



# NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

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

December 17, 2008

**THE PHILIPPINE STOCK EXCHANGE, INC.**

Philippine Stock Exchange Centre  
Exchange Road, Ortigas Center  
Pasig City

Attention: Atty. Pete M. Malabanan  
Head, Disclosure Department

Gentlemen:

Attached is PhilNaRe's SEC Form 17-C filing in connection with the SEC's comments on certain accounting disclosures relative to the Company's 2007 audited financial statements.

Sincerely,



**JOHN E. HUANG**  
Senior Vice President/CFO

# COVER SHEET

8 0 1 1 8

SEC Registration Number

NATIONAL REINSURANCE  
CORPORATION OF THE PHILIPPINES

(Company's Full Name)

18TH FLOOR PHILIPPINE AXA LIFE  
CENTRE SEN. GIL PUYAT MAKATI

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

Mr. Armando Malabanan  
Contact Person

888-4398  
Company Telephone Number

1 2    3 1  
Month    Day

Fiscal Year

Letter dated December 11, 2008

FORM TYPE

June 23, 2008  
Month    Day

Annual Meeting

Secondary License Type, If Applicable

C F D  
Dept Requiring this Doc

Total Amount of Borrowings

Total No. of Stockholders

Domestic    Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

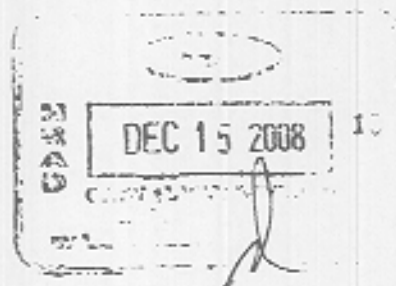
STAMPS

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December 11, 2008

**Securities and Exchange Commission**SEC Building  
EDSA, Mandaluyong CityAttention: **Atty. Ma. Gracia Casals-Diaz**  
Officer-in-Charge  
Office of the General Accountant

Gentlemen:

**Re: 2007 Audited Financial Statements**

We reply to your letter dated November 25, 2008, advising the National Reinsurance Corporation of the Philippines (the "Corporation") of certain findings pertaining to its Audited Financial Statements for the year ending December 31, 2007, and requiring the Corporation to submit its explanation thereon.

In compliance with your requirement, we hereby provide the following explanation on each of the findings mentioned in your letter dated November 25, 2008:

**Finding 1:** There is no disclosure of the company's parent or ultimate controlling party or individual (PAS 24).

**Response:** The Company has no parent company or ultimate controlling party.

**Finding 2:** There are no disclosures on what the "24<sup>th</sup> method" is and the relevant provisions of the Insurance Code that impact on the company's revenue recognition from marine cargo insurance contracts.

**Response:** The 24<sup>th</sup> method is one of the revenue recognition for premiums which is suggested by SFAS 27, *Accounting and Reporting for the Nonlife Insurance Industry*. The description of the said method has already been stated in the relevant accounting standard; hence, detailed information pertaining to this method of revenue recognition need not be disclosed further in the notes to the financial statements.

The revenue recognition on marine cargo insurance contracts as set forth in the Insurance Code is to recognize revenues for the current year from premiums written during the first ten months of the current year and the last two months of the preceding year. The inclusion of this description will be considered in the financial statements for subsequent years.

**Finding 3:** The treatment of estimated recoveries on claims as part of "Reinsurance Balances Receivable" should be clarified. Receivables are not allowed to be recognized unless their realization is virtually certain.

**Response:** As disclosed in Note 2.9, share in recoveries on claims are evaluated in terms of the estimated realizable values. These recoveries pertain to the retrocessionaires' share in the losses incurred by the assured as covered by policies which the Company has ceded/transferred out to other reinsurers. The collectability of these recoverables, though amounts are based on estimates, is probable, thus receivable recognition is appropriate. We will consider adopting a more descriptive account name for the retrocessionaires' share in the losses incurred in our subsequent financial statements.

**Finding 4:** The description of the account "Reserve for Unexpired Risks" and the explanation of changes in the account do not support the conclusion that a liability adequacy test was conducted by the company, as required by PFRS 4, paragraph 15. There is thus a potential gross understatement of the company's liabilities. The use of the term "Reserve for Unexpired Risks" appears misleading. Based on the disclosed description, the account refers to unearned insurance premium.

**Response:** The liability adequacy test is appropriately performed on claims payable which are presented under Reinsurance Balances Payable.

As disclosed in the notes to the financial statements, Reserve for Unexpired Risks is the portion of reinsurance premiums assumed that relate to the unexpired periods of the policies at balance sheet date hence, the balance of this account represents unearned reinsurance premium and not a liability so there is no need for a liability adequacy test, as such is required to be appropriately performed for the claims payable account.

The use of the account name "Unearned Reinsurance Premiums" will be considered in future financial statements so as not to appear misleading.

**Finding 5:** There is no disclosure of income earned from, direct operating expense, and fair value of investment property (PAS 40).

**Response:** The total carrying amounts of investment property is deemed insignificant as of December 31, 2007. Nevertheless, the relevant disclosures arising from the requirements of the mentioned standard will be considered in the financial statements for subsequent years.

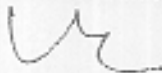
We likewise submit herewith a copy of the resolution, as recommended by the Audit Committee and adopted by the Board of Directors of the Corporation on December 11, 2008, approving the foregoing explanation.

