



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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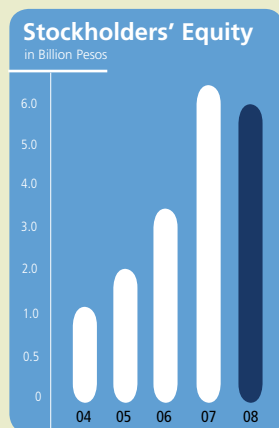
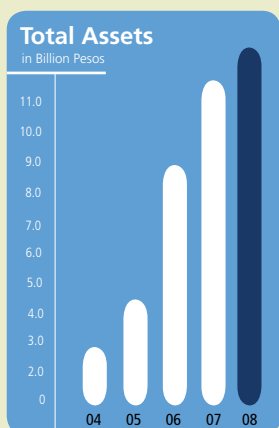
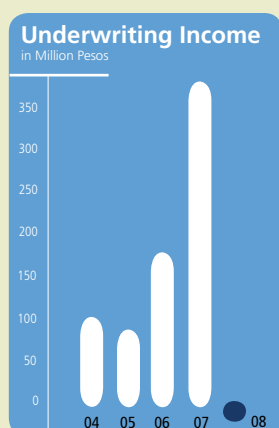
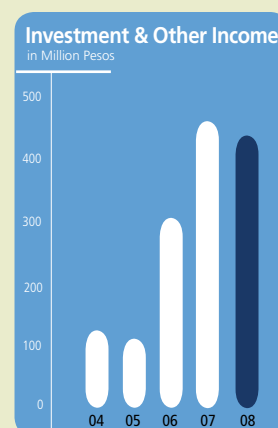
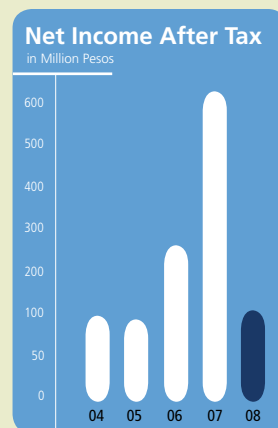
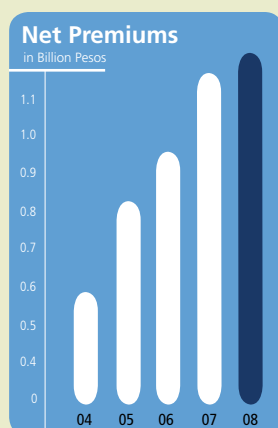
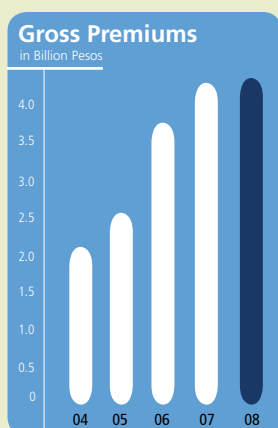
ABOUT THE COVER

The massive pillars are meant to symbolize PhilNaRe's strength and stability and depict the permanence and solidity of the Company's vision to become the REINSURER OF CHOICE in the Philippine market. PhilNaRe is deeply committed to the highest norms of professionalism, integrity, technical competence, and service excellence.

FINANCIAL HIGHLIGHTS

(amounts in million pesos except book value per share)

	2008	2007	2006	2005	2004
Gross Premiums	4,494	4,317	3,782	2,590	2,042
Net Premiums	1,580	1,227	954	824	591
Underwriting Income (Loss)	(73)	391	187	75	101
Investment & Other Income	449	460	304	109	122
Net Income After Tax	94	609	275	99	100
Total Assets	12,272	11,518	9,116	4,458	2,934
Stockholders' Equity	5,950	6,677	3,831	2,131	1,119
Book Value Per Share	2.75	3.06	2.58	2.13	1.83
Return on Average Equity	1.50%	11.60%	9.20%	6.10%	9.50%
Expense Ratio	13.40%	11.82%	22.98%	9.84%	16.85%
Loss Ratio	79.73%	51.82%	59.76%	66.97%	58.71%
Combined Ratio	117.64%	77.92%	102.29%	97.99%	98.51%



MESSAGE TO STOCKHOLDERS

No single year has tested your Company's resilience more than 2008. Economic developments both in the global arena and the local front have affected practically all businesses, including your Company, in one way or another.

Coming off a banner economic year in 2007, the Philippine economy grew at a much slower rate of 4.6% in gross domestic product due to the worsening global economic situation, higher inflation rate and the persistent instability of world oil prices.

The continuing worldwide financial downturn also affected various segments of the global insurance industry, including Asia and the Philippines. The extreme volatility of financial markets has become a problem for the life segment in many countries. Moreover, the ongoing financial crisis has also led to the softness of the non-life segment, resulting in a downward pressure on premiums.

The local insurance industry felt the adverse effects not only of the economic downturn, but of natural catastrophes as well. PhilNaRe, for one, suffered an adverse underwriting result from its Non-Life business as your Company experienced an unprecedented level of claims and losses brought about by natural calamities and events.



“...we approach 2009 with renewed vigor... having learned from the past and now being equipped with the tools necessary to face the challenges and opportunities of the future...”

Notwithstanding these unfavorable developments, it is worth noting, however, that your Company's strong capital base and over-all financial position enabled us to weather this economic storm. Another alleviating factor is that your Company's Life business continues to deliver good results.

Despite a lower net income in 2008, your Company remains financially sound and able to meet future challenges, due mainly to our Capital Enhancement Program and the prudent financial decisions that we have made during the year.

We are likewise proud to report that the New York-based global credit rating organization, A.M. Best Company, has reconfirmed in 2008 PhilNaRe's Financial Strength Rating of B++. This positive rating reflects PhilNaRe's strong market presence in the Philippines, sufficient risk-adjusted capitalization, stable combined ratio and conservative investment portfolio.

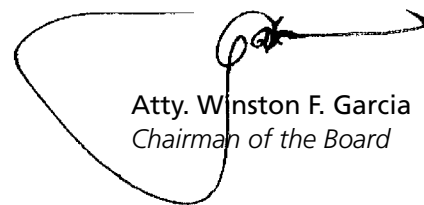
In pursuit of good governance, we continue to strengthen our enterprise risk management efforts. Toward this end, the Board has already established a Risk Management Committee to assist in the discharge of the Board's oversight functions and to review your Company's risk management process, strategy and implementation program.

On the investment side, we will continue our judicious and prudent approach in order to preserve and strengthen further our capital base and financial resources.

We will also continue our involvement in both local and regional initiatives to promote and sustain the growth and development of the insurance/reinsurance industry. Such involvement allows your Company not only to enhance its

image and that of the country, but also to establish more business opportunities here and abroad.

Considering all the developments in the past year, we approach 2009 with renewed vigor and look positively to what lies ahead, having learned from the past and now being equipped with the tools necessary to face the challenges and opportunities of the future. On behalf of the Board of Directors, I express my gratitude to our clients, partners, and stockholders for their unwavering loyalty and trust. I would also like to thank our management and staff for their continued commitment and dedication to their work. With the support and cooperation of all sectors, I am confident that PhilNaRe will rise above adversities and emerge even better and stronger.



Atty. Winston F. Garcia
Chairman of the Board

PRESIDENT'S REPORT

In 2008, your Company had to endure several challenges that tested its strength and resilience, as natural calamities and events triggered an unusually high level of claims and losses, particularly in the Fire and Marine business. These dramatically affected our underwriting income and weighed heavily on our bottom line. As we all know, the insurance business carries with it certain risks associated with unpredictable factors like typhoons, floods, fires and earthquakes.

As such, your Company ended the year with a consolidated net income of P94.4 million, an 85% drop from the previous year's P609.4 million, as the sustained profitability of our Life portfolio failed to stem the underwriting losses in our Non-Life business.

All told, however, your Company managed to weather this storm on the strength of its financial capability and prudent risk management efforts.

UNDERWRITING OPERATIONS: *Growth Amid Adversity*

Even under a tough economic environment, your Company still registered a gross premium volume of P4.5 billion, a P176.9-million or 4% increase from P4.3 billion in 2007.



“...we will continue to meet all the challenges that lie ahead with fortitude and resilience, bearing in mind the interests of our investors and stockholders.”

The growth in reinsurance premiums was largely due to increased acceptances in Non-Life treaty and facultative businesses, which grew by 3% on a combined basis from P3.9 billion in 2007 to P4.0 billion in 2008. On the other hand, our Life operations managed to post a respectable growth rate of 14% in gross premiums from P448 million in 2007 to P511 million in 2008 and at the same time realized a net underwriting profit of P100.3 million.

