding companies pertains to the portion of reinsurance premiums withheld by ceding companies in accordance with treaty and facultative agreements.

Reinsurance balances payable relates to the following:

- Claims payable are losses and claims due to ceding companies under treaty and facultative agreements.
- Due to retrocessionaires are unremitted share in premiums of retrocessionaires.
- Funds held for retrocessionaires represents portion of the reinsurance premium ceded to retrocessionaires which was withheld by the Company in accordance with treaty and facultative agreements.

All of the Company's reinsurance balances receivables have been reviewed for indicators of

Balance at beginning of year		P 283,129,959	P 267,920,033
Impairment losses during the year	15	32,500,000	15,209,926
Balance at end of year		P 315,629,959	P 283,129,959

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

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2011	2010
Bonds	P 4,570,453,923	P 5,293,842,809
Equity securities - net	602,079,356	860,523,387
Investment in Asian Re shares	77,897,962	72,859,527
Various funds	115,213,418	69,909,844
	P 5,365,644,659	P 6,297,135,567

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting P187,500,000 and P190,000,000 in 2011 and 2010, 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.

Bonds earn interest at annual rates ranging from 3.75% to 15.00% both 2011 and 2010. 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:

	2011	2010
Due within one year	P 332,831,836	P 321,292
Due after one year through five years	782,494,524	2,954,923,197
Due after five years through ten years	1,073,433,259	2,216,792,651
Due after ten years	2,381,694,304	121,805,669
	P 4,570,453,923	P 5,293,842,809

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

	2011	2010
Cost:		
Quoted in the stock exchange	P 539,093,950	P 572,025,999
Not quoted in the stock exchange	40,636,735	192,195,157
	579,730,685	764,221,156
Fair value gains (losses):		
Quoted in the stock exchange	43,803,877	117,160,265
Not quoted in the stock exchange	(21,455,206)	(20,858,034)
	22,348,671	96,302,231
	P 602,079,356	P 860,523,387

Equity securities consist mainly 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 value and changes in the fair values are recognized under Other Comprehensive Income (Loss) in the statement of comprehensive income. The fair value of investment in Asian Re shares amounted to P77,897,962 and P72,859,527, as of December 31, 2011 and 2010, respectively.

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

	2011	2010
Balance at beginning of year	P 6,297,135,567	P 6,048,736,164
Additions	7,213,870,663	1,698,465,088
Disposals/maturities	(8,086,208,824)	(1,809,273,516)
Fair value gains (losses) - net	(59,004,832)	375,226,237
Foreign currency losses	(147,915)	(9,621,256)
Impairment losses	-	(6,397,150)
Balance at end of year	P 5,365,644,659	P 6,297,135,567

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 P59,004,832 fair value losses in 2011 and P375,226,237 and P188,255,431 fair value gains in 2010 and 2009, respectively.

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in active market. For some investments where fair value is not reliably determinable either through reference of similar instruments or valuation techniques, these are carried at cost.

8. LOANS AND RECEIVABLE

This account includes the following:

	2011	2010
Current:		
Term loans	P 150,000,000	P 150,000,000
Accrued interest receivable	75,807,780	92,526,029
Others	146,395,665	30,593,197
	372,203,445	273,119,226
Non-current:		
Term loans	200,000,000	80,000,000
Loans receivable	12,419,957	7,568,890
	212,419,957	87,568,890
	P 584,623,402	P 360,688,116

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

Term loans mainly pertain to the Company's participation in syndicated loans of other companies. These loans are unsecured interest-bearing loans with a term of 2 to 5 years. The annual effective interest rate on these loans ranges from 5.50% to 6.625% in 2011, 5.75% to 7.40% in 2010 and 6.38% to 7.40% in 2009.

Loans receivable includes unsecured housing and car loans to Company employees which have annual effective interest rates of 11% to 13% both in 2011 and 2010, and 10% to 22% in 2009. These loans are collected through salary deductions with a term of 5 to 20 years.

