PhilNaRe

National Reinsurance Corporation of the Philippines

2007 ANNUAL REPORT

National Reinsurance Corporation of the Philippines
30 years
1978-2008

OUR philosophy

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

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About the Cover

Amid the backdrop of a strong economy in 2007, PhilNaRe made crucial strides in its operations. Its successful IPO which generated P2.8 billion in fresh funds to spur the company's growth. PhilNare continues to forge new, meaningful partnerships that are expected to form the foundation of mutual success.

OUR profile

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

FINANCIAL highlights

(amounts in million pesos except book value per share)

	2007	2006	2005	2004	2003
Gross Premuims	**4,317**	3,782	2,590	2,042	1,814
Net Premuims	**1,227**	954	824	591	552
Underwriting Income	**391**	187	75	101	66
Investment & Other Income	**460**	304	109	122	122
Net Income After Tax	**609**	275	99	100	97
Total Assets	**11,518**	9,116	4,458	2,934	2,462
Stockholders' Equity	**6,677**	3,831	2,131	1,119	987
Book value Per Share	**3.06**	2.58	2.13	1.83	2.17
Return on Average Equity	**11.60%**	9.20%	6.10%	9.50%	10.30%
Expense Ratio	**11.82%**	22.98%	9.84%	16.85%	12.06%
Loss Ratio	**51.82%**	59.76%	66.97%	58.71%	60.75%
Combined Ratio	**77.92%**	102.29%	97.99%	98.51%	97.19%

MESSAGE TO stockholders

The year 2007 saw the Philippine economy growing at its fastest pace in 31 years, the growth rate exceeding even the most bullish of expectations. Despite an increasingly difficult global environment and sporadic disruptions in the domestic scene, the economy, fueled by an active services sector as well as valuable remittances from OFWs, saw a vibrant GDP growth of 7.3%.

Amid this backdrop, I am pleased to report that, PhilNaRe turned in an equally remarkable performance in 2007 in all the major areas of operations. While the year saw continuing soft market conditions affecting the insurance industry, our prudence and conservatism, complemented by sound business decision-making, have continued to serve us well.

PhilNare was recently awarded the Insurance/Reinsurance Industry Contribution Award during the Asia Insurance Industry Awards held in Singapore on November 5, 2007.

One particular milestone that I am proud to underscore was our timely and very successful initial public offering (IPO) in April of 2007. The move significantly increased our capital and enhanced our financial position. The IPO, which was put together in a record time of only four months, was one of the most anticipated initial public offerings of the year. Due to a tremendous demand from small investors, the IPO was oversubscribed many times over.

The excitement generated by our IPO was definitely not baseless. With pride and joy, I must emphasize that your Company was able to deliver on the promises made during this IPO by declaring a cash dividend on March 25, 2008 of P436 million, or P0.20 per share. The amount represented a pay-out ratio of 72% of 2007 bottom line.

Moreover, this IPO represented the third phase of our Capital Enhancement Program (CEP) which aims not only to increase your Company's capital base but, more importantly, to enhance our regional competitiveness.

The bigger capital and added financial strength resulting from the IPO has enabled PhilNaRe to secure

“The IPO, was one of the most anticipated initial public offerings of the year... it was oversubscribed many times over.”

a respectable Financial Strength Rating of B++ (Good) and Issuer Credit Rating of bbb (Stable, Investment Grade) from the New York-based global credit rating organization, A.M. Best Company. These positive ratings unmistakably reflect PhilNaRe’s established market presence in the Philippines, sufficient risk-adjusted capitalization, stable combined ratio, and conservative investment portfolio.

Equipped with a substantial net worth of P6.7 billion, a greater capability to accept and retain business, and three decades of experience as the country’s primary reinsurer, your Company is now poised to more vigorously pursue international expansion and compete in the multibillion-dollar Asian reinsurance market.

Pleasantly coinciding with our quest for growth and enhanced stature overseas, your Company garnered the prestigious Insurance/Reinsurance Industry Contribution Award at the 11th Asia Insurance Industry Awards held in Singapore in 2007. The 11th Asia Insurance Industry Awards accepted over 700 nominations from across the region. A distinguished international panel of 20 judges (including regulators, industry leaders and practitioners, and association heads) deliberated upon these nominations through several stages. The Asia Insurance Industry Awards is organized by Singapore-based Asia Insurance Review and the London-based The Review Worldwide Reinsurance magazines and are given once every two years to insurers and reinsurers that have made a significant impact in the industry.

These achievements, I believe, are all worthy of an institution that aims to be a regional player. Your Company will not, however, be lulled into complacency by these recent successes and accomplishments. Instead, it will remain vigilant and cognizant of challenges, obstacles, and pressures which still need to be surmounted. We must remain alert to all opportunities by which we can sustain and strengthen the business models and strategies that have thus far brought us closer to our vision of being a locally dominant and regionally respected reinsurer. Undoubtedly, your Company will rely on its culture of prudence, teamwork, and leadership through all these.

As we move on to our 30th year of operations amid the challenges of a constantly changing environment, we are confident that we will prevail and become an even bigger and stronger institution, serving a wider and more demanding market.

On behalf of the Board of Directors, I once again take the opportunity to thank our clients and partners for their continuing loyalty, support, and patronage; our shareholders for their commitment and inspiration; and our management and staff for their dedication and excellent performance. In return, we reaffirm our commitment to exert all efforts to continue the fulfillment of your Company’s mandate to promote the national interest, generate profit, and create added value for our shareholders—all within the broad framework and the highest standards of service excellence and good corporate governance.

Atty. Winston F. Garcia
Chairman of the Board

PRESIDENT'S report

The strong economic momentum of the Philippines in 2007 effectively set the tone for much of the business sector, including the insurance industry. The economy's growth of 7.3% in 2007 was a 31-year high for the country. I am happy to report that, similarly, PhilNaRe posted 30-year highs in all major aspects of operations.

The business directions and strategies we have set in place continue to bear fruit, providing your Company with further impetus as it moves forward along the path of growth and profitability. Your Company ended the year 2007 with a consolidated net income of P609 million, surpassing the previous year's income of P275 million by a hefty P334 million or 122%. This healthy increase in net income was due to record growths in different areas of operations which were, in turn, brought about by prudent underwriting practices, successful expense management efforts, and a favorable, relatively catastrophe-free environment.

In turn, your Company's net underwriting profit of P391 million and investment income of P460 million represented growth rates of 109% and 51%, respectively, over the previous year's results. These two major components, complemented by a 34% reduction in general and administrative expenses from P219 million in 2006 to P145 million in 2007, significantly contributed to the P609 million bottom line

UNDERWRITING OPERATIONS: Efficiency and Profitability

Coming from a high growth base which resulted from the 2006 merger with Universal Malayan Re and in spite of the generally perceived downtrend in premium rates brought about by prevailing conditions of fierce competition and overcapacity especially in the non-life sector, your Company still registered gross premium volume of P4.3 billion, a considerable growth of 14% over the previous year's level. This increase was mainly due to new facultative accounts as well as larger shares on treaties renewed during the year. Almost P3.9 billion or 90% of gross premiums came from the Non-Life source while P448 million or 10% came from the Life segment.

"The business directions and strategies we have set in place continue to bear fruit, providing your Company with further impetus as it moves forward along the path of growth and profitability."

The country's direct writing industry was fortunately spared from losses of large magnitude, both natural and man-made. The Life sector, on the other hand, continued to exhibit high growth although observers concede this as attributable to the meteoric rise in popularity of Variable Unit Linked Products (VUL), investment-linked products which, in recent years, have eaten into and have actually caused a gradual decline in the market share of traditional life insurance products, which is your Company's main source of Life business.

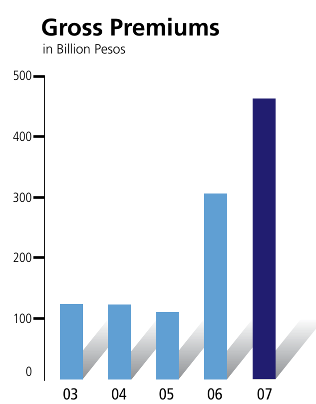
Continuing its gains for the past years, your Company realized significant increases in the Casualty, Fire, and Life business lines. Casualty, which remains our biggest line, accounted for P2 billion or 47% of your Company's total premium volume and grew by 21% over the 2006 level. The Fire business grew by 18% and generated P1.4 billion or 32% of your Company's total premium volume. Underwriting profits of P209 million from these two sources showed a marked improvement from last year's figures with Casualty and Fire contributing P110 million and P99 million, respectively, more than compensating for the declines registered under our Marine business.