Net premiums grew by a hefty 29% to P1.58 billion from P1.23 billion in 2007. This growth was due to a higher retention ratio, which increased to 35% in 2008 from 28% during the previous year. Ultimately, it is the ability of your Company to retain more risks for its own account that reflects its financial strength. Hence, we have progressively but always prudently increased our retention capacity on the business that we write.

INVESTMENTS AND INCOME:

Profitability in Uncertain Times

Doing business in an unfavorable economic climate can take a toll on the company's bottom line. This, exacerbated by an unusually high level of claims and losses, substantially pulled down your Company's net profits for the year. The big drop in our net income was due to a series of small-to-medium-sized losses on property, aggravated by larger ones occasioned by Typhoon Frank and other loss occurrences, as well as Marine Hull losses from overseas. The combination of these losses produced an adverse underwriting result for our Non-Life business.

Amidst unfavorable circumstances in the financial markets, your Company's investment income and other income declined by a mere 2% to P449.2 million in 2008 from P460.1 million in 2007. The decline was largely due to trading losses owing to the steep drop in the Philippine stock market share prices.

Interest Income, however, increased by 10% to P375 million in 2008 from P341 million in 2007 due to a higher level of investible funds. In 2008, your Company's foreign exchange gain amounted to P115.3 million compared to a foreign exchange loss of P179.3 million in 2007. This cushioned the impact of a significant decline in trading income for 2008. The overall stability of investment results can be directly attributable to the Company's conservative investment policy, which emphasizes safety of principal.

Also contributing to the decline in our net income for the year was the increase in general and administrative expenses, including reserves for long outstanding receivables and some non-recurring expenses. Without the impairment reserves, your Company's overall expense ratio was flat at 11% for the years 2008 and 2007.

Your Company's total assets increased by P753.9 million or 7% to P12.3 billion in 2008 from P11.5 billion in 2007, underscoring your Company's continued stability despite unpropitious business conditions.

PROJECTS AND ACTIVITIES:

Broadening Networks and Enhancing Capabilities

The year 2008 marked the 30th year of operations of your Company. To celebrate this momentous event, your Company organized several industry events. We hosted a cocktail reception which was attended by PhilNaRe's valued clients and guests from both the domestic and regional insurance markets. We also organized an invitational golf tournament at the Sta. Elena Golf Club. Finally, we co-hosted an industry seminar-workshop on Stochastic Simulation attended by actuarial officers from 15 direct writing life companies.

Our ongoing Enterprise Risk Management (ERM) program went full-blast in 2008. The program involves a company-wide approach to risk assessment,

PRESIDENT'S REPORT

identification and prioritization, leading to a structured and institutionalized framework of risk management. As the program unfolded in 2008, identified risks were summarized to form part of your Company's Risk Profile and the Risk Prioritization Map, which are important references for our risk management efforts.

We also established during the year the Risk Management Council, composed of the members of the Senior Management Committee in which I myself serve as chair. Reporting to this Council is a new Risk Management Department headed by a Chief Risk Officer.

Another project that your Company initiated in 2008 was the upgrading of our computer facilities. Driven by our mandate to be a locally dominant and regionally respected reinsurer, we assessed our computer resources and laid the groundwork for a multi-million-peso project aimed at acquiring for your Company the best possible reinsurance business technology. Once completed, the project will expand your Company's capabilities to deliver more and better products and services to customers and partners.

CORPORATE GOVERNANCE:

Maintaining Transparency and Accountability

Your Company remains committed to the principles and best practices of good governance and to the continuing enhancement of the policies and processes of sound

corporate governance. Earlier this year, the Institute of Corporate Directors (ICD), in partnership with the SEC and PSE, announced the results of the 4th "Corporate Governance Scorecard for PLCs in the Philippines". For the year 2008, I am pleased to report that your Company garnered a score of 82%, which was higher than the national average score of 72%, and earned for itself the distinction of landing in the first quartile rank of the companies surveyed. In 2007, the Company's score stood at 62% which placed it in the third quartile.

The independent directors that your Company has appointed, the specific committees we have established, and the Compliance and Information Officers that we have designated all continue to fulfill their mandate as overseers of governance.

The Audit Committee of your Company's Board of Directors, which is composed of three independent directors, continues to monitor 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, which is composed of three directors at least one of whom must be an independent director, continues to review and evaluate 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 has





been providing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration of corporate officers and directors. It has also been providing oversight for over-remuneration of senior management and other key personnel.

In order to measure the level of compliance of the Board of Directors and management with the provisions of the Manual of Corporate Governance, your Company has appointed a Compliance Officer who is continually responsible for the monitoring of such compliance. The Compliance Officer is likewise tasked with accomplishing the Self-Assessment Questionnaire-General Disclosure on Corporate Governance Practices for Insurance Companies, Professional Reinsurers and Intermediaries. The report, which is reviewed by the Board of Directors, is a requirement of the Insurance Commission (IC) and is submitted to the IC on a semi-annual basis.

Your Company remains committed to ensuring that there be no deviation from our 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. Moreover, your Company continues to improve corporate governance practices through the continuous training of management people on the matter. All new directors and executive officers with a designation of Vice President or higher are required, among other things, to undergo formal training in corporate governance.

Indeed, 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.

OUTLOOK:

Meeting Challenges and Seeking Opportunities

Despite the challenges that 2008 presented, the most optimistic forecast of experts says that the global economy is headed for a rebound in the latter part of 2009. The local insurance industry, specifically, is expected to perform



better. In fact, debt watcher Standard & Poor's maintained a "stable" outlook for the Philippine insurance industry.

This definitely augurs well for the Philippine insurance industry. Still, we feel that it is best to approach the years ahead with reserve and caution. As such, we will continue to meet all the challenges that lie ahead with fortitude and resilience, bearing in mind the interests of our investors and stockholders.

Specifically, we will continue our efforts to strengthen our domestic market leadership. We will also identify and take advantage of opportunities to expand our business in the regional market. Taking cognizance of our 2008 results which fell below expectations, we have reviewed and tightened up further our underwriting policies. Although this initiative may not produce dramatic growth in our underwriting profitability immediately, we are confident that the company will produce more stable underwriting results in the long run.

As we come off a highly challenging year, we acknowledge, now more than ever, the support and loyalty of our stakeholders and shareholders. I cannot thank them enough for their unwavering trust in and valuable contributions to the company. I would also like to express our sincerest gratitude to our Board of Directors, our clients and business partners, our management and staff, and our industry friends whose support enabled your Company to meet and surmount the difficulties and adversities of the past year.

ROBERTO B. CRISOL

President and CEO

BOARD OF DIRECTORS



Winston F. Garcia
Chairman of the Board



Adelita A. Vergel De Dios
Vice Chairman of the Board



Roberto B. Crisol
President and CEO



Romeo L. Bernardo
Director



Primitivo C. Cal
Director



Emilio S. De Quiros, Jr.
Director



Noel M. Juan
Director



Rizalino S. Navarro
Director



Alfonso L. Salcedo, Jr.
Director and Treasurer



Josefina L. Valera
Director



Yvonne S. Yuchengco
Director

OFFICERS

OFFICE OF THE PRESIDENT

Roberto B. Crisol, President; Armando S. Malabanan, EVP; Regina S. Ramos, VP



CORPORATE SERVICES

Edgar B. Villaseñor, VP; Rene O. de Guzman, VP; Rosario P. Ventura, AVP; Normando S. Aguilar, AVP



LIFE

Raymundo T. Bautista, SVP; Augusto C. Cipriano, VP; Rosario V. Engracia, AVP; Editha B. Geronimo, AVP; Francisco B. Kabigting, AVP



NON-LIFE

Rodolfo M. Nayve, SVP; Roberto S. de Leon II, VP
Buenaventura P. Duran, VP; Ma. Lourdes M. Santos, VP
Rowena S. Pangilinan, AVP; Ronaldo C. Dizon, AVP



FINANCE

John E. Huang, SVP; Marissa P. Aldeano, VP
Amerfil V. Basco, VP; Vicente B. Villarama, VP
Honorata S. Lucos, AVP; George U. Del Mundo, AVP



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, 2008, 2007 and 2006. 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:



Atty. Winston F. Garcia
Chairman of the Board



Roberto B. Crisol
President & CEO



Alfonso L. Salcedo, Jr.
Treasurer

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of National Reinsurance Corporation of the Philippines, which comprise the balance sheets as at December 31, 2008 and 2007, 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, 2008, 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, 2008 and 2007, and of its financial performance and its cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO



Leonardo D. Cuaresma, Jr.

