

PHILIPPINE HEALTH INSURANCE CORPORATION

Broadening Horizons

ANNUAL REPORT 2006

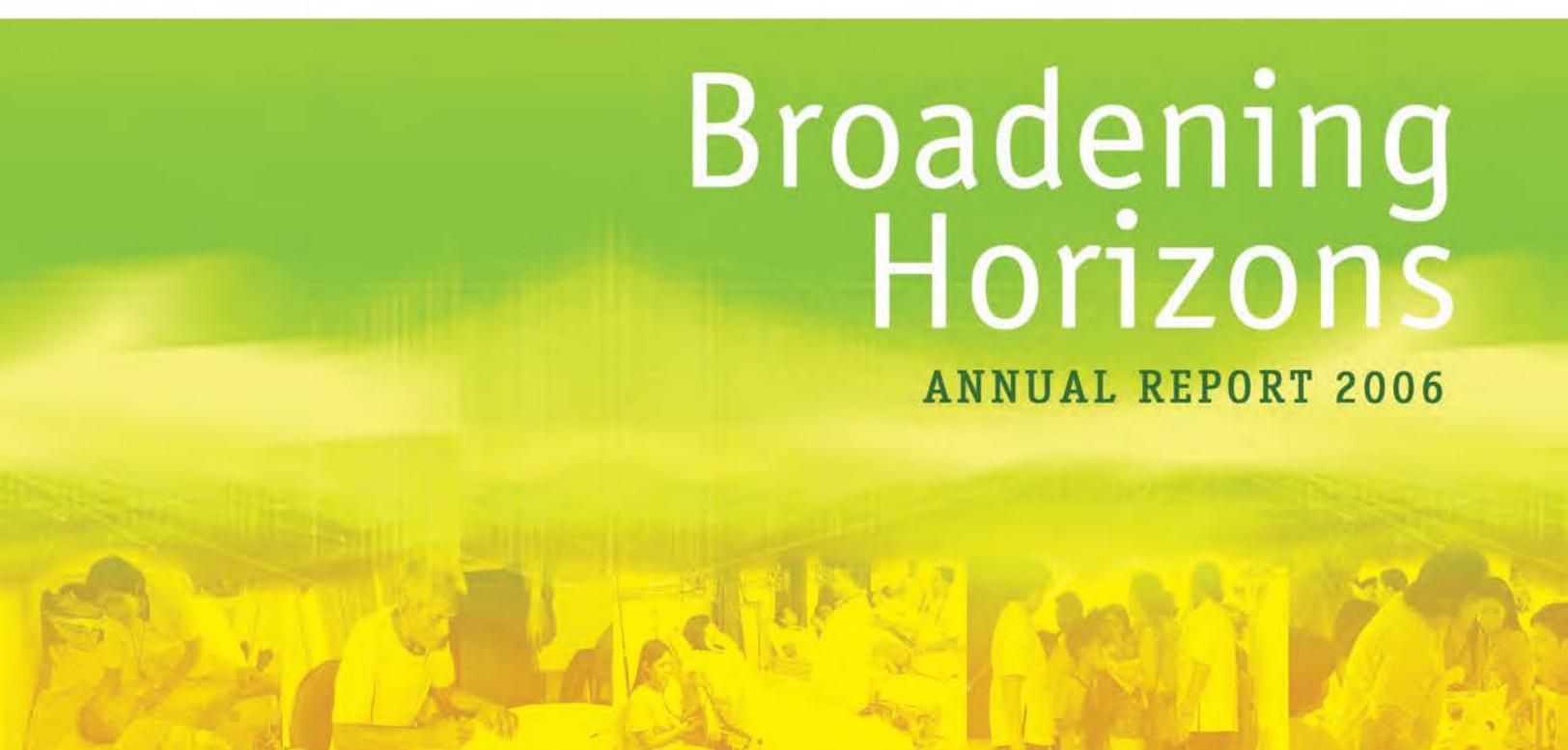
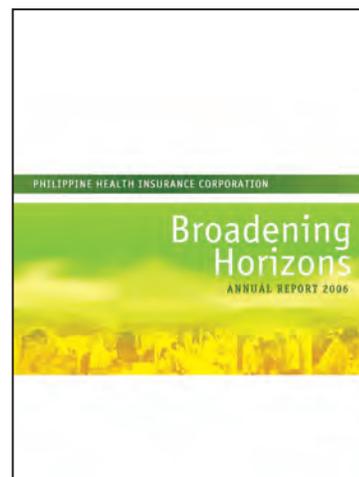


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BROADENING HORIZONS

PhilHealth, on its 11th year, extends further its frontiers. Aside from providing need-responsive benefits, it continues to enhance systems within and adopt new strategies to provide good quality health care services to its stakeholders. Backed up by Proclamation 994, it pursues its commitment to attain its mandate to provide universal health insurance coverage. The largest social health insurer remains to be a dynamic Corporation as evidenced by its 68 million beneficiaries, representing 79% of the total population of the Philippines.