In 2011, Others includes receivables from sale of various stocks amounting to P145.5 million.

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

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2011 and 2010 are shown below.

	Condominium Units	Office Improvements	Office Furnitures and Equipment	Transportation Equipment	EDP Equipment	Total
December 31, 2011						
Cost	P 154,882,913	P 12,241,691	P 10,455,422	P 13,957,307	P 39,009,102	P 230,546,435
Accumulated depreciation and amortization	(63,632,097)	(6,681,825)	(9,568,256)	(4,216,433)	(19,071,915)	(103,170,526)
Net carrying amount	P 91,250,816	P 5,559,866	P 887,166	P 9,740,874	P 19,937,187	P 127,375,909
December 31, 2010						
Cost	P 104,227,734	P 7,918,239	P 9,700,444	P 10,599,931	P 22,682,818	P 155,129,166
Accumulated depreciation and amortization	(40,060,789)	(6,074,523)	(9,322,464)	(6,344,233)	(15,487,036)	(77,289,045)
Net carrying amount	P 64,166,945	P 1,843,716	P 377,980	P 4,255,698	P 7,195,782	P 77,840,121
January 1, 2010						
Cost	P 104,227,734	P 14,284,102	P 9,590,930	P 13,300,379	P 20,140,666	P 161,543,811
Accumulated depreciation and amortization	(37,032,968)	(12,003,316)	(9,081,416)	(7,417,098)	(13,432,739)	(78,967,537)
Net carrying amount	P 67,194,766	P 2,280,786	P 509,514	P 5,883,281	P 6,707,927	P 82,576,274

A reconciliation of the carrying amounts at the beginning and end of 2011 and 2010, of property and equipment is shown below.

	Condominium Units	Office Improvements	Office Furnitures and Equipment	Transportation Equipment	EDP Equipment	Total
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 64,166,945	P 1,843,716	P 377,980	P 4,255,698	P 7,195,782	P 77,840,121
Transfer from investment property	30,955,944	-	-	-	-	30,955,944
Additions	-	4,323,452	754,978	8,159,272	16,326,286	29,563,988
Disposal	-	-	-	(272,583)	-	(272,583)
Depreciation and amortization charges for the year	(3,872,073)	(607,302)	(245,792)	(2,401,513)	(3,584,881)	(10,711,561)
Balance at December 31, 2011, net of accumulated depreciation and amortization	P 91,250,816	P 5,559,866	P 887,166	P 9,740,874	P 19,937,187	P 127,375,909
Balance at January 1, 2010, net of accumulated depreciation and	P 67,194,766	P 2,280,786	P 509,514	P 5,883,281	P 6,707,927	P 82,576,274
Additions	-	-	109,515	2,225,358	2,542,160	4,877,033
Disposal	-	-	-	(1,250,605)	-	(1,250,605)
Depreciation and amortization charges for the year	(3,027,821)	(437,070)	(241,049)	(2,602,336)	(2,054,305)	(8,362,581)
Balance at December 31, 2010, net of accumulated depreciation and amortization	P 64,166,945	P 1,843,716	P 377,980	P 4,255,698	P 7,195,782	P 77,840,121

In 2011, the Company transferred portion of its Investment Property (a condominium unit) with a carrying value of P30,955,944 to Property and Equipment upon commencement of owner-occupation (see Note 11).

10. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts follows:

	Deferred Reinsurance Premiums		Reserve for Unearned Reinsurance Premiums	
	2011	2010	2011	2010
Balance at beginning of year	P 514,257,825	P 771,688,546	P 902,887,425	P 1,179,075,555
Increase (decrease) during the year	50,225,622	(257,430,721)	(5,418,061)	(276,188,130)
Balance at end of year	P 564,483,447	P 514,257,825	P 897,469,364	P 902,887,425

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

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

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

11. OTHER ASSETS

The Other Assets account includes the following:

	Notes	2011	2010
Creditable withholding tax		P 77,434,655	P 58,147,770
Deferred input VAT	26.1	69,065,709	72,128,569
Intangible assets - net		62,314,284	76,566,953
Input VAT	26.1	38,606,219	24,095,334
Deferred withholding VAT	26.1	9,200,181	9,113,038
Investment property - net	9	2,849,909	34,655,106
Prepayments		2,500,391	2,847,332
Deposit		672,309	575,200
Security fund		192,888	192,888
Others		3,257,621	2,688,920
		P 266,094,166	P 281,011,110

Intangible assets pertain to acquired computer software licenses used in production and administration. The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of December 31, 2011 and 2010 follows:

	2011	2010
Cost	P 89,629,802	P 86,599,432
Accumulated amortization	(27,315,518)	(10,032,479)
Balance at end of year	P 62,314,284	P 76,566,953

A reconciliation of the carrying amounts at the beginning and end of 2011 and 2010, of intangible assets is shown below.

	2011	2010
Balance at January 1, 2011, net of accumulated amortization	P 76,566,953	P 47,458,660
Additions	3,030,370	39,109,337
Amortization charges for the year	(17,283,039)	(10,001,044)
Balance at end of year	P 62,314,284	P 76,566,953

Investment property consists mainly of building with improvements which are owned to earn rentals or for capital appreciation. The changes to the carrying amounts of the investment property can be summarized as follows as of December 31:

	Notes	2011	2010
Balance at beginning of year		P 34,655,106	P 36,349,456
Transfer to property and equipment	9	(30,955,944)	-
Depreciation and amortization charges for the year	15	(849,253)	(1,694,350)
Balance at end of year		P 2,849,909	P 34,655,106

The estimated fair value and the related carrying value of the building with improvements included in investment property amounted to P5,760,000 in 2011 and P37,080,000 in 2010. Rental income earned from investment property amounted to P770,988 in 2011, P1,639,653 in 2010 and P1,704,151 in 2009, and is recorded as part of Other income (loss) under Investment and Other Income account in the statements of income (see Note 13). Real estate taxes incurred on investment property amounted to P146,837 in 2011, 2010 and 2009.

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

Input VAT pertains to input VAT on commissions paid to ceding companies.

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

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

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

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	Notes	2011	2010
Accounts payable and other liabilities		**P 43,935,951**	P 10,311,445
Deferred output VAT	26.1	**41,439,173**	41,793,329
Defined benefit liability	16.2	**11,537,344**	13,273,056
Accrued expenses		**8,605,241**	36,204,807
Withholding taxes payable		**1,957,104**	7,049,204
		P 107,474,813	P 108,631,841

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

13. INVESTMENT AND OTHER INCOME

The details of this account follow:

	Notes	2011	2010	2009
Interest	5, 7	**P 371,450,866**	P 378,361,661	P 382,426,619
Trading gain		**270,020,931**	10,389,776	33,028,642
Gain on sale of stocks		**83,981,762**	88,938,727	17,076,148
Dividend income		**37,970,582**	33,790,441	29,972,727
Foreign currency gains (losses)	4.4	**7,754,821**	(21,092,442)	(24,337,582)
Gain on sale of property and equipment		**6,786**	5,407	-
Other income (charges)	11, 16, 19	**(3,005,295)**	827,770	28,490,331
		P 768,180,453	P 491,221,340	P 466,656,885

14. UNDERWRITING DEDUCTIONS

14.1 Share in Claims and Losses

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

14.2 Commissions - net

This account consists of the following:

	2011	2010	2009
Commission expense	**P 626,620,050**	P 740,628,810	P 700,650,988
Reinsurance revenues	**(281,013,432)**	(304,931,348)	(293,677,214)
	P 345,606,618	P 435,697,462	P 406,973,774