Partner

CPA Reg. No. 0058647

TIN No. 109-227-862

PTR No. 1566064, January 5, 2009, Makati City

SEC Accreditation No. 0007-AR-2

BIR AN 08-002511-7-2008 (Nov. 25, 2008 to 2011)

March 31, 2009

BALANCE SHEETS

DECEMBER 31, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes		2008		2007
<u>ASSETS</u>					
CASH AND CASH EQUIVALENTS	4	P	1,149,558,287	P	1,346,912,651
REINSURANCE BALANCES RECEIVABLE - Net	5		4,353,404,620		2,908,836,020
AVAILABLE-FOR-SALE FINANCIAL ASSETS	6		5,284,585,889		5,217,539,378
LOANS AND RECEIVABLES	7		195,738,148		193,990,002
PROPERTY AND EQUIPMENT - Net	8		86,546,717		91,328,046
DEFERRED ACQUISITION COSTS			200,656,735		206,688,943
DEFERRED REINSURANCE PREMIUMS	9		827,251,651		1,348,262,605
DEFERRED INPUT VALUE-ADDED TAX			64,455,903		81,554,300
OTHER ASSETS	10		<u>109,444,086</u>		<u>122,623,373</u>
TOTAL ASSETS		P	<u>12,271,642,036</u>	P	<u>11,517,735,318</u>
<u>LIABILITIES AND EQUITY</u>					
REINSURANCE BALANCES PAYABLE	5	P	4,705,635,537	P	2,671,190,453
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	11		45,463,886		42,890,121
RESERVE FOR UNEARNED REINSURANCE PREMIUMS	9		1,353,110,258		1,845,503,599
DEFERRED REINSURANCE COMMISSIONS			108,339,395		123,145,081
DEFERRED OUTPUT VALUE-ADDED TAX			109,378,539		156,326,449
DEFERRED TAX LIABILITIES - Net	16		<u>-</u>		<u>1,610,803</u>
			6,321,927,615		4,840,666,506
EQUITY	17		<u>5,949,714,421</u>		<u>6,677,068,812</u>
TOTAL LIABILITIES AND EQUITY		P	<u>12,271,642,036</u>	P	<u>11,517,735,318</u>

See Notes to Financial Statements.

INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	2008	2007	2006
REINSURANCE PREMIUM INCOME				
Reinsurance premiums - net of returns	18	P 4,493,504,395	P 4,316,582,453	P 3,781,503,835
Retroceded premiums	18	<u>2,913,546,920</u>	<u>3,089,227,573</u>	<u>2,827,628,316</u>
Reinsurance premiums retained		1,579,957,475	1,227,354,880	953,875,519
Increase in reserve for unearned reinsurance premiums	9	(<u>28,617,613</u>)	(<u>52,098,520</u>)	(<u>25,879,655</u>)
		<u>1,551,339,862</u>	<u>1,175,256,360</u>	<u>927,995,864</u>
UNDERWRITING DEDUCTIONS				
Share in claims and losses	13	1,236,916,617	609,018,943	554,566,237
Commissions - net		<u>387,202,440</u>	<u>175,325,371</u>	<u>186,440,638</u>
		<u>1,624,119,057</u>	<u>784,344,314</u>	<u>741,006,875</u>
NET UNDERWRITING INCOME (LOSS)		(72,779,195)	390,912,046	186,988,989
INVESTMENT AND OTHER INCOME - Net	12	<u>449,195,685</u>	<u>460,100,356</u>	<u>304,422,736</u>
INCOME AFTER INVESTMENT AND OTHER INCOME		376,416,490	851,012,402	491,411,725
GENERAL AND ADMINISTRATIVE EXPENSES	14	<u>211,654,086</u>	<u>145,042,933</u>	<u>219,158,763</u>
INCOME BEFORE TAX		164,762,404	705,969,469	272,252,962
TAX EXPENSE (INCOME)	16	<u>70,318,983</u>	<u>96,556,113</u>	(<u>2,678,418</u>)
NET INCOME		<u>P 94,443,421</u>	<u>P 609,413,356</u>	<u>P 274,931,380</u>
Earnings Per Share	21	<u>P 0.04</u>	<u>P 0.31</u>	<u>P 0.20</u>

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	Capital Stock		Additional Paid-in Capital
		No. of Shares	Amount	
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		<u>15,885,583</u>	<u>P 1,588,558,300</u>	<u>P 1,274,936,540</u>
Balance as of January 1, 2007		15,885,583	P 1,588,558,300	P 1,274,936,540
Declaration of 1:100 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	17	-	-	-
Decrease during the year	6, 17	-	-	-
Cash dividends	17	-	-	-
Appropriated for contingencies	17	-	-	-
Net income		-	-	-
Total equity as of December 31, 2007		<u>2,181,954,600</u>	<u>P 2,181,954,600</u>	<u>P 3,019,218,458</u>
Balance as of January 1, 2008		2,181,954,600	P 2,181,954,600	P 3,019,218,458
Shares reacquired	17	-	-	-
Decrease during the year	6, 17	-	-	-
Cash dividends	17	-	-	-
Appropriated for contingencies	17	-	-	-
Net income		-	-	-
Total equity as of December 31, 2008		<u>2,181,954,600</u>	<u>P 2,181,954,600</u>	<u>P 3,019,218,458</u>

See Notes to Financial Statements.

	Treasury	Revaluation	Retained Earnings		Total Equity
	Shares - At Cost		Reserves	Appropriated	
(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	
-	P 175,513,508	P 211,890,435	P 1,088,491,811	P 6,677,068,812	
(40,081,811)	-	-	-	(40,081,811)	
-	(345,325,081)	-	-	(345,325,081)	
-	-	-	(436,390,920)	(436,390,920)	
-	-	9,444,342	(9,444,342)	-	
-	-	-	94,443,421	94,443,421	
(P 40,081,811)	(P 169,811,573)	P 221,334,777	P 737,099,970	P 5,949,714,421	

CASH FLOWS STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before tax	P	164,762,404	P 705,969,469	P 272,252,962
Adjustments for:				
Interest income	12	(375,001,848)	(340,942,749)	(253,234,383)
Unrealized foreign currency loss (gain)	12	(71,027,129)	81,036,843	81,867,627
Impairment losses	5	32,795,155	-	-
Increase in reserve for unearned reinsurance premiums	9	28,617,613	52,098,520	25,879,655
Dividend income	12	(27,078,150)	(17,161,730)	(8,979,802)
Depreciation	8, 10	11,136,989	10,157,716	8,679,824
Gain on acquisition	12	-	-	(51,295,702)
Operating income (loss) before working capital changes		(235,794,966)	491,158,069	75,170,181
Decrease (increase) in reinsurance balances receivable		(1,471,828,939)	86,859,634	385,602,863
Decrease(increase) in loans and receivables		4,355,111	39,359,982	(5,682,704)
Decrease (increase) in deferred acquisition costs		(8,773,478)	(29,479,995)	20,174,827
Decrease (increase) in deferred input value-added tax		17,098,397	132,628,679	(190,417,087)
Decrease (increase) in other assets		10,849,240	(2,223,396)	(46,002,000)
Increase (decrease) in reinsurance balances payable		2,027,975,256	(148,456,533)	967,691,772
Increase (decrease) in accounts payable and accrued expenses		2,573,765	(16,291,673)	1,979,388
Increase (decrease) in deferred output value-added tax		(46,947,910)	(168,575,443)	283,146,942
Cash generated from operations		299,506,476	384,979,324	1,491,664,182
Cash paid for income taxes		(73,065,054)	(68,947,956)	(38,077,015)
Net Cash From Operating Activities		<u>226,441,422</u>	<u>316,031,368</u>	<u>1,453,587,167</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal/maturities of:				
Available-for-sale financial assets		1,333,353,912	200,227,592	1,138,510,274
Property and equipment	8	355,500	306,648	-
Held-to-maturity investments		-	-	87,922,432
Interest received		371,547,597	250,580,727	233,920,424
Dividends received		24,429,144	17,161,730	8,979,802
Disposals (acquisitions) of:				
Available-for-sale financial assets		(1,675,082,737)	(2,279,359,092)	(2,795,994,441)
Property and equipment	8	(4,381,113)	(9,474,793)	(1,950,282)
Investment property	10	-	12,068,103	(454,367)
Net Cash From (Used in) Investing Activities		<u>50,222,303</u>	<u>(1,808,489,085)</u>	<u>(1,329,066,158)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Acquisitions/payments of:				
Treasury shares	17	(40,081,811)	(103,430,976)	(10,610,169)
Dividends paid	17	(436,390,920)	(152,736,822)	-
Proceeds from issuance/reissuance of:				
Common shares		-	2,337,678,218	196,158,513
Treasury shares	17	-	358,070,611	-
Net Cash From (Used in) Financing Activities		<u>(476,472,731)</u>	<u>2,439,581,031</u>	<u>185,548,344</u>
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS				
		<u>2,454,642</u>	<u>(47,045,007)</u>	<u>(5,215,554)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		(197,354,364)	900,078,307	304,853,799
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		<u>1,346,912,651</u>	<u>446,834,344</u>	<u>141,980,545</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	P	<u>1,149,558,287</u>	P <u>1,346,912,651</u>	P <u>446,834,344</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008, 2007 AND 2006
(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, 2008 (including the comparatives for the years ended December 31, 2007 and 2006) were authorized for issue by the Company's Board of Directors (BOD) on March 31, 2009.