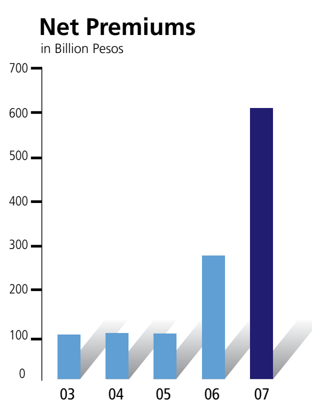
Meanwhile, your Company posted total premiums of P448 million from the Life business, representing a growth rate of 17% over the previous year's level and substantially realizing its potential as a source of growth and profits. With loss and acquisition cost ratios settling at historically low levels in 2007, the Life source contributed almost P219 million in net reinsurance profit and accounted for 56% of the Company's total reinsurance profit of P391 million.

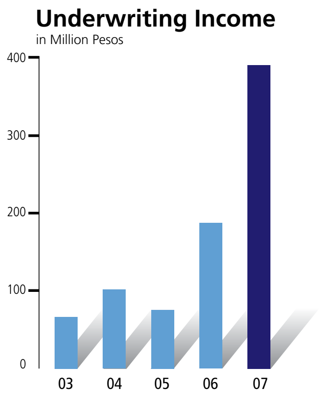
All in all, the efficiency of your Company's underwriting operations contributed immensely to our improved profitability in 2007.

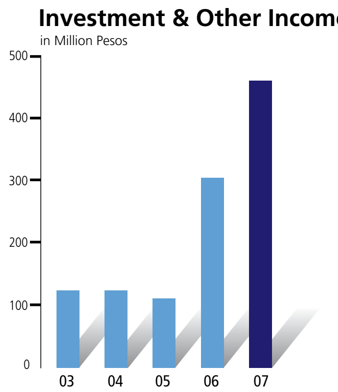
INVESTMENTS & FINANCIAL REPORTS: Reliability and Stability

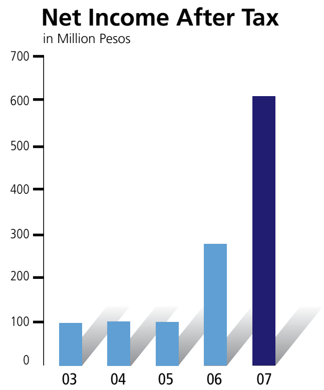
Your Company was able to realize an income of P460 million from investment operations, a P156-million or 51% increase over the previous year's level of P304











million, despite the relatively low interest environment and foreign exchange losses incurred due to the appreciation of the Philippine Peso. This increase was comprised of trading gains from equity and fixed income securities in your Company's investment portfolio, as well as interest and dividend income. With the stock market hitting a record, albeit short-lived high in June 2007, the improved performance of the equities market allowed your Company to realize substantial dividend income and gains from the sale of shares of stock.

Your Company's total resources grew by P2.4 billion or 26% to P11.5 billion in 2007, from P9.1 billion in 2006, sustaining your Company's growth momentum for the past years and enhancing its stability.

CORPORATE GOVERNANCE: Transparency and Accountability

We are committed not only to the principles and best practices of good governance but also to a continuing enhancement of the policies and processes of sound corporate governance, especially now that PhilNaRe, as a publicly listed company, is subject to even more rigid standards of transparency and accountability. Toward this end, your Company has appointed independent directors, established specific committees, and designated key senior executives as Compliance and Information Officers,

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

The Nomination and Compensation Committee of the Board of Directors, in turn, is composed of three directors at least one of whom must be independent. This committee reviews and evaluates

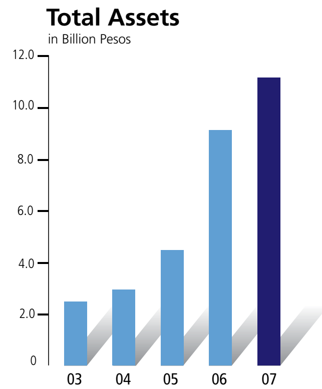
the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board. Relative to compensation, the committee provides a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration of corporate officers and directors. It also provides oversight for over-remuneration of senior management and other key personnel.

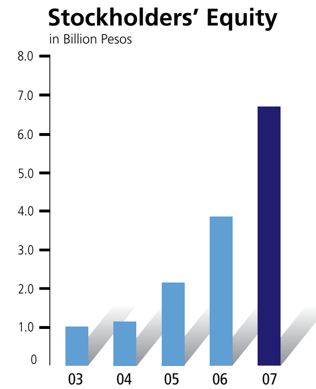
Indeed, we have ensured that there be no deviation from your Company's Manual of Corporate Governance which was filed with the Insurance Commission and the Securities and Exchange Commission and has been in effect since January 1, 2003.

Your Company's Board of Directors and management recognize that a good corporate governance system is integral to the mandate bestowed upon them by the Company's stockholders. As such, your Company continues to improve corporate governance practice through continuous training of management on the matter.

Moreover, we have embarked on a program of Enterprise Risk Management (ERM), which will involve an organization-wide approach to risk assessment, identification and prioritization, leading to a structured and institutionalized framework of risk management.

"We are committed not only to the principles and best practices of good governance but also to a continuing enhancement of the policies and processes of sound corporate governance..."





PLANS AND DIRECTIONS FOR 2008 AND ONWARDS

As your Company comes off a banner year in 2007 and celebrates its 30th year of operations in 2008, we have set our sights on even bigger and better things.

For one, we are committed to the fulfillment of the Board's vision of positioning your Company not merely as a strong domestic institution but as a significant regional player as well. In this regard, we have started to lay the groundwork for international expansion and will intensify our efforts to establish new business arrangements and strengthen existing relations in the constantly growing ASEAN region.

The 2007 Insurance/Reinsurance Industry Contribution Award bestowed by an international panel of judges on your Company was indeed timely and further bolstered our stature in the region. Thus far, regional market visits have been made by your Company's marketing executives, and new reinsurance treaties on both Life and Non-Life businesses have been concluded, with more arrangements currently being negotiated.

Moreover, after completing the third phase of our Capital Enhancement Program (CEP) with our

highly successful IPO, we have started gearing up for the fourth and last phase of the program which will involve taking in foreign strategic partners who will infuse not only capital, but technology as well into your Company. These future partners will also serve us in good stead as we venture further into the Asian reinsurance markets.

PhilNaRe celebrates its 30th anniversary in 2008, a year when the country's economic outlook is somewhat dampened by various factors like slower global growth, a feared recession in the U.S., and spiraling oil and food prices. In the face of a fresh multitude of challenges and pressures which could undoubtedly arise from such a possibly volatile scenario, it is therefore vital that we remain undeterred and focused on our goals. With regard to this, we plan to implement better cost-efficiency measures to further reduce expense ratios. We will also continue with our prudence in underwriting decisions to ensure that losses are well-controlled and new business is generated.

We are confident that with the support and cooperation of all our stakeholders and shareholders, your Company will sustain its resilience in the face of adversity, and rise up to the challenges of the times.

In closing, I wish to express our sincerest gratitude to our Board of Directors, our shareholders, our clients and business partners, our management and staff, industry friends and stakeholders whose inestimable support and contributions allow the continuing success of PhilNaRe.

Wilfrido C. Bantayan
President & CEO

BOARD OF directors

Winston F. Garcia
Chairman of the Board

Adelita A. Vergel De Dios
Vice Chairman of the Board

Wilfrido C. Bantayan
President and CEO

Rafael C. Gallaga
Director

Yvonne S. Yuchengco
Director

Emilio S. De Quiros, Jr.
Director

Primitivo C. Cal
Director

Alfonso L. Salcedo, Jr.
Director and Treasurer

Josefina L. Valera
Director

Romeo L. Bernardo
Director

Rizalino S. Navarro
Director

officers

office of the president

Standing: **Armando S. Malabanan, EVP**
Wilfrido C. Bantayan, President
Seated: **Regina S. Ramos, VP**

finance

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

life

Standing: **Raymundo T. Bautista, SVP**
Augusto C. Cipriano, VP
Seated: **Rosario V. Engracia, AVP**
Editha B. Geronimo, AVP

non-life

Standing: **Rodolfo M. Nayve, SVP; Danilo J. Cabero, VP**
Buenaventura P. Duran, VP; Roberto S. de Leon II, VP
Seated: **Ma. Lourdes M. Santos, VP**

corporate services

Standing: **Edgar B. Villaseñor, VP; Normando S. Aguilar, AVP**
Seated: **Rosario P. Ventura, AVP; Theresa Lorna M. Legaspi, VP**

STATEMENT OF MANAGEMENT'S responsibility for financial statements

The management of National Reinsurance Corporation of the Philippines is responsible for all information and representations contained in the financial statements for the years ended December 31, 2007, 2006 and 2005. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