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	2011	2010	2009
Salaries and employee benefits	16.1	P **127,785,291**	P 129,999,226	P 123,769,484
Impairment losses	6, 7	**32,500,000**	21,607,076	128,325,407
Depreciation and amortization	9, 11	**28,843,853**	20,057,975	10,765,008
Professional fees		**9,731,499**	14,674,465	24,507,265
Taxes and licenses	26.1	**8,535,220**	7,309,048	7,714,769
Representation and entertainment		**7,670,000**	4,275,446	4,369,158
Light and water		**5,003,744**	4,992,256	2,670,166
Association and pool expense		**4,879,127**	2,950,579	2,932,945
Transportation and traveling		**4,684,800**	5,375,887	3,957,312
Repairs and maintenance		**3,421,830**	11,991,196	1,378,522
Contract labor		**3,292,570**	4,162,207	3,963,964
Communication and postages		**2,170,142**	2,187,891	2,278,551
Advertising and publicity		**1,864,393**	1,329,174	1,313,182
Rental	23.1	**1,510,719**	2,689,750	1,653,628
Printing and office supplies		**1,406,472**	1,893,060	1,628,058
Insurance		**1,107,128**	1,069,919	1,048,442
Miscellaneous		**4,372,530**	4,076,325	2,796,647
		P 248,779,318	P 240,641,480	P 325,072,508

16. SALARIES AND EMPLOYEE BENEFITS

16.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below.

	2011	2010	2009
Salaries and wages	P **79,542,991**	P 79,808,512	P 75,396,452
Retirement	**21,169,633**	18,572,302	21,161,197
Allowances and bonus	**17,719,173**	18,257,052	17,411,916
Compensated absences	**4,068,095**	6,139,945	2,888,230
Social security costs	**1,737,787**	1,766,296	1,791,675
Others	**3,547,612**	5,455,119	5,120,014
	P 127,785,291	P 129,999,226	P 123,769,484

16.2 Post-employment Defined Benefit

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

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

	2011	2010	2009
Present value of the obligation	**P 152,043,509**	P 167,377,632	P 137,244,682
Fair value of plan assets	**(67,704,396)**	(63,156,618)	(56,468,323)
Deficiency of plan assets	**84,339,113**	104,221,014	80,776,359
Unrecognized actuarial losses	**(72,801,769)**	(90,947,958)	(58,759,900)
Defined benefit liability	**P 11,537,344**	P 13,273,056	P 22,016,459

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

	2011	2010	2009
Balance at beginning of year	**P 167,377,632**	P 137,244,682	P 129,757,565
Actuarial (gains) losses	**(13,134,603)**	44,765,577	(3,740,728)
Current service cost and interest cost	**19,061,083**	19,336,815	19,549,243
Benefits paid by the plan	**(21,260,603)**	(33,969,442)	(8,321,398)
Balance at end of year	**P 152,043,509**	P 167,377,632	P 137,244,682

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

	2011	2010	2009
Balance at beginning of year	**P 63,156,618**	P 56,468,323	P 32,808,081
Contributions paid into the plan	**22,905,345**	27,315,705	28,042,646
Benefits paid by the plan	**(21,260,603)**	(33,969,442)	(8,321,398)
Expected return on plan assets	**3,599,927**	4,517,466	2,624,647
Actuarial gain (losses)	**(696,891)**	8,824,566	1,314,347
Balance at end of year	**P 67,704,396**	P 63,156,618	P 56,468,323

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

The plan assets as of December 31 consist of:

	2011	2010	2009
Cash and cash equivalents	**P 12,801,326**	P 5,651,395	P 3,392,517
Government securities	**41,375,637**	37,850,827	52,208,248
Equity securities	**12,199,683**	19,352,045	441,829
Loans and receivables	**1,327,750**	302,351	425,729
Balance at end of year	**P 67,704,396**	P 63,156,618	P 56,468,323

The amounts recognized as retirement expense are as follows:

	2011	2010	2009
Current service costs	**P 9,855,313**	P 8,357,240	P 7,871,062
Interest costs	**9,205,770**	10,979,575	11,678,181
Expected return on plan assets	**(3,599,927)**	(4,517,466)	(2,624,647)
Net actuarial loss recognized during the year	**5,708,477**	3,752,953	4,236,601
	P 21,169,633	P 18,572,302	P 21,161,197

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

	2011	2010	2009
Discount rates	**5.5%**	5.5%	8.0%
Expected rate of return on plan assets	**5.7%**	8.0%	8.0%
Expected rate of salary increase	**6.0%**	6.0%	6.0%

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 5.7% and 8% are 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.