1.2 Merger With Universal Malayan Reinsurance Corporation

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

On March 6, 2006, the 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 (see Note 17):

Assets:

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

P 2,114,563,380

Liabilities:

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

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).

NOTES TO FINANCIAL STATEMENTS

1.3 Initial Public Offering

On February 20, 2007, the BOD authorized the issuance and sale of unsubscribed and unissued authorized capital stock equivalent to 489,493,700 shares of common stock and the reissuance of 148,506,300 shares of common stock which were then in the treasury of the Company. These shares of stock were actually issued through an initial public offering (IPO) after the Company's application for registration and listing was approved by the 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 Standard

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

The financial statements have been prepared 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 Amendments and Interpretations to Existing Standards

(a) Effective in 2008 that are Relevant to the Company

In 2008, the Company adopted for the first time the following new interpretation and amended standards which are mandatory in 2008.

Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 14	:	Philippine Accounting Standard (PAS) 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
PAS 39 and PFRS 7 (Amendments)	:	PAS 39, Financial Instruments: Recognition and Measurements and PFRS 7, Financial instruments: Disclosures

Discussed below are the effects on the financial statements of the new accounting interpretation and amended 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 guidance on assessing the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Company's adoption of this interpretation does not have any impact on the Company's financial statements, as it has a retirement benefit obligation and is not subject to any minimum funding requirements.

(ii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement* and PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2008). The amendments permit an entity to:

- reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of fair value through profit or loss category in particular circumstances; and
- transfer from the available for sale category to the loans and receivable category those financial assets that would have met the definition of loans and receivables, provided that the entity has the intention and the ability to hold those financial assets for the foreseeable future.

The amendments are applicable in a partially retrospective manner up to July 1, 2008 provided that the reclassification was made on or before November 15, 2008, the cut-off date set by the FRSC. After the cut-off date, all reclassifications will only take effect prospectively. As the Company did not exercise the option to reclassify its financial assets; hence, it determined that the adoption of these amendments has no impact on the 2008 financial statements.

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

(b) *Effective in 2008 but not Relevant to the Company*

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but are not relevant to the Company's operations:

Philippine Interpretation IFRIC 11	:	Group and Treasury Share Transactions
Philippine Interpretation IFRIC 12	:	Service Concession Arrangements

(c) *Effective Subsequent to 2008*

There are new and amended standards that are effective for periods subsequent to 2008. The following new standards, effective for annual periods beginning on or after January 1, 2009, are relevant to the Company which the Company will apply in accordance with their transitional provisions.

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

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

- (i) 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.
- (ii) 2008 Annual Improvements to PFRS. The FRSC has adopted the Improvements to International Financial Reporting Standards 2008. These amendments become effective in the Philippines in annual periods beginning on or after January 1, 2009. The Company expects the amendments to the following standards to be relevant to the Company's accounting policies:
- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Presently, the Company has no financial assets classified as held for trading under PAS 1, hence, this amendment will have no impact in the Company's 2009 financial statements.

NOTES TO FINANCIAL STATEMENTS

- PAS 19 (Amendment), *Employee Benefits*. The amendment includes the following:
 - Clarification that a curtailment is considered to have occurred to the extent that benefit promises are affected by future salary increases and a reduction in the present value of the defined benefit obligation results in negative past service cost.
 - Change in the definition of return of plan assets to require the deduction of plan administration costs in the calculation of plan assets return only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
 - Distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
 - Removal of the reference to recognition in relation to contingent liabilities in order to be consistent with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which requires contingent liabilities to be disclosed and not recognized.

The Company's management assessed that this amendment to PAS 19 will have no impact on its 2009 financial statements.

- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The Company initially determined that adoption of this amendment will not have a material effect on its 2009 financial statements.
- PAS 40 (Amendment), *Investment Property*. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value.

Minor amendments are made to several other standards; however, those amendments are not expected to have a material impact on the Company's 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, and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular 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.

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.

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 presented in the balance sheet of the Company consist of Reinsurance Balances Receivable and Loans and Receivables.

(b) Held-to-maturity Investments

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

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

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

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

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

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

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash 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 furnitures and equipment	5 years
Transportation equipment	5 years
EDP equipment	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.14). The residual values and estimated useful lives of property and equipment are reviewed and, adjusted if appropriate, at 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. Depreciation is computed on the straight-line basis over the estimated useful life of 30 years.

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

NOTES TO FINANCIAL STATEMENTS

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 payable 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:

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

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.

NOTES TO FINANCIAL STATEMENTS

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.

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

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 Management Judgments in Applying Accounting Policies

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

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

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

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

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

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

(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 2008 amounted to P1,623,000 and P953,418, respectively, and P1,163,890 and P1,021,463, respectively, in 2007.

(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.

NOTES TO FINANCIAL STATEMENTS

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 Lives of Property and Equipment and Investment Property

The Company estimates the useful lives of property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment and investment property are analyzed in Notes 8 and 10, respectively. Actual results, however, may vary due to changes in estimates brought about by the changes in factors mentioned above. There is no change in estimated useful lives of property and equipment during the year.

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

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

Impairment losses on reinsurance balances receivables amounted to P32,795,155 in 2008 and nil in 2007. The allowance for impairment on reinsurance balances receivable amounted to P139,594,626 and P106,799,471 in 2008 and 2007, respectively (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. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

Fair value losses on available-for-sale financial assets of P344,189,814 in 2008 and P200,730,657 in 2007 were reported in the equity section (see Note 6).

(d) 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.

(e) 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 estimated retirement benefit obligation amounted to P28,897,908 and P34,507,695 as of December 31, 2008 and 2007, respectively, while the fair value of plan assets as of those dates amounted to P32,808,081 and P30,090,823, respectively (see Note 15.2).

4. CASH AND CASH EQUIVALENTS

This account consists of:

	<u>2008</u>	<u>2007</u>
Time deposits	P 998,613,936	P 1,283,627,639
Cash on hand and in banks	<u>150,944,351</u>	<u>63,285,012</u>
	<u>P 1,149,558,287</u>	<u>P 1,346,912,651</u>

Time deposits were made for varying periods of between one day and one month depending on the liquidity requirements of the Company. Peso time deposits earn interest with rates ranging from 3.5% to 7.5% while dollar time deposits earn interest rates with rates from 1.75% to 4.5%. Cash in banks generally earn interest at rates based on daily bank deposit rates. The Cash and Cash Equivalents account includes foreign currency denominated cash of US\$5,147,515 (P244,429,766) as of December 31, 2008 and US\$12,984,782 (P537,582,952) as of December 31, 2007.

5. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

	<u>2008</u>	<u>2007</u>
Reinsurance balances receivable:		
Reinsurance recoverable on losses	P 2,712,140,393	P 1,297,757,239
Due from ceding companies	1,668,805,661	1,630,803,800
Funds held by ceding companies	<u>112,053,192</u>	<u>87,074,452</u>
	4,492,999,246	3,015,635,491
Allowance for impairment	<u>(139,594,626)</u>	<u>(106,799,471)</u>
	<u>P 4,353,404,620</u>	<u>P 2,908,836,020</u>
Reinsurance balances payable:		
Claims payable	P 3,516,236,597	P 1,628,313,780
Due to retrocessionaires	1,105,595,785	981,270,895
Funds held for retrocessionaires	<u>83,803,155</u>	<u>61,605,778</u>
	<u>P 4,705,635,537</u>	<u>P 2,671,190,453</u>

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

A reconciliation of the allowance for impairment at beginning and end of 2008 and 2007 is shown below:

	Note	<u>2008</u>	<u>2007</u>
Balance at beginning of year		P 106,799,471	P 106,799,471
Impairment losses during the year	14	<u>32,795,155</u>	<u>-</u>
Balance at end of year		<u>P 139,594,626</u>	<u>P 106,799,471</u>

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

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2008</u>	<u>2007</u>
Bonds	P 4,720,548,819	P 4,479,540,250
Equity securities	424,397,280	581,920,970
Investment in Asian Re shares	84,355,004	69,410,454
Various funds	<u>55,284,786</u>	<u>86,667,704</u>
	<u>P 5,284,585,889</u>	<u>P 5,217,539,378</u>

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 2008 and 2007 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.