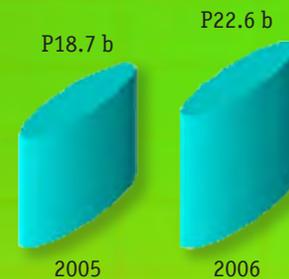


Financial Highlights

COLLECTIONS

2006	-	P 22,579,590,653
2005	-	P 18,735,504,649

Buoyed by the increasing confidence on the National Health Insurance Program, PhilHealth collections remained robust in 2006 as it posted a 21% growth over 2005.



BENEFIT PAYMENTS

2006	-	P 17,200,879,570
2005	-	P 17,511,410,725

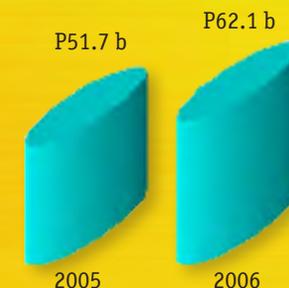
Benefit payments reached P17.2 billion in 2006. PhilHealth revised its benefit schedule to be more responsive to the needs of its members. This includes revised case-typing system and unified benefit schedule for all PhilHealth member categories including overseas worker members.



INVESTMENTS

2006	-	P 62,087,251,450
2005	-	P 51,699,296,594

As the steward of the members' premium contributions, PhilHealth ensures the soundness of its investment policies. PhilHealth's investments reached more than P62 billion, up by 20% over 2005.



From the President of the Philippines



Warmest greetings to the officials and employees of the Philippine Health Insurance Corporation (PhilHealth) as you release your 2006 PhilHealth Annual Report.

Through your corporate zeal and effective management, some 4.48 million poor Filipino families are now enrolled with PhilHealth. I am pleased that you have always lived up to your mandate as provider of health insurance benefits to our countrymen. Because of this, the whole PhilHealth staff should be commended.

As you discover new ways to help our fellow Filipinos, especially those in the remote areas, to gain access to quality and affordable health services, I urge you to continue supporting our programs aimed at ensuring a brighter and healthier future for our people.

More power and Mabuhay!

Gloria Arroyo
Gloria MACAPAGAL-ARROYO
President
Republic of the Philippines

From the Chair of the Board

PhilHealth is going beyond borders.

PhilHealth has proven to be a zealous and dedicated organization from infancy. For years it has worked hard to achieve its goals -- to cover its target population, significantly shift health care financing from out-of-pocket spending to social health insurance, and influence the delivery of health care in the country.

This year's report shows that PhilHealth does not stop at this.

PhilHealth does not stop at enrolling members, it institutes systems to keep its members. PhilHealth does not only enhance the benefits it offers but creates new and better benefit packages. It does not just ensure treatment and the service from its accredited hospitals are of quality but also guarantees that quality is constantly at par with prevailing standards.

Clearly, PhilHealth does not want to stop at being the social health insurance system with the largest membership base in the country but intends to be the best social insurance organization. At the rate PhilHealth is going, it will not be a long time coming.


FRANCISCO T. DUQUE III, M.D., MSc.
Secretary of Health
Chair, PhilHealth Board



The Acting President's Report



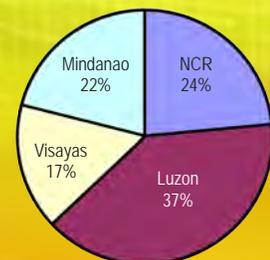
PhilHealth sustained its strong performance in 2006. Targets were achieved and new milestones were reached with the approval of new benefit packages.

More and more Filipinos enjoy PhilHealth coverage

An estimated 16 million active members or about 68 million Filipinos are enjoying PhilHealth coverage, which represents 79% of the total population in the country.

The National Capital Region (NCR) accounts for about a quarter of the total estimated NHIP membership. Luzon has more than one-third of the membership pie, while Visayas and Mindanao areas comprise 17% and 22% of the PhilHealth membership, respectively.