WINSTON F. GARCIA
Chairman of the Board

WILFRIDO C. BANTAYAN
President & Chief Executive Officer

ALFONSO L. SALCEDO, JR.
Treasurer

REPORT OF independent auditors

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

We have audited the accompanying financial statements of National Reinsurance Corporation of the Philippines, which comprise the balance sheets as at December 31, 2007 and 2006, and the income statements, statements of changes in equity and cash flow statements for each of the three years in the period ended December 31, 2007, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Reinsurance Corporation of the Philippines as of December 31, 2007 and 2006, and of its financial performance and its cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

Lilian S. Linsangan
Partner
CPA Reg. No. 0046660
TIN No. 109-228-234
PTR No. 0986662, January 4, 2008, Makati City
SEC Accreditation No. 0008-AR-1
BIR AN 08-002511-3-2005 (Dec. 27, 2005 to 2008)
March 25, 2008

BALANCE sheets

DECEMBER 31, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	2007	2006
ASSETS			
CASH AND CASH EQUIVALENTS	4	P 1,346,912,651	P 446,834,344
REINSURANCE BALANCES RECEIVABLE - Net	5	2,908,836,020	2,955,711,652
AVAILABLE-FOR-SALE FINANCIAL ASSETS	6	5,217,539,378	3,445,458,733
LOANS AND RECEIVABLES	7	193,990,002	154,900,847
PROPERTY AND EQUIPMENT - Net	8	91,328,046	89,987,570
DEFERRED ACQUISITION COSTS		206,688,943	275,114,923
DEFERRED REINSURANCE PREMIUMS	9	1,348,262,605	1,371,157,013
DEFERRED INPUT VALUE-ADDED TAX		81,554,300	214,182,979
DEFERRED TAX ASSETS	16	-	28,198,157
OTHER ASSETS	10	122,623,373	134,798,127
TOTAL ASSETS		P 11,517,735,318	P 9,116,344,345
LIABILITIES AND EQUITY			
REINSURANCE BALANCES PAYABLE	5	P 2,671,190,453	P 2,863,904,231
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	11	42,890,121	59,181,794
RESERVE FOR UNEXPIRED RISKS	9	1,845,503,599	1,816,299,487
DEFERRED REINSURANCE COMMISSIONS		123,145,081	221,051,056
DEFERRED OUTPUT VALUE-ADDED TAX		156,326,449	324,901,892
DEFERRED TAX LIABILITIES	16	1,610,803	-
		4,840,666,506	5,285,338,460
EQUITY	17	6,677,068,812	3,831,005,885
TOTAL LIABILITIES AND EQUITY		P 11,517,735,318	P 9,116,344,345

See Notes to Financial Statements.

National Reinsurance
Corporation of the Philippines

INCOME statements

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

	Notes	2007	2006	2005
REINSURANCE PREMIUM INCOME				
Reinsurance premiums - net of returns	18	P 4,316,582,453	P 3,781,503,835	P 2,589,783,755
Retroceded premiums	18	3,089,227,573	2,827,628,316	1,765,643,558
Reinsurance premiums retained		1,227,354,880	953,875,519	824,140,197
Increase in reserve for unexpired risks	9	(52,098,520)	(25,879,655)	(68,254,528)
		1,175,256,360	927,995,864	755,885,669
UNDERWRITING DEDUCTIONS	13			
Share in claims and losses		609,018,943	554,566,237	506,213,425
Commissions - net		175,325,371	186,440,638	174,517,784
		784,344,314	741,006,875	680,731,209
NET UNDERWRITING INCOME		390,912,046	186,988,989	75,154,460
INVESTMENT AND OTHER INCOME - Net	12	460,100,356	304,422,736	108,963,935
INCOME AFTER INVESTMENT AND OTHER INCOME		851,012,402	491,411,725	184,118,395
GENERAL AND ADMINISTRATIVE EXPENSES	14	145,042,933	219,158,763	81,078,085
INCOME BEFORE TAXES		705,969,469	272,252,962	103,040,310
TAX EXPENSE (BENEFIT)	16	96,556,113	(2,678,418)	4,376,147
NET INCOME		P 609,413,356	P 274,931,380	P 98,664,163
Earnings Per Share	21	P 0.31	P 0.20	P 0.10

See Notes to Financial Statements.

National Reinsurance
Corporation of the Philippines

STATEMENTS OF changes in equity

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

		Capital Stock		
	Notes	No. of Shares	Amount	Additional Paid-in Capital
Balance as of January 1, 2005		6,142,365	614,236,500	-
Shares issued and reissued	17	3,857,635	385,763,500	385,154,102
Increase during the year	6, 17	-	-	-
Appropriated for contingencies	17	-	-	-
Net income		-	-	-
Total equity as of December 31, 2005		**10,000,000**	**P 1,000,000,000**	**P 385,154,102**
Balance as of January 1, 2006		10,000,000	P 1,000,000,000	P 385,154,102
Shares issued	1, 17	5,885,583	588,558,300	889,782,438
Shares reacquired	1, 17	-	-	-
Increase during the year	6, 17	-	-	-
Appropriated for contingencies	17	-	-	-
Net income		-	-	-
Total equity as of December 31, 2006		**15,885,583**	**P 1,588,558,300**	**P 1,274,936,540**
Balance as of January 1, 2007		15,885,583	P 1,588,558,300	P 1,274,936,540
Declaration of 1:10 stock split	17			
Cancelled shares		(15,885,583)	-	-
Reissued shares		1,588,558,300	-	-
Shares issued	1, 17	593,396,300	593,396,300	1,744,281,918
Shares reacquired	1, 17	-	-	-
Decrease during the year	6, 17	-	-	-
Cash dividends	17	-	-	-
Appropriated for contingencies	17	-	-	-
Net income		-	-	-
Total equity as of December 31, 2007		**2,181,954,600**	**P 2,181,954,600**	**P 3,019,218,458**

See Notes to Financial Statements.

Treasury Shares - At Cost	Revaluation Reserves	Retained Earnings		Total Equity
		Appropriated	Unappropriated	
(5,552,798)	40,135,020	113,589,545	356,520,624	1,118,928,891
5,378,672	-	-	-	776,296,274
-	136,755,893	-	-	136,755,893
-	-	9,866,416	(9,866,416)	-
-	-	-	98,664,163	98,664,163
(P 174,126)	**P 176,890,913**	**P 123,455,961**	**P 445,318,371**	**P 2,130,645,221**
(P 174,126)	P 176,890,913	P 123,455,961	P 445,318,371	P 2,130,645,221
-	-	-	-	1,478,340,738
(254,465,509)	-	-	-	(254,465,509)
-	201,554,055	-	-	201,554,055
-	-	27,493,138	(27,493,138)	-
-	-	-	274,931,380	274,931,380
(P 254,639,635)	**P 378,444,968**	**P 150,949,099**	**P 692,756,613**	**P 3,831,005,885**
(P 254,639,635)	P 378,444,968	P 150,949,099	P 692,756,613	P 3,831,005,885
-	-	-	-	-
-	-	-	-	-
358,070,611	-	-	-	2,695,748,829
(103,430,976)	-	-	-	(103,430,976)
-	(202,931,460)	-	-	(202,931,460)
-	-	-	(152,736,822)	(152,736,822)
-	-	60,941,336	(60,941,336)	-
-	-	-	609,413,356	609,413,356
-	**P 175,513,508**	**P 211,890,435**	**P 1,088,491,811**	**P 6,677,068,812**

cash flows statements

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(Amounts in Philippine Pesos)