	2011	2010	2009	2008	2007
Present value of the obligation	**P152,043,509**	P167,377,632	P137,244,682	P129,757,565	P 62,132,830
Fair value of the plan assets	**67,704,396**	63,156,618	56,468,323	32,808,081	30,090,823
Deficit in the plan	**P 84,339,113**	P104,221,014	P 80,776,359	P 96,949,484	P 32,042,007

17. CURRENT AND DEFERRED TAXES

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

	2011	2010	2009
Current tax expense:			
Final tax at 20% and 7.5%	P 72,022,408	P 72,611,644	P 69,499,923
Minimum corporate income tax (MCIT)	111,174	-	364,428
	P 72,133,582	P 72,611,644	P 69,864,351

The reconciliation of the tax on pretax profit (loss) computed at the applicable statutory rates to tax expense in profit or loss is as follows:

	2011	2010	2009
Tax on pretax income (loss) at 30%	P 123,745,222	(P 122,209,846)	P 51,871,112
Adjustment for income subjected to lower tax rates	(60,468,827)	(68,154,437)	(42,956,335)
Tax effects of:			
Unrecognized deferred tax assets	99,996,799	270,828,789	90,394,884
Non-taxable income	(91,714,793)	(9,772,007)	(29,883,565)
Non-deductible expenses	575,181	1,919,145	438,255
Tax expense reported in statements of income	P 72,133,582	P 72,611,644	P 69,864,351

In accordance with the applicable accounting standards, the Company has taken a conservative position by not recognizing the net deferred tax assets on the following temporary differences as of December 31, 2011 and 2010:

	2011		2010	
	Tax Base	Tax Amount	Tax Base	Tax Amount
Deferred tax assets:				
NOLCO	P 1,365,701,412	P 409,710,423	P 1,541,722,303	P 462,516,691
Allowance for impairment	315,629,959	94,688,988	283,129,959	84,938,988
Unamortized past service cost	27,327,831	8,198,350	17,602,819	5,280,846
Defined benefit liability	11,537,344	3,461,203	13,273,056	3,981,917
Accrued expense	3,691,091	1,107,327	-	-
Accrued leave benefits	3,455,704	1,036,711	3,421,065	1,026,319
MCIT	475,602	475,602	364,428	364,428
Deferred tax liabilities:				
Excess of reserves for unearned reinsurance premiums per books over tax basis	(268,053,109)	(80,415,933)	(399,904,804)	(119,971,441)
Revaluation reserves on AFS financial assets	(55,933,962)	(16,780,188)	(50,917,027)	(15,275,108)
Deferred acquisition costs	(35,657,455)	(10,697,236)	(44,942,794)	(13,482,838)
Unrealized foreign currency gains	(20,814,320)	(6,244,297)	3,910,251	1,173,075)
Net Unrecognized Deferred Tax Assets	P 1,347,360,097	P 404,540,950	P 1,359,838,754	P 408,206,727

The details of the unrecognized NOLCO is shown below.

Year Incurred	Amount	Expired	Balance	Until
2011	P 164,504,088	P -	P 164,504,088	2014
2010	1,090,253,249	-	1,090,253,249	2013
2009	110,944,075	-	110,944,075	2012
2008	340,524,979	(340,524,979)	-	2011
	P 1,706,226,391	(P 340,524,979)	P1,365,701,412	

The Company is subject to MCIT which is computed at 2% of gross income, or regular corporate income tax (RCIT), whichever is higher. The Company recognized MCIT amounting to P111,174 and P364,428 in 2011 and 2009 respectively, as these are higher than the computed RCIT. The 2011 and 2009 MCIT can be applied against future RCIT until 2014 and 2012, respectively.