NOTES TO FINANCIAL STATEMENTS

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:

	<u>2008</u>	<u>2007</u>
Due within one year	P 440,727,669	P 12,546,691
Due after one year through five years	3,280,497,907	2,749,539,063
Due after five years through ten years	762,610,423	1,676,234,081
Due after ten years	<u>236,712,820</u>	<u>41,220,415</u>
	<u>P 4,720,548,819</u>	<u>P 4,479,540,250</u>

Bonds earn interest at annual rates ranging from 5% to 15% in 2008 and 3.5% to 15% in 2007. Changes in fair values of these bonds amounted to P16,237,175 (net decrease), and P128,016,627 (net increase) in 2008 and 2007, respectively, and are shown as part of Revaluation Reserves account in the statements of changes in equity (see Note 17).

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

	<u>2008</u>	<u>2007</u>
Cost:		
Quoted in the stock exchange	P 454,979,337	P 534,609,290
Not quoted in the stock exchange	<u>135,608,314</u>	<u>39,391,629</u>
	<u>590,587,651</u>	<u>574,000,919</u>
Fair value gains (losses):		
Quoted in the stock exchange	(159,205,907)	10,119,080
Not quoted in the stock exchange	<u>(6,984,464)</u>	<u>(2,199,029)</u>
	<u>(166,190,371)</u>	<u>7,920,051</u>
	<u>P 424,397,280</u>	<u>P 581,920,970</u>

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

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

The fair value of investments in Asian Re shares amounted to P84,355,004 and P69,410,454, as of December 31, 2008 and 2007, respectively. Changes in fair value recognized as part of Revaluation Reserves in the equity section of the balance sheets amounted to P42,428,753, net of deferred taxes amounting to P18,183,752 in 2008 and P31,661,470, net of deferred taxes amounting to P17,048,484 in 2007 (see Notes 16 and 17). The deferred tax was based on the tax rate of 30% and 35% in 2008 and 2007, respectively.

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

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	P 5,217,539,378	P 3,445,458,733
Additions	1,674,812,600	5,494,955,271
Disposals	(1,333,353,912)	(3,415,823,771)
Fair value losses	(344,189,814)	(200,730,657)
Foreign currency gains (losses)	<u>69,777,637</u>	<u>(106,320,198)</u>
Balance at end of year	<u>P 5,284,585,889</u>	<u>P 5,217,539,378</u>

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:

	<u>2008</u>	<u>2007</u>
Current:		
Accrued interest receivable	P 93,816,273	P 90,362,021
Others	<u>10,134,828</u>	<u>715,769</u>
	<u>103,951,101</u>	<u>91,077,790</u>
Non-current:		
Term loans	80,000,000	90,000,000
Loans receivable	<u>11,787,047</u>	<u>12,912,212</u>
	<u>91,787,047</u>	<u>102,912,212</u>
	<u>P 195,738,148</u>	<u>P 193,990,002</u>

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

Term loans pertain to the Company's participation in syndicated loans of other Companies. These loans are unsecured interest-bearing loans with a term of 4 to 5 years. The effective interest rate on these loans ranges from 6.38% to 6.90% in 2008 and 6.38% to 9.95% in 2007.

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

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

8. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation at the beginning and end of 2008 and 2007 are shown below:

	<u>Condominium Units</u>	<u>Office Improvements</u>	<u>Office Furnitures and Equipment</u>	<u>Transportation Equipment</u>	<u>EDP Equipment</u>	<u>Total</u>
December 31, 2008						
Cost	P 104,227,734	P 14,284,102	P 9,524,897	P 12,921,777	P 16,151,264	P 157,109,774
Accumulated depreciation	<u>(34,005,147)</u>	<u>(11,009,512)</u>	<u>(8,822,876)</u>	<u>(4,691,013)</u>	<u>(12,034,509)</u>	<u>(70,563,057)</u>
Net carrying amount	<u>P 70,222,587</u>	<u>P 3,274,590</u>	<u>P 702,021</u>	<u>P 8,230,764</u>	<u>P 4,116,755</u>	<u>P 86,546,717</u>
December 31, 2007						
Cost	P 104,227,734	P 14,284,102	P 9,524,897	P 12,720,170	P 14,978,758	P 155,735,661
Accumulated depreciation	<u>(30,977,327)</u>	<u>(9,870,207)</u>	<u>(8,553,973)</u>	<u>(4,337,959)</u>	<u>(10,668,149)</u>	<u>(64,407,615)</u>
Net carrying amount	<u>P 73,250,407</u>	<u>P 4,413,895</u>	<u>P 970,924</u>	<u>P 8,382,211</u>	<u>P 4,310,609</u>	<u>P 91,328,046</u>
January 1, 2007						
Cost	P 104,227,734	P 12,669,559	P 8,624,279	P 11,091,338	P 11,277,865	P 147,890,775
Accumulated depreciation	<u>(27,949,507)</u>	<u>(8,832,797)</u>	<u>(8,337,549)</u>	<u>(3,353,411)</u>	<u>(9,429,941)</u>	<u>(57,903,205)</u>
Net carrying amount	<u>P 76,278,227</u>	<u>P 3,836,762</u>	<u>P 286,730</u>	<u>P 7,737,927</u>	<u>P 1,874,924</u>	<u>P 89,987,570</u>

NOTES TO FINANCIAL STATEMENTS

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007, of property and equipment is shown below:

	<u>Condominium Units</u>	<u>Office Improvements</u>	<u>Office Furnitures and Equipment</u>	<u>Transportation Equipment</u>	<u>EDP Equipment</u>	<u>Total</u>
Balance at January 1, 2008, net of accumulated depreciation	P 73,250,407	P 4,413,895	P 970,924	P 8,382,211	P 4,310,609	P 91,328,046
Additions	-	-	-	3,208,607	1,172,506	4,381,113
Disposals	-	-	-	(355,500)	-	(355,500)
Depreciation charge for the year	(3,027,820)	(1,139,305)	(268,903)	(3,004,554)	(1,366,360)	(8,806,942)
Balance at December 31, 2008, net of accumulated depreciation	<u>P 70,222,587</u>	<u>P 3,274,590</u>	<u>P 702,021</u>	<u>P 8,230,764</u>	<u>P 4,116,755</u>	<u>P 86,546,717</u>
Balance at January 1, 2007, net of accumulated depreciation	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)
Balance at December 31, 2007, net of accumulated depreciation	<u>P 73,250,407</u>	<u>P 4,413,895</u>	<u>P 970,924</u>	<u>P 8,382,211</u>	<u>P 4,310,609</u>	<u>P 91,328,046</u>

9. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts is as follows:

	<u>Deferred Reinsurance Premiums</u>		<u>Reserve for Unearned Reinsurance Premiums</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Balance at beginning of year	P 1,348,262,605	P 1,371,157,013	P 1,845,503,599	P 1,816,299,487
Increase (decrease) during the year	(521,010,954)	(22,894,408)	(492,393,341)	29,204,112
Balance at end of year	<u>P 827,251,651</u>	<u>P 1,348,262,605</u>	<u>P 1,353,110,258</u>	<u>P 1,845,503,599</u>

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

Reserve for Unearned Reinsurance Premiums 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 Unearned Reinsurance Premiums for the year is presented as Increase in Reserve for Unearned Reinsurance Premiums in the income statements.

10. OTHER ASSETS

The Other Assets account includes the following:

	<u>2008</u>	<u>2007</u>
Investment property	P 38,575,009	P 40,905,056
Input value-added tax (VAT)	31,352,419	29,638,591
Creditable expanded withholding tax	16,774,651	5,297,029
Deferred withholding VAT	13,382,875	39,308,468
Prepayments	3,196,500	1,515,877
Deposit	573,907	690,392
Security fund	192,888	192,888
Others	5,395,837	5,075,072
	<u>P 109,444,086</u>	<u>P 122,623,373</u>

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

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

	Note	2008	2007
Balance at beginning of year		P 40,905,056	P 55,303,206
Depreciation charge for the year	14	(2,330,047)	(2,330,047)
Disposals		-	(12,068,103)
Balance at end of year		<u>P 38,575,009</u>	<u>P 40,905,056</u>

The estimated fair value of the building and improvements included in investment property is P39,690,000 while the related carrying value is P35,177,209. Rental income earned from investment property amounted to P 1,623,000 and P1,163,890 in 2008 and 2007, respectively, and is recorded as part of dividend and other income under Investment and Other Income account in the income statements (see Note 12).