	Notes	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before tax		P 705,969,469	P 272,252,962	P 103,040,310
Adjustments for:				
Interest income	12	(340,942,749)	(253,234,383)	(152,883,075)
Unrealized foreign currency loss	12	81,036,843	81,867,627	55,692,983
Increase in reserve for unexpired risks	9	52,098,520	25,879,655	68,254,528
Dividend income	12	(17,161,730)	(8,979,802)	(1,959,994)
Depreciation	8, 10	10,157,716	8,679,824	4,661,906
Gain on acquisition	12	-	(51,295,702)	-
Operating income before working capital changes		491,158,069	75,170,181	76,806,658
Decrease (increase) in reinsurance balances receivable		86,859,634	385,602,863	(386,375,618)
Decrease (increase) in deferred acquisition costs		(29,479,995)	20,174,827	(3,189,272)
Decrease(increase) in loans and receivables		39,359,982	(5,682,704)	(22,449,011
Decrease (increase) in deferred input value added tax		132,628,679	(190,417,087)	(23,765,892)
Increase in other assets		(2,223,396)	(46,002,000)	(3,849,337)
Increase (decrease) in reinsurance balances payable		(148,456,533)	967,691,772	367,944,135
Increase (decrease) in deferred output value added tax		(168,575,443)	283,146,942	36,721,512
Increase (decrease) in accounts payable and accrued expenses		(16,291,673)	1,979,388	6,305,410
Cash generated from (used in) operations		384,979,324	1,491,664,182	48,148,585
Cash paid for income taxes		(68,947,956)	(38,077,015)	(4,846,981)
Net Cash From Operating Activities		316,031,368	1,453,587,167	43,301,604
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal/maturities of:				
Available-for-sale financial assets		200,227,592	1,138,510,274	281,579,875
Held-to-maturity investments		-	87,922,432	-
Interest received		250,580,727	233,920,424	133,569,116
Dividends received		17,161,730	8,979,802	1,959,994
Disposals (acquisitions) of:				
Available-for-sale financial assets		(2,279,359,092)	(2,795,994,441)	(1,152,671,083)
Property and equipment	8	(9,168,145)	(1,950,282)	(5,902,680)
Investment property		12,068,103	(454,367)	(4,041,020)
Net Cash Used in Investing Activities		(1,808,489,085)	(1,329,066,158)	(745,505,798)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance/reissuance of:				
Common shares		2,337,678,218	196,158,513	771,527,000
Treasury shares		358,070,611	-	4,943,400
Acquisitions/payments of:				
Treasury shares		(103,430,976)	(10,610,169)	(174,126)
Dividends paid		(152,736,822)	-	-
Net Cash From Financing Activities		2,439,581,031	185,548,344	776,296,274
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS		(47,045,007)	(5,215,554)	(915,865)
NET INCREASE IN CASH AND CASH EQUIVALENTS		900,078,307	304,853,799	73,176,215
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		446,834,344	141,980,545	68,804,330
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 1,346,912,651	P 446,834,344	P 141,980,545

See Notes to Financial Statements.

NOTES TO financial statements

December 31, 2007, 2006 and 2005

(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 General

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

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

The financial statements of the Company for the year ended December 31, 2007 (including the comparatives for the years ended December 31, 2006 and 2005) were authorized for issue by the Company's Board of Directors on March 25, 2008.

1.2 Merger With Universal Malayan Reinsurance Corporation (UMRC)

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

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

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

Assets:		
Cash and cash equivalents	P	196,158,513
Reinsurance balances receivable		216,597,266
Deferred acquisition costs		36,543,768
Available-for-sale financial assets		1,344,617,555
Held-to-maturity investments		46,906,447
Loans and receivables		86,713,887
Property and equipment		85,898,570
Deferred reinsurance premium		53,621,139
Investment properties		24,556,312
Other assets		22,949,923
	P	2,114,563,380
Liabilities:		
Losses and claims outstanding	P	449,780,223
Reinsurance balances payable		138,667,724
Reserve for unexpired risks		176,210,742
Deferred reinsurance commission		13,553,013
Deferred output value-added tax (VAT)		5,033,438
Accounts payable and accrued expenses		41,496,120
	P	824,741,260

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

Further, the Company recognized gain on acquisition of net assets of UMRC, brought about by the merger transaction, amounting to P51,295,702, which is shown as part of Investment and Other Income account in the 2006 income statement (see Note 12).

1.3 Initial Public Offering

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

(b) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Company's functional currency, and all values represent absolute amounts except when otherwise indicated (see also Note 2.13).

2.2 Impact of New Standards, Amendments and Interpretations to Existing Standards

(a) Effective in 2007 that are relevant to the Company

In 2007, the Company adopted for the first time the following new and amended PFRS which are mandatory for accounting periods beginning on or after January 1, 2007.

Philippine Accounting Standard (PAS) 1 (Amendment)	:	Presentation of Financial Statements
PFRS 4 (Amendment)	:	Insurance Contracts
PFRS 7	:	Financial Instruments: Disclosures

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

(i) PAS 1 (Amendment), *Presentation of Financial Statements*. PAS 1 introduces new disclosures on the Company's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that become necessary due to this change in PAS 1 can be found on Note 24.

(ii) PFRS 4 (Amendment), *Insurance Contracts*. PFRS 4 requires the disclosure of information about credit risk, liquidity risk, and market risk that PFRS 7 would require if the insurance contracts were within the scope of PFRS 7; however, an insurer need not provide the maturity analysis required by PFRS 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognized insurance liabilities instead. The disclosures that became necessary due to the amendment of PFRS 4 can be found in Note 23.

(iii) PFRS 7, *Financial Instruments: Disclosures*. PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, particularly:

- a sensitivity analysis, to explain the Company's market risk exposure in regards to its financial instruments, and
- a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaces PAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in PAS 32, Financial Instruments: Disclosure and Presentation. The new disclosures under PFRS 7 are required to be made for all periods presented. However, the Company availed of the transitional relief granted by the FRSC and presented only the relevant new disclosures required by PFRS 7 for 2007 (see Note 23).

The first time application of these amendments and standard has not resulted in any prior period adjustments of cash flows, net income or balance sheet line items.

(b) Effective in 2007 but not relevant to the Company

Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 7	:	Applying the Restatement Approach under PAS 29, *Financial Reporting in Hyper Inflationary Economies*
Philippine Interpretation IFRIC 8	:	Scope of PFRS 2
Philippine Interpretation IFRIC 9	:	Re-assessment of Embedded Derivatives
Philippine Interpretation IFRIC 10	:	Interim Financial Reporting and Impairment

(c) Effective Subsequent to 2007

There are new and amended standards and Philippine Interpretation that are effective for periods subsequent to 2007. The following new standards are relevant to the Company which the Company will apply in accordance with their transitional provisions

<u>2008:</u>

Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

<u>2009:</u>

PAS 1 (Revised 2007)	:	Presentation of Financial Statements

Below is a discussion of the possible impact of these accounting standards.

(i) Philippine Interpretation IFRIC 14, PAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It standardizes practice and ensures that entities recognize an asset in relation to a surplus on a consistent basis. As any excess of the asset over the obligation is fully refundable to the Company based on the set-up of the pension trust fund, the Company determined that adoption of this Philippine Interpretation will not materially affect its financial statements.

(ii) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase).

An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Company will apply PAS 1 (Revised 2007) in its 2009 financial statements.

2.3 Financial Assets

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

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

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

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

(a) Loans and Receivables

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

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

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

(b) Held-to-maturity Investments

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

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

(c) Available-for-sale Financial Assets

This include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in the Investments account in the balance sheet.

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

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

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows (such as dividend income) 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 profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. All income and expense relating to financial assets recognized in profit or loss are presented in the income statement under Investment and Other Income.

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

2.4 Property and Equipment

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

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

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

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

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

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

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

2.5 Investment Property

Investment property (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.

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

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

2.6 Financial Liabilities

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

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

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

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

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

2.7 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, where 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 each balance sheet date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

2.8 Revenue Recognition

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

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

(c) Interest – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

(d) Dividends – Revenue is recognized when the stockholders' right to receive the payment is established.

2.9 Claim Costs Recognition

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

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

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

2.10 Acquisition Costs

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

2.11 Commissions on Retrocessions

Commissions on retrocessions are deferred and are subjected to the same amortization method as the related acquisition costs. Deferred portion are presented in the balance sheet as Deferred Reinsurance Commissions.

2.12 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 income statement 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 as income in the income statement on a straight-line basis over the lease term.

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

2.13 Functional Currency and Foreign Currency Transactions

(a) *Functional and Presentation Currency*

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

(b) *Transactions and Balances*

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.
Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.14 Impairment of Non-financial Assets

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

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

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

2.15 Employee Benefits

Pension benefits are provided to employees through a defined benefit plan.

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

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

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

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

2.16 Income Taxes

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

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

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

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

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

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

2.17 Equity

Capital stock is determined using the nominal value of shares that have been issued or reissued.

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

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

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

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

2.18 Earnings Per Share

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Judgments in Applying Accounting Policies

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

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

The Company follows the guidance of PAS 39 on determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

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

(c) *Operating Leases*

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

Rental income and expense reported in 2007 amounted to P1,163,890 and P1,021,463, respectively.

(d) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.7 and relevant disclosures are presented in Note 22.

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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

The Company estimates the useful lives of property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and investment property would increase recorded operating expenses and decrease total assets.

Property and equipment net of accumulated depreciation amounted to P91,328,046 and P89,987,570 as of December 31, 2007, and 2006 respectively (see Note 8).

Investment property net of accumulated depreciation amounted to P40,905,056 and P55,303,206 as of December 31, 2007 and 2006, respectively (see Note 10).