In 2011, 2010 and 2009, the Company opted to claim itemized deductions.

18. EQUITY

18.1 Capital Stock

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

On April 27, 2007, the SEC approved the listing of the Company's shares totalling 741,902,600. The shares were initially issued at an offer price of P3.80 per share. As of December 31, 2011, there are 286 holders of the listed shares. Such listed shares closed at P1.86 per share as of December 31, 2011.

18.2 Treasury Shares

In 2011, the Company acquired 36,072,000 of its own shares at a total cost of P60,443,621.

18.3 Appropriation for Contingencies

On April 18, 1989, the Company's BOD approved the establishment of a special reserve which will serve as cushion to the paid-up capital in the event of extraordinarily high loss occurrences or severe catastrophic losses. The amount of P5,000,000 was initially appropriated from retained earnings for this purpose on April 30, 1989. Subsequently, at December 31 of each year where there is profit, 10% of such profit shall be set aside as additional reserve for contingencies. The reserve balance, which is shown as Appropriated under Retained Earnings account in the statements of changes in equity, should not exceed, at any time, the amount of paid-up capital. The balance of appropriation for contingencies amounted to P265,673,762 as of December 31, 2011, and P231,638,713 as of December 31, 2010 and 2009.

18.4 Declaration of Cash Dividends

The BOD approved the declaration of cash dividends of P0.02 per share (or a total of P43,193,552) on May 19, 2011, P0.047 per share (or a total of P101,504,847) on May 20, 2010 and P0.04 (or a total of P86,387,104) on June 16, 2009, payable to stockholders of record as of June 3, 2011, June 4, 2010 and July 3, 2009, 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:

	2011	2010
Premiums	**P 1,146,301,458**	P 1,075,476,870
Retrocessions	**78,331,370**	167,442,479
Commission income	**10,617,793**	24,900,998
Commission expenses	**190,804,367**	180,043,737
Losses incurred	**208,301,660**	439,040,794
Loss recoveries	**1,069,069**	7,199,638

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

	2011	2010
Due from ceding companies	**P 349,177,047**	P 471,908,276
Reinsurance recoverable on losses	**86,781,419**	90,555,856
Funds held by ceding companies	**51,280,665**	52,225,418
Claims payable	**933,975,767**	944,491,725
Due to retrocessionaires	**33,293,883**	46,267,347
Funds held for retrocessionaires	**164,032**	164,032

The balance of due from ceding companies pertaining to related parties is presented net of P30,700,236 and P67,870,910 allowance for impairment as of December 31, 2011 and 2010, 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:

	2011	2010
Savings and current accounts	**P 4,457,906**	P 2,838,884
Time deposits	**-**	84,000,000
	P 4,457,906	P 86,838,884

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:

	2011	2010
Cash and cash equivalents	**P 290,649,107**	P 359
Available-for-sale financial assets	**1,276,647,973**	1,509,452,819
Loans and receivables	**120,626,261**	100,626,261
	P1,687,923,341	P1,610,079,439

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, 2011 and 2010 amounted to P3,330,594 and P2,880,375 respectively, and is charged against Other Income (Charges) under Investment and Other Income account (see Note 13) in the statements of income.

19.4 Retirement Fund Investment Management

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

19.5 Key Management Personnel Compensation

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

	2011	2010	2009
Short-term benefits	**P 46,724,804**	P 49,351,635	P 46,766,449
Post-employment benefits	**3,239,799**	3,063,600	2,615,573
	P 49,964,603	P 52,415,235	P 49,382,022

20. MARGIN OF SOLVENCY

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

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

21. RECONCILIATION OF NET PROFIT (LOSS) UNDER PFRS TO STATUTORY NET PROFIT (LOSS)

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

	2011	2010	2009
PFRS net profit (loss)	**P 340,350,490**	(P 479,977,800)	P 103,039,357
Difference in change in reserve for unearned reinsurance premiums – net	**131,851,695**	(201,883,076)	(70,851,172)
Deferred acquisition costs – net	**9,285,340**	199,158	24,184,634
Statutory net profit (loss)	**P 481,487,525**	(P 681,661,718)	P 56,372,819