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

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

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

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

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	2008	2007
Defined benefit liability	15.2	P 28,897,908	P 34,507,695
Accrued expenses		12,175,498	3,557,009
Accounts payable and other liabilities		2,523,962	1,328,698
Withholding taxes payable		<u>1,866,518</u>	<u>3,496,719</u>
		<u>P 45,463,886</u>	<u>P 42,890,121</u>

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

12. INVESTMENT AND OTHER INCOME

The details of this account follow:

	Notes	2008	2007	2006
Interest	6	P 375,001,848	P 340,942,749	P 253,234,383
Foreign exchange gain (loss)	23.4	115,273,826	(179,320,898)	(90,676,616)
Trading gain		2,121,968	155,174,302	52,673,670
Gain (loss) on sale of stocks		(69,305,125)	96,798,983	6,353,449
Gain on acquisition	1	-	-	51,295,702
Dividend and other income - net		<u>26,103,168</u>	<u>46,505,220</u>	<u>31,542,148</u>
		<u>P 449,195,685</u>	<u>P 460,100,356</u>	<u>P 304,422,736</u>

NOTES TO FINANCIAL STATEMENTS

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:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Commission expense	P 755,748,687	P 410,837,745	P 574,122,238
Reinsurance revenues	<u>(368,546,247)</u>	<u>(235,512,374)</u>	<u>(387,681,600)</u>
	<u>P 387,202,440</u>	<u>P 175,325,371</u>	<u>P 186,440,638</u>

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

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

14. GENERAL AND ADMINISTRATIVE EXPENSES

The details of this account follow:

	<u>Notes</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Salaries and employee benefits	15	P 120,973,281	P 87,159,520	P 113,956,187
Impairment loss	5	32,795,155	-	57,514,733
Professional fees		12,514,848	10,317,532	5,278,745
Depreciation	8, 10	11,136,989	10,157,716	8,679,824
Taxes, licenses and fees		6,186,789	3,023,875	3,221,350
Representation and entertainment		4,529,918	5,937,631	5,902,040
Transportation and traveling		3,667,552	4,395,209	3,446,644
Association and pool expense		3,048,624	3,218,565	689,293
Advertising and publicity		2,591,942	1,899,738	210,224
Light and water		2,585,523	2,615,693	2,535,206
Communication and postages		2,175,849	2,417,226	1,709,917
Contract labor		2,047,780	2,717,304	985,466
Printing and office supplies		1,366,681	2,147,068	2,111,219
Repairs and maintenance		1,265,954	1,231,964	3,263,955
Insurance		1,000,891	778,035	957,337
Miscellaneous		3,766,310	7,025,857	8,696,623
		<u>P 211,654,086</u>	<u>P 145,042,933</u>	<u>P 219,158,763</u>

15. EMPLOYEE BENEFITS

15.1 Salaries and Employee Benefits Expense

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Salaries and wages	P 69,435,531	P 55,788,137	P 45,201,343
Allowances and bonus	32,863,235	21,081,790	18,554,657
Retirement	9,049,330	4,124,115	35,601,366
Compensated absences	3,780,157	1,952,436	5,731,876
Social security costs	1,743,830	1,648,059	1,407,106
Separation benefits	-	-	1,593,946
Others	4,101,198	2,564,983	5,865,893
	<u>P 120,973,281</u>	<u>P 87,159,520</u>	<u>P 113,956,187</u>

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 (presented as part of Accounts Payable and Accrued Expenses – see Note 11) recognized in the balance sheets are determined as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Present value of the obligation	P 129,757,565	P 62,132,830	P 51,174,809
Fair value of plan assets	(32,808,081)	(30,090,823)	(19,836,800)
Deficiency of plan assets	96,949,484	32,042,007	31,338,009
Unrecognized actuarial gains (losses)	(68,051,576)	2,465,688	2,465,688
Defined benefit liability	<u>P 28,897,908</u>	<u>P 34,507,695</u>	<u>P 33,803,697</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance at beginning of year	P 62,132,830	P 51,174,809	P 24,158,148
Actuarial (gains) losses	65,909,823	-	(13,299,169)
Current service cost and interest cost	11,456,596	10,958,021	11,795,895
Benefits paid by the plan	(9,741,684)	-	(13,817,041)
Past service cost	-	-	19,768,521
Actuarial adjustment	-	-	16,276,913
Adjustment for curtailment	-	-	6,291,542
Balance at end of year	<u>P 129,757,565</u>	<u>P 62,132,830</u>	<u>P 51,174,809</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance at beginning of year	P 30,090,823	P 19,836,800	P 18,955,928
Contributions paid into the plan	14,659,117	1,611,044	1,635,607
Benefits paid by the plan	(9,741,684)	-	(13,817,041)
Actuarial gains (losses)	(4,607,441)	-	9,766,433
Expected return on plan assets	2,407,266	6,833,906	1,648,282
Actuarial adjustment	-	1,809,073	1,647,591
Balance at end of year	<u>P 32,808,081</u>	<u>P 30,090,823</u>	<u>P 19,836,800</u>

The plan assets as of December 31, 2008 consist of cash and cash equivalents amounting P10,960,386; government securities amounting P21,170,950; loans and receivables amounting P278,357 and; equity securities amounting P398,388.

Actual return on plan assets was nil in 2008.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current service costs	P 7,107,298	P 5,150,951	P 5,173,501
Interest costs	4,349,298	5,807,070	6,622,394
Expected return on plan assets	(2,407,266)	(6,833,906)	(1,648,282)
Past service cost	-	-	19,768,521
Curtailement cost	-	-	6,291,542
Net actuarial gain recognized during the year	-	-	(606,310)
	<u>P 9,049,330</u>	<u>P 4,124,115</u>	<u>P 35,601,366</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Discount rates	9%	7%	11%
Expected rate of return on plan assets	8%	8%	8%
Expected rate of salary increase	8%	6%	8%

NOTES TO FINANCIAL STATEMENTS

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

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

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Present value of the obligation	P 129,757,565	P 62,132,830	P 51,174,809	P 24,158,148	P 15,244,406
Fair value of the plan assets	<u>32,808,081</u>	<u>30,090,823</u>	<u>19,836,800</u>	<u>18,955,928</u>	<u>15,541,394</u>
Deficit (excess) in the plan	<u>P 96,949,484</u>	<u>P 32,042,007</u>	<u>P 31,338,009</u>	<u>P 5,202,220</u>	<u>(P 296,988)</u>

16. TAXES

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<i>Reported in income statements</i>			
Current tax expense:			
Final tax at 20% and 7.5%	P 73,065,054	P 59,193,182	P 38,077,014
Regular corporate income tax (RCIT) at 35%	-	9,754,774	-
Minimum corporate income tax (MCIT) at 2%	-	-	3,325,133
	<u>73,065,054</u>	<u>68,947,956</u>	<u>41,402,147</u>
Deferred tax expense (income)			
Deferred tax relating to origination and reversal of temporary differences	(12,827,858)	27,608,157	(44,080,565)
Deferred tax resulting from in reduction in tax rate	<u>10,081,787</u>	<u>-</u>	<u>-</u>
	<u>(2,746,071)</u>	<u>27,608,157</u>	<u>(44,080,565)</u>
	<u>P 70,318,983</u>	<u>P 96,556,113</u>	<u>(P 2,678,418)</u>
<i>Reported in statements of changes in equity</i>			
Deferred tax relating to origination and reversal of temporary difference	P 3,570,766	P 2,200,803	P 4,282,973
Deferred tax resulting from reduction in tax rate	(2,435,498)	-	-
	<u>P 1,135,268</u>	<u>P 2,200,803</u>	<u>P 4,282,973</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Tax on pretax income at 35%	P 57,666,841	P 247,089,314	P 95,288,537
Adjustment for income subjected to lower tax rates	<u>73,065,054</u>	<u>59,193,182</u>	<u>38,077,014</u>
Tax effects of:			
Interest income subjected to final tax	(129,000,325)	(116,555,265)	(86,383,109)
Non-taxable income	(9,805,399)	(93,771,726)	(41,279,761)
Unrecognized deferred tax assets	42,491,935	-	-
Non-deductible expenses	25,819,090	1,233,784	1,231,609
Reduction in deferred tax rate	10,081,787	-	-
Separation pay	-	(633,176)	(11,393,461)
Derecognized deferred tax assets	-	-	1,780,753
Tax expense (income) reported in the income statements	<u>P 70,318,983</u>	<u>P 96,556,113</u>	<u>(P 2,678,418)</u>