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

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

Allowance for impairment losses on reinsurance balances receivables amounted to P106,799,471 in 2007 and 2006 (see Note 5).

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

The Company carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates and interest rates. However, 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 and loss and equity.

There were no impairment losses recognized on financial assets other than loans and receivables as of December 31, 2007 and 2006.

(d) *Realizable Amount of Deferred Tax Assets*

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

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

(e) *Impairment of Non-financial Assets*

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

There were no impairment losses recognized on non-financial assets during the years ended December 31, 2007 and 2006.

(f) *Retirement and Other Benefits*

The determination of the Company's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 15.2 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit obligation and net unrecognized actuarial gains amounted to P34,507,695 and P2,465,688 in 2007 and P33,803,697 and P2,465,688, respectively, in 2006 (see Note 15.2).

4. CASH AND CASH EQUIVALENTS

This account consists of:

		2007		2006
Time deposits	**P**	**1,283,627,639**	P	384,673,854
Cash on hand and in banks		**63,285,012**		62,160,490
	P	**1,346,912,651**	P	446,834,344

Time deposits were made for varying periods of between one day and one month depending on the liquidity requirements of the Company and earn interest at short-term deposit rates. The Cash and Cash Equivalents account includes foreign currency denominated cash of US$12,984,782 (P537,582,952) as of December 31, 2007 and US$3,022,664 (P148,509,528) as of December 31, 2006.

5. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

		2007		2006
Reinsurance balances receivable:				
Due from ceding companies	P	1,630,803,800	P	2,072,946,667
Reinsurance recoverable on losses		1,297,757,239		906,797,090
Funds held by ceding companies		87,074,452		82,767,366
		3,015,635,491		3,062,511,123
Allowance for impairment	(	106,799,471)	(	106,799,471)
	P	2,908,836,020	P	2,955,711,652
Reinsurance balances payable:				
Claims payable	P	1,628,313,780	P	1,270,902,819
Due to retrocessionaires		981,270,895		1,537,298,404
Funds held for retrocessionaires		61,605,778		55,703,008
	P	2,671,190,453	P	2,863,904,231

A reconciliation of the allowance for impairment at beginning and end of 2007 and 2006 is shown below:

	Note		2007		2006
Balance at beginning of year		P	106,799,471	P	13,698,738
Assumed relative to the merger			-		35,586,000
Impairment loss during the year	14		-		57,514,733
Balance at end of year		P	106,799,471	P	106,799,471

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

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The amounts in the balance sheets comprise of the following financial assets:

		2007		2006
Bonds	P	4,479,540,250	P	2,903,086,959
Equity securities		581,920,970		437,785,083
Investment in Asian Re shares		69,410,454		66,987,944
Various funds		86,667,704		37,598,747
	P	5,217,539,378	P	3,445,458,733

Bonds include investments reclassified from held-to-maturity securities to available-for-sale financial assets in 2006 and government securities totaling P105,996,443 in 2007 and P33,996,443 in 2006 and which are on deposit with the Insurance Commission (IC) as security for the benefit of policyholders and creditors of the Company in accordance with the provisions of the Insurance Code of the Philippines.

Interest income recognized are presented as part of Investment and Other Income in the income statements (see Note 12).

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

		2007		2006
Due within one year	P	12,546,691	P	232,676,878
Due after one year through five years		2,749,539,063		1,105,566,963
Due after five years through ten years		1,676,234,081		1,467,978,035
Due after ten years		41,220,415		96,865,083
	P	4,479,540,250	P	2,903,086,959

Bonds earn interest at annual rates ranging from 3.5% to 15% in 2007 and 2.0% to 18.0% in 2006. Changes in fair values of these bonds amounted to P128,016,627 (net increase), and P127,349,513 (net increase) in 2007 and 2006, respectively, and are shown as part of Revaluation Reserves account in the statements of changes in equity.

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

	2007	2006
Cost:		
Quoted in the stock exchange	P 534,609,290	P 316,553,415
Not quoted in the stock exchange	39,391,629	44,811,521
	574,000,919	361,364,936
Fair value gains (losses):		
Quoted in the stock exchange	10,119,080	78,990,824
Not quoted in the stock exchange	(2,199,029)	(2,570,677)
	7,920,051	76,420,147
	P 581,920,970	P 437,785,083

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

The shares of Asian Re have been issued in the name of the Government of the Philippines (GoP) as the Philippine government's participation in the joint undertaking of Asian countries to organize a reinsurance company that will service the needs of the region. The GoP assigned such shares, including any interest accruing thereon, to the Company. The GoP designated the Company as the national institution authorized to subscribe and pay for the said shares of stock. The shares of stock of Asian Re, while not for sale, were classified under this category since these do not qualify for inclusion in any other categories of financial assets. These shares of stock are measured at fair values and the changes in the fair values are recognized in equity.

The fair value of investments in Asian Re shares amounted to P69,410,454, and P66,987,944 as of December 31, 2007 and 2006, respectively. Changes in fair value recognized as part of Revaluation Reserves in the equity section of the balance sheets amounted to P31,661,470, net of deferred taxes amounting to P17,048,484 in 2007 and P27,574,264, net of deferred taxes amounting to P14,847,681 in 2006 (see Note 16).

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

	2007	2006
Balance at the beginning of the year	P 3,445,458,733	P 1,656,818,555
Additions	5,494,955,271	2,791,711,468
Disposals	(3,415,823,771)	(1,134,227,301)
Fair value gains (losses)	(200,730,657)	197,271,082
Foreign currency losses	(106,320,198)	(66,115,071)
Balance at end of year	P 5,217,539,378	P 3,445,458,733

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

7. LOANS AND RECEIVABLES

This account includes the following:

	2007	2006
Current:		
Accrued interest receivable	P 90,362,021	P 62,701,350
Term loans	-	30,000,000
Others	715,769	4,517,086
	91,077,790	97,218,436
Non-current:		
Term loans	90,000,000	40,000,000
Loans receivable	12,912,212	17,682,411
	102,912,212	57,682,411
	P 193,990,002	P 154,900,847

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

Term loans pertain to the Company's participation in syndicated loans of other Companies. These loans are unsecured interest-bearing loans with a term of 4 to 5 years. The effective interest rate on these loans ranges from 6.38% to 9.95% in 2007 and from 9.0% to 12.4% in 2006.

Loans receivable includes mortgage, housing, and car loans which have annual effective interest rates of 14% to 28%, 10% to 22%, and 7% to 13%, respectively, in 2007 and 14% to 28%, 10% to 22%, and 7% to 13%, respectively, in 2006.

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

8. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation at the beginning and end of 2007 and 2006 are shown below:

	Condominium Units	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	Total
December 31, 2007						
Cost	P104,227,734	P 14,284,102	P 9,524,897	P 12,720,170	P 14,978,758	P 155,735,661
Accumulated depreciation	(30,977,327)	(9,870,207)	(8,553,973)	(4,337,959)	(10,668,149)	(64,407,615)
Net carrying amount	**P73,250,407**	**P 4,413,895**	**P 970,924**	**P 8,382,211**	**P 4,310,609**	**P 91,328,046**
December 31, 2006						
Cost	P104,227,734	P 12,669,559	P 8,624,279	P 11,091,338	P 11,277,865	P 147,890,775
Accumulated depreciation	(27,949,507)	(8,832,797)	(8,337,549)	(3,353,411)	(9,429,941)	(57,903,205)
Net carrying amount	P 76,278,227	P 3,836,762	P 286,730	P 7,737,927	P 1,847,924	P 89,987,570
January 1, 2006						
Cost	P 53,572,553	P 5,540,763	P 2,518,419	P 9,652,950	P 4,494,715	P 75,779,400
Accumulated depreciation	(14,509,233)	(3,942,548)	(2,006,783)	(3,399,229)	(2,733,455)	(26,591,248)
Net carrying amount	P 39,063,320	P 1,598,215	P 511,636	P 6,253,721	P 1,761,260	P 49,188,152

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006, of property and equipment is shown below:

	Condominium Units	Office Improvements	Office Furniture and Equipment	Transportation Equipment	EDP Equipment	Total
Balance at January 1, 2007, net of accumulated depreciation and impairment	P 76,278,227	P 3,836,762	P 286,730	P 7,737,927	P 1,847,924	P 89,987,570
Additions	-	1,614,543	900,618	3,258,740	3,700,892	9,474,793
Disposals	-	-	-	(306,648)	-	(306,648)
Depreciation charge for the year	(3,027,820)	(1,037,410)	(216,424)	(2,307,808)	(1,238,207)	(7,827,669)
December 31, 2007, net of accumulated depreciation and impairment	**P73,250,407**	**P 4,413,895**	**P 970,924**	**P 8,382,211**	**P 4,310,609**	**P 91,328,046**