22. EARNINGS (LOSSES) PER SHARE

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

	2011	2010	2009
Net profit (loss) available to common shareholders	**P 340,350,490**	(P 479,977,800)	P 103,039,357
Divided by the average number of outstanding common shares	**2,158,184,230**	2,159,677,600	2,159,677,600
	P 0.16	(P 0.22)	P 0.05

Diluted earnings (losses) per share is not determined since the Company does not have dilutive shares as of December 31, 2011, 2010 and 2009.

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 various operating leases covering warehouse and parking lots having a term of one year with renewal options. The future minimum rentals payable under this non-cancellable operating lease as of December 31, 2011 and 2010 are P94,320 and P231,728, respectively.

Rental expense recognized amounted to P1,510,719, P2,689,750 and P1,653,628 in 2011, 2010 and 2009, respectively, and is presented in the statements of income as Rental 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 as of December 31, 2011, 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, 2011, 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	2011		2010	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	P 1,699,806,389	P1,699,806,389	P 613,287,054	P 613,287,054
Reinsurance balances receivables	6	3,892,173,173	3,891,465,006	4,210,444,502	4,210,444,502
Loans and receivables	8	584,623,402	584,623,402	360,688,116	360,688,116
		P 6,176,602,964	P6,175,894,797	P5,184,419,672	P5,184,419,672
Available-for-sale financial assets:					
Debt securities	7	P 4,570,453,923	P4,570,453,923	P 5,293,842,809	P5,293,842,809
Equity securities	7	602,079,356	602,079,356	860,523,387	860,523,387
Investment in Asian Re shares	7	77,897,962	77,897,962	72,859,527	72,859,527
Various funds	7	115,213,418	115,213,418	69,909,844	69,909,844
		P 5,365,644,659	P5,365,644,659	P6,297,135,567	P6,297,135,567
Financial liabilities					
Reinsurance balances payable	6	P 5,427,830,997	P5,427,830,997	P5,462,712,883	P5,462,712,883
Accounts payable and other accrued expenses	12	52,541,192	52,541,192	46,516,252	46,516,252
		P 5,480,372,189	P5,480,372,189	P5,509,229,135	P5,509,229,135

See Notes 2.3 and 2.7 for a description of the accounting policies for each category of financial instrument including the determination of fair values. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 4.

24.2 Fair Value Hierarchy

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

	Level 1	Level 2	Level 3	Total
December 31, 2011				
Available-for-sale financial assets	P 3,929,713	P 17,291	P 1,418,640	P 5,365,644
December 31, 2010				
Available-for-sale financial assets	P 4,424,409	P 69,447	P 1,803,280	P 6,297,136

The different levels have been defined as follows:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

25. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are:

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

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

25.1 Minimum Capitalization

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

	December 31, 2011	December 31, 2010
Minimum statutory net worth	**P 2,000,000,000**	P 1,500,000,000
Minimum paid-up capital	**1,000,000,000**	750,000,000

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

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

25.2 Risk-Based Capital Requirements

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

25.3 Limitation on Dividend Declaration

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

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

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

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

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

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

26. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

26.1 Requirements Under Revenue Regulations 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 issued on November 25, 2010 are as follows:

(a) Output VAT

In 2011, the Company declared output VAT amounting to P33,170,151, which is set off against input VAT (see Note 26.1b), based on the following gross receipts:

	Tax Base	Output VAT
Commission earned on retrocession	P 275,646,934	P 33,077,632
Rental income	770,989	92,519
	P 276,417,923	P 33,170,151

Pursuant to RR 04-07 effective April 6, 2007, "Non-life insurance premiums are subject to VAT whereas non-life reinsurance premiums are not subject to VAT, the latter being already subject to VAT upon receipt of the insurance premiums. For taxable year 2011, the Company's VAT exempt receipts amounted to P906,286,675.