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

	Balance Sheets		Statements of Income		Changes in Equity	
	2008	2007	2008	2007	2008	2007
Deferred tax assets:						
Allowance for impairment	P 31,202,588	P 24,924,715	(P 6,277,873)	P -	P -	P -
Net operating loss carryover (NOLCO)	59,665,559	-	(59,665,559)	131,284	-	-
Unrealized foreign exchange (gain) loss	(26,399,756)	21,069,751	47,469,507	(397,850)	-	-
Past service cost	11,627,720	12,913,660	1,285,940	(851,877)	-	-
Accrued leave benefits	851,818	764,763	(87,055)	198,482	-	-
MCIT	184,964	184,964	-	4,160,338	-	-
Deferred tax liabilities:						
Excess of reserves for unearned reinsurance premiums per books over tax basis	(38,151,166)	(23,226,585)	14,924,581	14,049,782	-	-
Deferred acquisition costs	(20,797,975)	(21,193,587)	(395,612)	10,317,998	-	-
Revaluation reserves on available- for sale investments (see Note 17.4)	(18,183,752)	(17,048,484)	-	-	1,135,268	2,200,803
Deferred Tax Expense (Income)			(P 2,746,071)	P 27,608,157	P 1,135,268	P 2,200,803
Net Deferred Tax Assets (Liabilities)	P -	(P 1,610,803)				

The Company has NOLCO in 2008 amounting to P340,524,979 which can be used as deduction against taxable income until 2011. However, the Company recognized the corresponding deferred tax asset relating to this NOLCO only to the extent that it expects to have sufficient taxable profit that will be available against which the NOLCO can be utilized. Of the total deferred tax asset for this NOLCO amounting to P102,157,494 only P59,665,559 was recognized in 2008. The Company's NOLCO in 2006 of P375,098 was claimed as deduction against the 2007 taxable income.

The Company is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations. No MCIT was recognized in 2008 as the Company incurred a gross loss. No MCIT was recognized also in 2007 as the RCIT was higher than MCIT. In 2006, MCIT was recognized amounting to P3,325,133, of which P184,964 is still unutilized and can be claimed as deduction against RCIT up to 2009. The Company's MCIT incurred in previous years totaling P4,160,338 was claimed as deduction against the 2007 RCIT.

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

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 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.

NOTES TO FINANCIAL STATEMENTS

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

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

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, 2008	P 192,561,992	(P 17,048,484)	P 175,513,508
Fair value losses	(276,560,729)	(3,570,766)	(280,131,495)
Fair value gains recognized to income	(67,629,084)	-	(67,629,084)
Effect of reduction in tax rate	-	2,435,498	2,435,498
Balance as of December 31, 2008	<u>(P 151,627,821)</u>	<u>(P 18,183,752)</u>	<u>(P 169,811,573)</u>
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	<u>P 192,561,992</u>	<u>(P 17,048,484)</u>	<u>P 175,513,508</u>
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	<u>P 393,292,649</u>	<u>(P 14,847,681)</u>	<u>P 378,444,968</u>

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, 10% of such profit shall be set aside as additional reserve for contingencies. The reserve balance, which is shown as Appropriated under Retained Earnings account in the statements of changes in equity, should not exceed, at any time, the amount of paid-up capital. The balance of appropriation for contingencies amounted to P221,334,777 and P211,890,435 as of December 31, 2008 and 2007, respectively.

17.6 Declaration of Cash Dividends

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

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 as described below.

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:

	2008	2007
Premiums	P 1,769,510,024	P 1,891,455,734
Retrocessions	67,839,767	171,636,173
Commission income	16,649,404	49,791,886
Commission expenses	201,305,754	143,337,321
Losses incurred	118,141,064	184,300,125
Loss recoveries	11,949,042	71,662,426

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

	<u>2008</u>	<u>2007</u>
Due from ceding companies	P 554,211,494	P 286,602,592
Reinsurance recoverable on losses	33,196,941	44,021,458
Funds held by ceding companies	45,448,771	41,624,688
Due to retrocessionaires	(36,881,959)	33,711,667
Funds held for retrocessionaires	(112,727)	494,191

The balance of due from ceding companies pertaining to related parties is presented net of P41,204,725 and P10,788,045 allowance for impairment as of December 31, 2008 and 2007, respectively.

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:

	<u>2008</u>	<u>2007</u>
Time deposits	P 205,056,480	P 44,801,350
Savings and current accounts	<u>3,451,311</u>	<u>2,643,745</u>
	<u>P 208,507,791</u>	<u>P 47,445,095</u>

18.3 Investment Management and Custodianship

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

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	P 9,005,099	P 1,784,436
Loans and receivables	80,000,000	90,000,000
Available-for-sale investments	<u>1,028,945,237</u>	<u>1,194,525,531</u>
	<u>P 1,117,950,336</u>	<u>P 1,286,309,967</u>

For the services rendered, the Company pays BPI service fees equivalent to a certain percentage of the market value of the investments. Total service fees paid for the years ended December 31, 2008 and 2007 amounted to P2,569,822 and P2,943,434, respectively and is charged against Investment and Other Income in the income statements.

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, another related party, as additional trustee of its employee's retirement plan.

18.5 Key Management Personnel Compensation

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Short-term benefits	P 61,642,735	P 43,287,218	P 32,365,020
Post-employment benefits	<u>2,238,886</u>	<u>1,948,613</u>	<u>970,130</u>
	<u>P 63,881,621</u>	<u>P 45,235,831</u>	<u>P 33,335,150</u>

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.

NOTES TO FINANCIAL STATEMENTS

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:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
PFRS net income	P 94,443,421	P 609,413,356	P 274,931,380
Difference in change in reserve for unearned reinsurance premiums – net	(60,808,883)	(40,142,234)	(18,407,720)
Deferred acquisition costs – net	(8,773,478)	(29,479,995)	20,174,827
Tax effect of the adoption of PFRS accounting	<u>20,874,708</u>	<u>24,367,780</u>	<u>(618,487)</u>
Statutory net income	<u>P 45,735,768</u>	<u>P 564,158,907</u>	<u>P 276,080,000</u>

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:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net income available to common shareholders	P 94,443,421	P 609,413,356	P 274,931,380
Divided by the average number of outstanding common shares	<u>2,176,922,899</u>	<u>1,980,809,514</u>	<u>1,400,893,200</u>
	<u>P 0.04</u>	<u>P 0.31</u>	<u>P 0.20</u>

Diluted earnings per share is not determined since the Company does not have dilutive shares as of December 31, 2008, 2007 and 2006.

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 contract was renewed on February 24, 2009. The future minimum rentals payable under this non-cancellable operating lease as of December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Within one year	P 882,771	P 866,423
After one year but not more than five years	<u>1,147,602</u>	<u>220,693</u>
	<u>P 2,030,373</u>	<u>P 1,087,116</u>

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, 2008 per line of risk are shown below.

Line of Risk	Reinsurance Premiums	Retroceded Premiums	Retention
Fire	P 944,039,580	P 593,294,587	P 350,744,993
Marine and aviation	784,010,071	262,731,015	521,279,056
Casualty	2,254,804,278	1,823,281,187	431,523,091
Life	510,650,466	234,240,131	276,410,335
	P 4,493,504,395	P 2,913,546,920	P 1,579,957,475

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.

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The Company's outstanding claims and the retrocessionaires' share in such claims as of December 31, 2008 are shown below:

Line of Risk		Outstanding Claims		Retrocessionaires' Share in Claims		Net
Fire	P	1,112,747,503	P	735,371,100	P	377,376,403
Marine and aviation		1,214,932,522		708,955,720		505,976,802
Casualty		1,142,332,966		946,099,332		196,233,634
Life		46,223,606		12,873,227		33,350,379
	P	3,516,236,597	P	2,403,299,379	P	1,112,937,218

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 balance sheets (or in the detailed analysis provided in the notes to the financial statements), as summarized below:

	Notes	2008	2007
Cash and cash equivalents		P 1,138,523,219	P 1,344,872,579
Reinsurance balances receivable - net	5	4,353,404,620	2,908,836,020
Available-for sale financial assets	6	5,284,585,889	5,217,539,378
Loans and receivables	7	195,738,148	193,990,002
		P 10,972,251,876	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.