	Condominium Units	Office Improvements	Furniture and	Transportation Furniture	EDP Equipment	Total
Balance at January 1, 2006, net of accumulated depreciation and impairment	P 39,063,320	P 1,598,215	P 511,636	P 6,253,721	P 1,761,260	P 49,188,152
Additions	39,961,310	3,046,312	36,277	4,466,137	1,072,851	48,582,887
Disposals	-	-	-	(1,094,229)	-	(1,094,229)
Depreciation charge for the year	(2,746,403)	(807,765)	(261,183)	(1,887,702)	(986,187)	(6,689,240)
Balance at December 31, 2006, net of accumulated depreciation and impairment	P 76,278,227	P 3,836,762	P 286,730	P 7,737,927	P 1,847,924	P 89,987,570

9. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEXPIRED RISKS

The movement of these accounts is as follows:

	Deferred Reinsurance Premiums		Reserve for Unexpired Risks	
	2007	2006	**2007**	2006
Balance at beginning of year	**P 1,371,157,013**	P 543,471,360	**P 1,816,299,487**	P 840,144,577
Increase (decrease) during the year	**(22,894,408)**	774,064,513	**29,204,112**	799,944,168
Balance acquired relative to the merger	**-**	53,621,140	**-**	176,210,742
Balance at end of year	**P1,348,262,605**	P 1,371,157,013	**P 1,845,503,599**	P 1,816,299,487

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

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

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

10. OTHER ASSETS

The Other Assets account includes the following:

		2007		2006
Investment property	P	40,905,056	P	55,303,206
Deferred withholding VAT		39,308,468		43,554,265
Input VAT		29,638,591		23,553,408
Creditable expanded withholding tax		5,297,029		6,282,710
Prepayments		1,515,877		1,416,025
Deposit		690,392		358,147
Security fund		192,888		192,888
Others		5,075,072		4,137,478
	P	122,623,373	P	134,798,127

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

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

	Note		2007		2006
Balance at beginning of year		P	55,303,206	P	-
Disposals		(	12,068,103)	(	9,613,300)
Depreciation charge for the year	14	(	2,330,047)	(	1,990,584)
Additions			-		66,907,090
Balance at end of year		P	40,905,056	P	55,303,206

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

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

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.

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	Note		2007		2006
Defined benefit liability	15.2	P	34,507,695	P	33,803,697
Accrued expenses			3,557,009		8,564,879
Withholding taxes payable			3,496,719		15,584,497
Accounts payable and others liabilities			1,328,698		1,228,721
		P	42,890,121	P	59,181,794

Due to their short duration, management considers the carrying amounts of accounts payable and accrued expenses recognized in the balance sheets to be a reasonable approximation of fair value.

12. INVESTMENT AND OTHER INCOME

The details of this account follow:

	Notes		2007		2006		2005
Interest		P	340,942,749	P	253,234,383	P	152,883,075
Foreign exchange loss	23.4	(	179,320,898)	(	90,676,616)	(	45,952,689)
Trading gain			155,174,302		52,673,670		-
Gain on sale of stocks			96,798,983		6,353,449		-
Dividend income			17,161,730		8,979,802		1,959,994
Gain on acquisition	1		-		51,295,702		-
Miscellaneous			29,343,490		22,562,346		73,555
		P	460,100,356	P	304,422,736	P	108,963,935

13. UNDERWRITING DEDUCTIONS

13.1 Share in Claims and Losses

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

13.2 Commissions – net

This account consists of the following:

		2007		2006		2005
Commission expense	P	410,837,745	P	574,122,238	P	436,859,074
Reinsurance revenues	(	235,512,374)	(	387,681,600)	(	262,341,290)
	P	175,325,371	P	186,440,638	P	174,517,784

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

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

14. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

	Notes		2007		2006		2005
Salaries and employee benefits	15.1	P	83,035,405	P	78,354,821	P	47,313,412
Professional fees			10,317,532		5,278,745		2,905,924
Depreciation	8		10,157,716		8,679,824		4,661,906
Representation and entertainment			5,937,631		5,902,040		6,242,040
Transportation and traveling			4,395,209		3,446,644		2,996,757
Professional and technical development			4,387,516		190,755		482,070
Retirement	15.2		4,124,115		35,601,366		1,702,402
Taxes, licenses and fees			3,023,875		3,221,350		1,406,021
Light and water			2,615,693		2,535,206		1,466,494
Communication and postages			2,417,226		1,709,917		1,143,631
Printing and office supplies			2,147,068		2,111,219		1,373,869
Balance carried forward		P	132,558,986	P	147,031,887	P	71,694,526

	Notes		2007		2006		2005
Balance brought forward		P	132,558,986	P	147,031,887	P	71,694,526
Repairs and maintenance			1,231,964		3,263,955		1,757,509
Insurance			778,035		957,337		676,663
Fringe benefit taxes			468,048		484,704		322,771
Bank charges			271,181		608,161		168,705
Donations and contributions			193,092		701,324		469,250
Provision for impairment	5		-		57,514,733		750,000
Documentary stamps			-		2,943,312		1,941,938
Miscellaneous			9,541,627		5,653,350		3,296,723
		P	145,042,933	P	219,158,763	P	81,078,085

15. EMPLOYEE BENEFITS

15.1 Salaries and Employee Benefits Expense

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

		2007		2006		2005
Salaries and wages	P	55,788,137	P	45,201,343	P	26,666,537
Allowances and bonus		21,081,790		18,554,657		12,266,129
Compensated absences		1,952,436		5,731,876		3,872,326
Social security costs		1,648,059		1,407,106		1,130,122
Separation benefits		-		1,593,946		-
Others		2,564,983		5,865,893		3,378,298
	P	83,035,405	P	78,354,821	P	47,313,412

15.2 Employee Retirement Benefit Obligation

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

The amounts of retirement benefit obligation recognized in the balance sheets are determined as follows:

		2007		2006		2005
Present value of the obligation	P	62,132,830	P	51,174,809	P	24,158,148
Fair value of plan assets	(	30,090,823)	(	19,836,800)	(	18,955,928)
Deficiency of plan assets		32,042,007		31,338,009		5,202,220
Unrecognized actuarial gains (losses)		2,465,688		2,465,688	(	5,364,282)
Defined benefit liability (asset)	P	34,507,695	P	33,803,697	(P	162,062)

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

		2007		2006		2005
Balance at beginning of year	P	51,174,809	P	24,158,148	P	15,244,406
Current service cost and interest cost		10,958,021		11,795,895		2,942,031
Actuarial adjustment		-		16,276,913		-
Past service cost		-		19,768,521		-
Actuarial (gains) losses		-	(	13,299,169)		5,971,711
Adjustment for curtailment		-		6,291,542		-
Benefits paid by the plan		-	(	13,817,041)		-
Balance at end of year	P	62,132,830	P	51,174,809	P	24,158,148

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

	2007	2006	2005
Balance at beginning of year	P 19,836,800	P 18,955,928	P 15,541,394
Expected return on plan assets	6,833,906	1,648,282	1,239,629
Actuarial adjustment	1,809,073	1,647,591	-
Contributions paid into the plan	1,611,044	1,635,607	1,787,057
Benefits paid by the plan	-	(13,817,041)	-
Actuarial gains (losses)	-	9,766,433	387,848
Balance at end of year	P 30,090,823	P 19,836,800	P 18,955,928

The amounts of retirement expense recognized in the income statement are as follows:

	2007	2006	2005
Current service costs	P 5,150,951	P 5,173,501	P 1,265,146
Interest costs	5,807,070	6,622,394	1,676,885
Expected return on plan assets	(6,833,906)	(1,648,282)	(1,239,629)
Net actuarial gain recognized during the year	-	(606,310)	-
Past service cost	-	19,768,521	-
Curtailment cost	-	6,291,542	-
	P 4,124,115	P 35,601,366	P 1,702,402

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

	2007	2006	2005
Discount rates	7%	11%	11%
Expected rate of return on plan assets	8%	8%	8%
Expected rate of salary increase	6%	8%	8%

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.