As of December 31, 2011, the Company also has Deferred Output VAT amounting to P41,439,173 pertaining to uncollected commission income from retrocessionaires (see Note 12).

(b) Input VAT

The movements in input VAT in 2011 are summarized below.

Balance at beginning of year	P	24,095,334
Services lodged under other accounts		46,274,239
Goods other than for resale or manufacture		2,679,612
Capital goods subject to amortization		744,899
Capital goods not subject to amortization		34,329
Applied against output VAT	(	33,170,151)
Input VAT on exempt sales	(	2,052,043)
	P	**38,606,219**

The balance of Input VAT as of December 31, 2011 is recorded under Other Assets account in the 2011 statement of financial position.

As of December 31, 2011, the Company also has Deferred Input VAT amounting to P69,065,709 pertaining to VAT on unpaid commission to ceding companies, and Deferred Withholding VAT amounting to P9,200,181 representing VAT on unapplied input VAT on unpaid premiums on ceded out transactions (see Note 11).

(c) Taxes on Importation

The Company does not have any customs duties or tariff fees for the year ended December 31, 2011 since it does not have any importation.

(d) Excise Tax

The Company does not have excise tax for the year ended December 31, 2011 since it does not have any transactions which are subject to excise tax.

(e) Documentary Stamp Tax

Reinsurance contracts are not subject to documentary stamp tax (DST). The Company is liable to DST when it issue original shares of stocks or transfer certificate of stock. The Company did not issue original shares of stocks nor transfer certificate of stocks for the year ended December 31, 2011.

(f) Taxes and Licenses

The details of Taxes and Licenses account for the year ended December 31, 2011 presented under General and Administrative is broken down as follows (see Note 15):

Municipal license and permits	P	4,216,831
Deficiency taxes		2,994,223
Real estate taxes		573,773
SEC registration fee and PSE listing		442,372
Filing fees		135,500
Vehicle registration fees		55,469
Residence tax		10,500
Miscellaneous		106,552
	P	**8,535,220**

(g) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2011 are shown below.

Compensation and benefits	P	24,655,816
Expanded		3,267,358
Final		2,362,250
Fringe benefits		284,284
	P	**30,569,708**

(h) Deficiency Tax Assessments and Tax Cases

As of December 31, 2011, the Company does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

26.2 Requirements Under RR 19-2011

On December 9, 2011, the BIR issued RR 19-2011 which prescribes the new form that will be used for income tax filing covering and starting with periods ending December 31, 2011 and onwards. This recent RR requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2011 statement of comprehensive income.

(a) Taxable Revenues

The Company's taxable revenues from rendering of services amounted to P1,313,945,826 for the year ended December 31, 2011.

(b) Deductible Costs of Services

Deductible cost of services for the year ended December 31, 2011 comprises the following:

Claims and losses	P	943,404,577
Commission		336,321,279
Salaries and allowances		50,686,754
Interest expense		3,142,833
	P	**1,333,555,443**

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2011 which are subject to regular tax rate are shown below.

Interest income	P	16,938,012
Realized foreign currency gains		5,154,548
Dividend income		2,275,537
Rental income		770,988
Others		29,209
	P	**25,168,294**

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2011 are as follows:

Salaries and allowances	P	64,053,722
Depreciation and amortization		28,843,853
Realized foreign currency losses		14,303,794
Professional fees		9,731,499
Representation and entertainment		7,604,060
Taxes and licenses		6,617,951
Association dues		4,822,021
Light and water		4,688,494
Director's fees		4,650,060
Transportation and travel		4,267,471
Other investment expenses		3,798,707
Contract labor		3,052,552
Meetings and conferences		2,855,779
Communication and postages		2,164,094
Advertising		1,851,993
Rental		1,510,719
Printing and office supplies		1,400,075
Repairs and maintenance		1,230,730
Insurance		1,107,128
Fringe benefits		284,284
Miscellaneous		1,223,779
	P	**170,062,765**