We trust that the foregoing sufficiently addresses your requirements. Should you have further questions or clarifications, please let us know.

Thank you.

Very truly yours,

**NATIONAL REINSURANCE CORPORATION  
OF THE PHILIPPINES**



**WILFRIDO C. BANTAYAN**  
President & C.E.O.

end: a/s

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REPUBLIC OF THE PHILIPPINES )  
CITY OF MAKATI ) S.S.

**SECRETARY'S CERTIFICATE**

I, **ZENAIDA L. SALIPSIP**, of legal age, Filipino, married, with office address at the 4<sup>th</sup> Floor, The Valero Tower, 122 Valero Street, Salcedo Village, Makati City, Metro Manila, after having been sworn in accordance with law hereby depose and state that:

1. I am the Assistant Corporate Secretary of **National Reinsurance Corporation of the Philippines** (the "Corporation"), doing business under the names and styles of Philippine National Reinsurance Company; PhilNaRe, a corporation duly organized and existing under the laws of the Philippines, with office at the 18<sup>th</sup> Floor, Philippine AXA Life Centre, Sen. Gil J. Puyat Avenue corner Tindalo Street, Makati City;
2. In a regular meeting of the Board of Directors of the Corporation held on December 11, 2008, the following resolution was approved:

"WHEREAS, the Corporation received a letter dated 25 November 2008 from the Office of the General Accountant ("OGA"), Securities and Exchange Commission ("SEC"), notifying the Corporation of the following findings on the Corporation's Audited Financial Statements for the year ending December 31, 2007:

- There is no disclosure of the company's parent or ultimate controlling party or individual (PAS 24).
- There are no disclosures on what the "24<sup>th</sup> method" is and the relevant provisions of the Insurance Code that impact on the company's revenue recognition from marine cargo insurance contracts.
- The treatment of estimated recoveries on claims as part of "Reinsurance Balances Receivable" should be clarified. Receivables are not allowed to be recognized unless their realization is virtually certain.
- The description of the account "Reserve for Unexpired Risks" and the explanation of changes in the account do not support the conclusion that a liability adequacy test was conducted by the company, as required by PFRS 4, paragraph 15. There is thus a potential gross understatement of the company's liabilities. The use of the term "Reserve for Unexpired Risks" appears misleading. Based on the disclosed description, the account refers to unearned insurance premium.
- There is no disclosure of income earned from, direct operating expense, and fair value of investment property (PAS 40).

WHEREAS, the Corporation was advised to submit an explanation on the above findings and the corrective measures to be taken thereon by the Corporation;

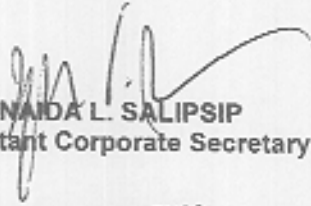
WHEREAS, the Corporation's Audit Committee, in its meeting held on December 11, 2008, discussed the said findings, and has recommended to the Board the appropriate response to the OGA-SEC for each of the findings;

NOW THEREFORE, after due consideration of the foregoing findings, the Board of Directors of the Corporation resolved, as it hereby resolves, to authorize the

Corporation to submit a copy of the Corporation's response to the above findings of the OGA-SEC, a copy of which is attached as Annex "A" hereof;

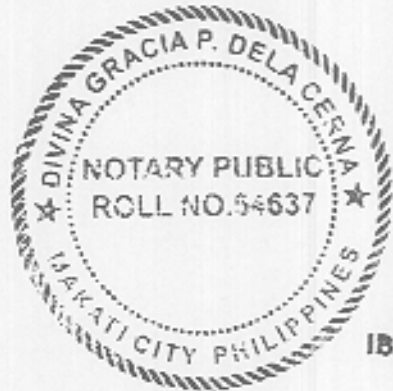
RESOLVED, FURTHER, to authorize the President, Mr. Wilfrido C. Bantayan, or the Chief Finance Officer, Mr. John Huang, to sign, execute and deliver, any and all documents which may be required by the OGA-SEC in connection with the foregoing matter, including a letter explanation and Board resolution in order to comply with the said SEC letter."

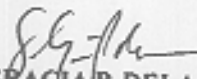
IN WITNESS WHEREOF, I hereunto affixed my signature this DEC 15 2008, at Makati City, Metro Manila.

  
ZENAIDA L. SALIPSIP  
Assistant Corporate Secretary

SUBSCRIBED AND SWORN TO before me this DEC 15 2008 by affiant whose identity I have confirmed through her Passport No. UU0478598 issued on January 15, 2007 at Manila, bearing the affiant's photograph and signature, and who showed to me her Community Tax Certificate No. 192888816 issued at Makati City on January 24, 2008.

Doc. No. 104  
Page No. 22  
Book No. 111  
Series of 2008.



  
DIVINA GRACIA P. DELA CERNA  
Appointment No. M-591  
Notary Public - City of Makati  
Until 31 December 2008  
Castillo Laman Tan Pantaleon  
& San Jose Law Firm  
The Valero Tower, 122 Valero Street  
Salcedo Village, Makati City  
PTR No. 0983279;01-02-08;Makati City  
IBP No. 728835;01-02-08;Makati City  
Roll No. 54637