	2007	2006	2005	2004
Present value of the obligation	P 62,132,830	P 51,174,809	P 24,158,148	P 15,244,406
Fair value of the plan assets	30,090,823	19,836,800	18,955,928	15,541,394
Deficit (excess) in the plan	P 32,042,007	P 31,338,009	P 5,202,220	(P 296,988)

16. TAXES

16.1 Current and Deferred Taxes

The components of tax expense (benefit) as reported in income statement and statement of changes in equity:

	2007	2006	2005
Reported in income statements			
Current tax expense:			
Regular corporate income tax (RCIT) at 35%	P 9,754,774	P -	P -
Final tax at 20% and 7.5%	59,193,182	38,077,014	20,895,482
Minimum corporate income tax (MCIT) at 2%	-	3,325,133	1,020,169
	68,947,956	41,402,147	21,915,651
Deferred tax expense (income)			
Deferred tax relating to origination and reversal of temporary differences	27,608,157	(44,080,565)	(19,280,838)
Deferred tax resulting from an increase in RCIT rate	-	-	1,741,334
	27,608,157	(44,080,565)	(17,539,504)
	P 96,556,113	(P 2,678,418)	P 4,376,147
Reported in statements of changes in equity			
Deferred tax relating to origination and reversal of temporary difference	P 17,048,484	P 14,847,681	P 19,130,654

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

	2007	2006	2005
Tax on pretax income at 35%	P 247,089,314	P 95,288,537	P 36,064,109
Adjustment for income subjected to lower tax rates	59,193,182	38,077,014	20,895,482
Tax effects of:			
Interest income subjected to final tax	(116,555,265)	(86,383,109)	(53,798,988)
Non-taxable income	(93,771,726)	(41,279,761)	(714,051)
Non-deductible expenses	1,233,784	1,231,609	188,261
Separation pay	(633,176)	(11,393,461)	-
Derecognized deferred tax assets	-	1,780,753	-
Increase in deductible temporary difference due to change in RCIT rate	-	-	1,741,334
Tax expense (benefit) reported in income statements	P 96,556,113	(P 2,678,418)	P 4,376,147

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

	Balance Sheets		Income statements	
	2007	2006	**2007**	2006
Deferred tax liabilities:				
Excess of reserves for unexpired risk per books over tax basis	**P 23,226,585**	P 9,176,803	**(P 14,049,782)**	(P 6,442,702)
Deferred acquisition costs	**21,193,587**	10,875,589	**(10,317,998)**	7,061,190
Revaluation reserves on available-for-sale investments (see Note 17.4)	**17,048,484**	14,847,681	**-**	-
Deferred tax assets:				
Allowance for impairment loss	**(24,924,715)**	(24,924,715)	**-**	20,130,157
Unrealized foreign exchange loss	**(21,069,751)**	(20,671,901)	**397,850**	9,721,125
Past service cost	**(12,913,660)**	(12,061,783)	**851,877**	11,860,317
Accrued leave benefits	**(764,763)**	(963,245)	**(198,482)**	74,814
MCIT	**(184,964)**	(4,345,302)	**(4,160,338)**	3,325,133
Net operating loss carryover (NOLCO)	**-**	(131,284)	**(131,284)**	(1,649,469)
Deferred Tax Income (Expense)			**(P 27,608,157)**	P 44,080,565
Net Deferred Tax Liabilities (Assets)	**P 1,610,803**	(P 28,198,157)		

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

MCIT for 2006 and 2005 amounted to P3,325,133 and P1,020,169, respectively, and is recorded as part of Deferred Tax Assets account in the balance sheets. No MCIT was reported in 2007 as the RCIT was higher than MCIT in 2007.

The Company's NOLCO and MCIT amounting to P375,098 and P4,160,338 which were incurred in the previous years were claimed as deduction against taxable income and regular corporate income tax in 2007, respectively.

16.2 Tax Regulations

16.2.1 Republic Act No. 9337

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

(a) RCIT rate is increased from 32% to 35% starting November 1, 2005 until December 31, 2008 and will be reduced to 30% beginning January 1, 2009;

(b) VAT rate of 10% was increased to 12% effective on February 1, 2006;

(c) VAT rate of 12% is now imposed on certain goods and services that were previously zero-rated or subject to percentage tax;

(d) Input tax on capital goods shall be claimed on a staggered basis over 60 months or the useful life of the related assets, whichever is shorter; and

(e) Creditable input VAT was capped at a maximum of 70% of output VAT per quarter which is effective until the third quarter of 2006 (this cap was removed effective for quarters ending on December 31, 2006 and onwards).

16.2.2 Recent Revenue Regulations (RR)

On February 7, 2007, the BIR issued RR No.4-2007 which provides that non-life reinsurance premiums are not subject to VAT, the latter being already subjected to VAT upon receipt of the insurance premiums. RR No. 4-2007 took effect on April 6, 2007.

Consequently, the Company no longer recognized the related value-added taxes on non-life insurance premiums upon the effectivity of the foregoing regulation.

On October 19, 2007, the BIR issued RR No. 12-2007 which requires the quarterly computation and payment of the MCIT beginning on the income tax return for fiscal quarter ending September 30, 2007. This RR amended certain provisions of RR No. 9-98 which specifically provides for the computation of the MCIT at the end of each taxable year.

Thus, in the computation of the tax due for the taxable quarter, if the computed quarterly MCIT is higher than the quarterly RCIT, the tax due to be paid for such taxable quarter at the time of filing the quarterly corporate income tax return shall be the MCIT which is two percent (2%) of the gross income as of the end of the taxable quarter.

17. EQUITY

17.1 Capital Stock

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

To consummate the merger in 2006, the Company issued 5,885,583 shares of capital stock in order to acquire the net assets of UMRC (see Note 1).

17.2 Stock Split

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

17.3 Treasury Shares

In 2005, the Company's treasury shares equivalent to 24,717 shares were reissued at a total cost of 5,552,798. On the other hand, in 2006, the Company reacquired the shares held by UMRC and the dissenting stockholders equivalent to 1,020,652 shares at a total cost of P254,465,509 (see Note 1).

In 2007, additional 46,354,200 shares were reacquired by the Company at a total cost of P103,430,976. Included on these shares are the reacquisitions of 446,774 shares from dissenting stockholders.

All treasury shares with a total cost of 358,070,611 were eventually reissued in 2007.

17.4 Revaluation Reserves

The reconciliation of Revaluation Reserves is as follows:

	Available-for-sale Financial Assets	Related Deferred Tax	Total
Balance as of January 1, 2007	P 393,292,649	(P 14,847,681)	P 378,444,968
Fair value losses	(130,894,851)	(2,200,803)	(133,095,654)
Fair value gains recognized to income	(69,835,806)	-	(69,835,806)
Balance as of December 31, 2007	**P 192,561,992**	**(P 17,048,484)**	**P 175,513,508**
Balance as of January 1, 2006	P 196,021,567	(P 19,130,654)	P 176,890,913
Fair value gains	255,163,225	4,282,973	259,446,198
Fair value gains recognized to income	(57,892,143)	-	(57,892,143)
Balance as of December 31, 2006	P 393,292,649	(P 14,847,681)	P 378,444,968
Balance as of January 1, 2005	P 40,135,020	P -	P 40,135,020
Fair value gains	196,021,567	(19,130,654)	176,890,913
Fair value gains recognized to income	(40,135,020)	-	(40,135,020)
Balance as of December 31, 2005	P 196,021,567	(P 19,130,654)	P 176,890,913

17.5 Appropriation for Contingencies

On April 18, 1989, the Company's BOD approved the establishment of a special reserve which will serve as cushion to the paid-up capital in the event of extraordinarily high loss occurrences or severe catastrophic losses. The amount of P5,000,000 was initially appropriated from retained earnings for this purpose on April 30, 1989. Subsequently, at December 31 of each year where there is profit, ten percent (10%) of such profit shall be set aside as additional reserve for contingencies. The reserve balance, which is shown as Appropriated under Retained Earnings account in the statement of changes in equity, should not exceed, at any time, the amount of paid-up capital. The balance of appropriation for contingencies amounted to P211,890,435 and P150,949,099 as of December 31, 2007 and 2006, respectively.

17.6 Declaration of Cash Dividends

On June 19, 2007, the Board approved the declaration of cash dividends equivalent to P0.07 per share, in the total amount of P152,736,822 out of the unrestricted retained earnings of the Company as of December 31, 2006 payable to stockholders of record as of July 16, 2007. The cash dividends were paid on August 6, 2007.

18. RELATED PARTY TRANSACTIONS

The Company's related parties include its principal stockholders, the Company's key management personnel and other related parties with which the Company had transactions that are carried out on an arm's length basis.

18.1 Reinsurance Contracts with Related Parties

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

	2007	2006
Premiums	P 1,891,455,734	P 1,680,287,858
Retrocessions	171,636,173	782,802,736
Commission income	49,791,886	165,394,272
Commission expenses	143,337,321	255,411,579
Losses incurred	184,300,125	239,823,078
Loss recoveries	71,662,426	52,040,257

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

	2007	2006
Due from ceding companies	P 286,602,592	P 760,626,683
Reinsurance recoverable on losses	44,021,458	54,624,018
Funds held by ceding companies	41,624,688	40,449,783
Due to retrocessionaires	33,711,667	558,356,875
Funds held for retrocessionaires	494,191	198,182

The balance of due from ceding companies pertaining to related parties is presented net of P10,788,045 allowance for impairment as of December 31, 2007.