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

Cash in banks and time deposits are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P250,000 for every depositor per banking institution. Other financial assets are not secured by any collateral or other credit enhancements.

Financial assets amounting to P686,668,863 and P527,031,353 as of December 31, 2008 and 2007, respectively, are past due but not impaired.

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, 2008, the Company's obligations arising from reinsurance agreements and other financial liabilities have contractual maturities which are presented below:

	<u>Current</u>	<u>Non-current</u>
Reinsurance balances payable	P 3,841,246,415	P 864,389,122
Accounts payable and accrued expenses	<u>16,565,978</u>	<u>28,897,908</u>
	<u>P 3,857,812,393</u>	<u>P 893,287,030</u>

This compares to the maturity of the Company's financial liabilities as of December 31, 2007 as follows:

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

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 gains of P115,273,826 in 2008 and net foreign exchange losses of P179,320,898 in 2007 and P90,676,616 in 2006 (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, South Korean won, Pakistan rupee, Japanese yen, Thailand baht, China yuan, Nepalese rupee, Euro, Indian rupee, Malaysian ringgit, Myanmar kyat, Singaporean dollars, Hongkong dollars, Sri Lankan rupee, British pound, Australian dollars and Swiss franc. The Company also holds US dollar-denominated cash and cash equivalents and investment in equity securities.

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

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

	<u>2008</u>		<u>2007</u>	
	<u>U.S. Dollar</u>	<u>Other Currencies</u>	<u>U.S. Dollar</u>	<u>Other Currencies</u>
Financial assets	P 1,529,236,678	P 180,140,323	P 1,290,440,554	P 74,221,140
Financial liabilities	<u>(729,842,749)</u>	<u>(22,751,723)</u>	<u>(475,088,763)</u>	<u>(25,195,854)</u>
Total net exposure	<u>P 799,393,929</u>	<u>P 157,388,600</u>	<u>P 815,351,791</u>	<u>P 49,025,286</u>

NOTES TO FINANCIAL STATEMENTS

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

	2008			2007		
	Reasonably possible change in rate	Effect in income before tax	Effect in equity before tax	Reasonably possible change in rate	Effect in income before tax	Effect in equity before tax
PhP - United States Dollars	26.13%	(P 186,809,727)	(P 22,038,430)	20.72%	(P 106,184,731)	(P 31,386,566)
PhP - Japanese Yen	49.16%	(24,792,536)	-	39.96%	(77,389)	-
PhP - Indonesian Rupiah	46.19%	(15,590,914)	-	27.18%	(7,514,852)	-
PhP - Thailand Baht	51.58%	(13,785,763)	-	37.15%	(2,312,479)	-
PhP - South Korean Won	71.88%	(5,696,305)	-	16.55%	(132,137)	-
PhP - Euro	41.68%	(5,454,359)	-	22.36%	(615,090)	-
PhP - China Yuan	45.50%	(2,278,914)	-	-	-	-
PhP - Malaysian Ringgit	23.39%	(1,562,330)	-	13.93%	(539,450)	-
PhP - Myanmar Kyat	28.13%	(1,485,741)	-	-	-	-
PhP - Singaporean Dollars	25.71%	(1,086,978)	-	17.95%	(1,033,785)	-
PhP - Pakistan Rupee	34.15%	(701,509)	-	-	-	-
PhP - Indian Rupee	39.79%	(665,062)	-	20.18%	(291,525)	-
PhP - Nepalese Rupee	33.98%	(319,671)	-	-	-	-
PhP - Hongkong Dollars	26.10%	(124,564)	-	24.12%	(72,730)	-
PhP - Sri Lankan Rupee	29.03%	(18,364)	-	-	-	-
PhP - British pound	43.16%	(12,054)	-	26.32%	(8,613)	-
PhP - Australian dollar	54.91%	(111)	-	-	-	-
PhP - Swiss Franc	43.16%	(2)	-	33.18%	(133)	-
Total		(P 260,384,904)	(P 22,038,430)		(P 118,782,914)	(P 31,386,566)

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

(b) Market Price Risk

The Company's investments are regulated under the pertinent provisions of Presidential Decree No. 1460 (as amended), otherwise known as The Insurance Code of the Philippines. The Insurance Code generally requires all insurance companies to obtain prior approval of the 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 PSE. Furthermore, these listed companies must have profitable business operations and market capitalizations which are on a scale that would qualify them as blue chips.

The Investment Committee regularly reviews and approves a list of publicly traded stocks authorized for investments on the basis of the foregoing considerations. Furthermore, the Investment Committee seeks to avoid unwarranted concentration of funds in a single asset class by regularly monitoring and limiting the proportion of equity investments to the Company's total investment portfolio. As of December 31, 2008 and 2007 investments in listed equities amounted to 6% and 12%, respectively, of the Company's total investment portfolio.

The observed volatility rates of the fair values of the Company's investments held at fair value and their impact on the Company's net income and equity as of December 31, 2008 and 2007 are summarized as follows:

	2008		2007	
	Observed Volatility Rates	Effect in Equity Before Tax	Observed Volatility Rates	Effect in Equity Before Tax
Government bonds	7.17%	P 297,084,029	2.30%	P 69,929,758
Equity securities listed in the Philippines				
Common shares	35.15%	103,960,460	27.39%	120,500,879
Preferred shares	1.84%	1,839,185	9.91%	1,190,481
Long-term negotiable instruments	2.96%	5,925,810	0.65%	16,693,812
Mutual funds	16.50%	12,954,400	15.47%	8,094,997
Corporate bonds	0.89%	44,948	6.56%	15,100,344
Golf club shares	0.00%*	-	28.47%	555,209
		<u>P 421,808,832</u>		<u>P 232,065,480</u>

* No data on the market values of these club shares were available.

(c) Interest Rate Risk

The Company is exposed to interest rate risk because of its fixed income investments which amounted to approximately 92% and 84% of the Company's total investment portfolio as of December 31, 2008 and 2007, respectively. The Company attempts to limit interest rate risk by establishing limits on the duration and average maturity of its fixed income portfolio. As a general rule, the Company does not attempt to speculate (i.e., profit from short term changes or volatility in market conditions). Investments in fixed income securities are made primarily to ensure adequate cash flow from investments to meet cash requirements, both anticipated and unanticipated. Consequently, the investment portfolio is structured so that instruments mature concurrently with cash needs. Moreover, the investments in fixed income securities are limited to those with active secondary or resale markets to allow for transparent valuation and immediate liquidation in the event of market turmoil.

24. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	Notes	2008		2007	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets					
Cash and receivables:					
Cash and cash equivalents	4	P 1,149,558,287	P 1,149,558,287	P 1,346,912,651	P 1,346,912,651
Reinsurance balances receivables	5	4,353,404,620	4,353,404,620	2,908,836,020	2,908,836,020
Loans and receivables	7	195,738,148	195,738,148	193,990,002	193,990,002
		<u>P 5,698,701,055</u>	<u>P 5,698,701,055</u>	<u>P 4,449,738,673</u>	<u>P 4,449,738,673</u>
Available-for-sale financial assets:					
Debt securities	6	P 4,720,548,819	P 4,720,548,819	P 4,479,540,250	P 4,479,540,250
Equity securities	6	424,397,280	424,397,280	581,920,970	581,920,970
Investment in Asian Re shares	6	84,355,004	84,355,004	69,410,454	69,410,454
Various funds	6	55,284,786	55,284,786	86,667,704	86,667,704
		<u>P 5,284,585,889</u>	<u>P 5,284,585,889</u>	<u>P 5,217,539,378</u>	<u>P 5,217,539,378</u>
Financial Liabilities					
Financial liabilities at amortized cost:					
Reinsurance balances payable	5	P 4,705,635,537	P 4,705,635,537	P 2,671,190,453	P 2,671,190,453
Accounts payable and other accrued expenses	11	45,463,886	45,463,886	42,890,121	42,890,121
		<u>P 4,751,099,423</u>	<u>P 4,751,099,423</u>	<u>P 2,714,080,574</u>	<u>P 2,714,080,574</u>

NOTES TO FINANCIAL STATEMENTS

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:

25.1 Minimum Capitalization

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

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
Minimum statutory net worth	P	1,250,000,000	P	1,000,000,000
Minimum paid-up capital		625,000,000		500,000,000

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.

25.2 Risk-Based Capital Requirements

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

25.3 Limitation on Dividend Declaration

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

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

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

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

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

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



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