18.2 Bank Accounts

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

	2007	2006
Time deposits	P 44,801,350	P 19,133,027
Savings and current accounts	2,643,745	8,187,161
	P 47,445,095	P 27,320,188

18.3 Investment Management and Custodianship

The Company has entered into agreements known as "Investment Management Agreement" and "Custodianship Agreement" with BPI for the management and custodianship of certain portion of the investments of the Company subject to terms and conditions in the said agreements.

For the services rendered, the Company pays BPI service fees equivalent to 0.175% of the market value of the investments. Total service fees paid for the year ended December 31, 2007 and 2006 amounted to P2,943,434 and P1,215,043, respectively.

18.4 Retirement Fund Investment Management

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

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

18.5 Key Management Personnel Compensation

	2007	2006	2005
Short-term benefits	P 43,287,218	P 32,365,020	P 22,920,310
Post-employment benefits	1,948,613	970,130	793,425
	P 45,235,831	P 33,335,150	P 23,713,735

19. MARGIN OF SOLVENCY

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

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

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

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

	2007	2006	2005
PFRS net income	P 609,413,356	P 274,931,380	P 98,664,163
Difference in change in reserve for unexpired risk – net	(40,142,234)	(18,407,720)	(13,594,754)
Deferred acquisition costs – net	(29,479,995)	20,174,827	(3,189,272)
Provision for catastrophe loss	-	-	(17,077,303)
Tax effect of the adoption of PFRS accounting	24,367,780	(618,487)	11,851,465
Statutory net income	P 564,158,907	P 276,080,000	P 76,654,299

21. EARNINGS PER SHARE

The earnings per share amounts after adjustment for the reduction of the par value of the Company's shares of stock on January 15, 2007 (see Note 17.2) are as follows:

	2007	2006	2005
Net income available to common shareholders	P 609,413,356	P 274,931,380	P 98,664,163
Divided by the average number of outstanding common shares	1,980,809,514	1,400,893,200	949,365,200
	P 0.31	P 0.20	P 0.10

Diluted earnings per share is not determined since the Company does not have dilutive shares as of December 31, 2007, 2006 and 2005.

22. COMMITMENTS AND CONTINGENCIES

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

22.1 Operating Lease Commitments – Company as Lessee

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

Within one year	P	866,423
After one year but not more than five years		220,693
	P	1,087,116

22.2 Legal Claims

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

23. 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, Budget and Audit, focuses on implementing risk control measures addressing underwriting acceptances, claims control, securing short-to-medium term cash flows by minimizing exposure to financial markets while managing long-term financial investments to generate lasting returns.

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

23.1 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 for the year ended December 31, 2007 per line of risk are shown below.

Line of Risk		Reinsurance Premiums		Retroceded Premiums		Retention
Fire	P	1,387,159,988	P	1,034,189,507	P	352,970,481
Marine and aviation		439,163,859		197,208,733		241,955,126
Casualty		2,042,102,760		1,660,547,509		381,555,251
Life		448,155,846		197,281,824		250,874,022
	P	4,316,582,453	P	3,089,227,573	P	1,227,354,880

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 10% 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 also initiated an Enterprise Risk Management Process which is an organization-wide approach to the identification, assessment, communication and management of risks. Reinsurance Activity Risks is one of the four different types of risks identified in this program. The management believes that the Enterprise Risk Management Process, once fully integrated into the Company's operations, would further enhance the confidence of investors and clients in the Company.

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 as of December 31, 2007 are shown below:

Line of Risk	Outstanding Claims	Retrocessionaires' Share in Claims	Net
Fire	P 396,152,818	P 269,838,565	P 126,314,253
Marine and aviation	438,462,914	136,536,567	301,926,347
Casualty	743,433,231	613,561,645	129,871,586
Life	50,264,817	16,522,560	33,742,257
	P 1,628,313,780	P 1,036,459,337	P 591,854,443

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

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

23.2 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the 2007 balance sheet (or in the detailed analysis provided in the notes to the financial statements), as summarized below:

	Notes	
Cash and cash equivalents		P 1,344,872,579
Reinsurance balances receivable - net	5	2,908,836,020
Available-for sale financial assets	6	5,217,539,378
Loans and receivables	7	193,990,002
		P 9,665,237,979

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.

23.3 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, 2007, the Company's obligations arising from reinsurance agreements and other financial liabilities have contractual maturities which are presented below:

		Current		Non-current
Reinsurance balances payable	P	2,439,453,963	P	231,736,490
Accounts payable and accrued expenses		8,382,427		34,507,694
	P	2,447,836,390	P	266,244,184

23.4 Market Risk

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

(a) Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the dollar-denominated investments, receivables and payables. The Company recognized net foreign exchange losses of P179,320,898 in 2007, P90,676,616 in 2006, and P45,952,689 in 2005 (see Note 12).

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

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:

		US Dollar		Other Currencies
Financial assets	P	1,290,440,554	P	74,221,140
Financial liabilities		475,088,763		25,195,854

The observed volatility rates of foreign currencies at which some of the Company's financial assets and liabilities are denominated and their impact on the Company's income before tax as of December 31, 2007 are summarized as follows:

	Observed Volatility Rates		Impact of Increase/Decrease on Income before tax
US dollars	+/-20.72%	P	137,571,298
Indonesian Rupiah	+/-27.18 %		7,514,852
Thailand baht	+/-37.15 %		2,312,479
Singaporean dollars	+/-17.95 %		1,033,785
Euro	+/-22.36%		615,090
Malaysian ringgit	+/-13.93%		539,450
Indian rupee	+/-20.18%		291,525
South Korean won	+/-16.55%		132,137
Japanese yen	+/-39.96%		77,389
Hongkong dollars	+/-24.12 %		72,730
British pound	+/-26.32%		8,613
Australian dollars	+/-33.18%		133
		P	**150,169,481**

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. The analysis of the Company's foreign currency risk above was based only on the observed volatility rates in 2007 which could differ from the actual volatility rates in the succeeding periods.

(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 Code generally requires all insurance companies to obtain prior approval of the IC for any and all of their investments. It further requires companies to submit to the Commission a monthly report on all investments made during the previous month. The Commission reviews the investments and may require the immediate sale or disposal of investments deemed too risky.

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

Beyond the provisions of the Insurance Code, the Company, through its Investment Committee, has established additional guidelines to control the risks inherent in equity investments. The Company's own investment policy requires that the Company invest only in shares of common stock of companies that are listed on the Philippine Stock Exchange. 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, 2007 investments in listed equities amounted to 12% 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 net income and equity as of December 31, 2007 are summarized as follows:

	Observed Volatility Rates	Impact of Increase/ Decrease on Equity	
Equity securities listed in the Philippines			
Common shares	+/- 27.39%	P	120,500,879
Preferred shares (NRCP managed)	+/- 8.76%		11,897
Preferred shares (BPI managed)	+/- 1.15%		1,178,584
Government bonds	+/- 2.30%		69,929,758
Long-term negotiable instruments	+/- 0.65%		16,693,812
Corporate bonds	+/- 6.56%		15,100,344
Mutual funds	+/- 15.47%		8,094,997
Golf club shares	+/- 28.47%		555,209
		P	**232,065,480**

(c) *Interest Rate Risk*

The Company is exposed to interest rate risk because of its fixed income investments which amounted to approximately 84% of the Company's total investment portfolio as of December 31, 2007. The Company attempts to limit interest rate risk by establishing limits on the duration and average maturity of its fixed income portfolio. As a general rule, the Company does not attempt to speculate (i.e., profit from short term changes or volatility in market conditions). Investments in fixed income securities are made primarily to ensure adequate cash flow from investments to meet cash requirements, both anticipated and unanticipated. Consequently, the investment portfolio is structured so that instruments mature concurrently with cash needs. Moreover, the investments in fixed income securities are limited to those with active secondary or resale markets to allow for transparent valuation and immediate liquidation in the event of market turmoil.

24. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are:

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

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

24.1 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, 2007	December 31, 2006
Minimum statutory net worth	P 1,000,000,000	P 750,000,000
Minimum paid-up capital	500,000,000	375,000,000

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.

24.2 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.

24.3 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 (2/3) of the Company's outstanding capital stock. Dividends may be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the 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 thirty (30) days from the date of such declaration.

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