PhilHealth Estimated Membership by Area





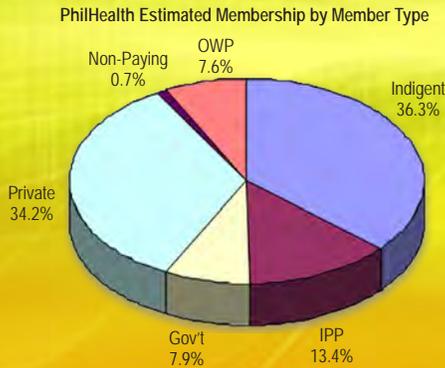
Enrollment in the Sponsored Program reached 4.48 million families or 24.9 million beneficiaries who can avail themselves of the benefits of the program. In the employed sector, PhilHealth has around 6.6 million principal members in the private sector and 1.3 million principal members in the government sector.

After only a year of assuming the Overseas Workers Program, more than a million are registered in the program. Meanwhile, PhilHealth's Individually Paying Program (IPP) and the Non-Paying Program

(NPP) recorded about 2 million active members and 263,456 registered members, respectively.

Flying high with members' satisfaction

A survey conducted by the Social Weather Stations (SWS) between September 24 – October 2, 2006 showed that PhilHealth's satisfaction rating rose to 69%, up from only 61% in a survey conducted the previous year. PhilHealth's net satisfaction rating likewise increased from +52 to +56.



Need-Responsive Benefits

PhilHealth paid P 17.2 billion in benefit claims. The Corporation introduced new benefits such as maternity care package for the second and third normal spontaneous delivery, newborn care benefit package, outpatient human immunodeficiency virus (HIV) – acquired immune deficiency syndrome (AIDS) benefit and outpatient malaria benefit package.



These packages are in support of the UN Millennium Development Goals of reducing maternal, infant and under-five mortalities, and reverse the incidences of HIV/AIDS and malaria by 2015 for which Philippines is one of the signatories.

PhilHealth also expanded the SARS benefit to include the Avian flu. This benefit may be availed of in hospitals that are designated by the Department of Health (DOH) as SARS or influenza pandemic receiving hospitals.

Premium Collection likewise increased

PhilHealth collected P 22.6 billion in 2006, an increase of 21% from last year's collection.

The Overseas Workers Program (OWP) celebrates its First Anniversary

The Overseas Workers Program (OWP) marked its first year of operation on March 1 since its transfer

from the Overseas Workers Welfare Administration (OWWA).

By the end of 2006, PhilHealth paid a total of P368.8 million for 50,682 claims. Moreover, PhilHealth was able to clear the backlog accumulated by the previous administrator of the program thereby sticking to our commitment of better and faster service.

Moving forward with our partners

Together with GTZ, the World Bank, International Labor Organization (ILO), and the World Health Organization (WHO), PhilHealth successfully concluded the 1st International Social Health Insurance Conference last October 18-20, 2006. More than 200 participants from 23 countries including the renowned Prof. William Hsiao of the Harvard University attended the event.

No less than the President of the International Social Security Association (ISSA) and the Social Security System (SSS) Corazon De La Paz, delivered the keynote address.



To further assist PhilHealth key stakeholders in the implementation of the NHIP, the Social Health Insurance Advocates and Champions (SHIAC) training program was provided to local government executives nationwide.

PhilHealth also became a part of the World Bank's National Sector Support for Health Reform Project where US \$ 40 million out of the total US \$ 110 million grant to the health sector will be used as budget support for the national counterpart premium of the Sponsored Program.

Reaching out for better service

Expansion of services have never been better this year, with a total of 3,349 hospitals, ambulatory surgical clinics, rural health units, TB-DOTS centers, maternity clinics and free-standing dialysis clinics accredited by PhilHealth this year, up by 21.78% from last year's 2,750 accredited institutional health care facilities. Notwithstanding the continuous outmigration, PhilHealth accredited a total of 21,428 health care professionals in 2006.

PhilHealth had undertaken all these initiatives with the unwavering support from our stakeholders. This is the driving force of PhilHealth in continuously evolving toward a more responsive provider of social health insurance.

To our staff and partners in this endeavor, our heartfelt gratitude.

Lorna O. Fajardo
LORNA O. FAJARDO

Acting President and
Chief Executive Officer

Accomplishment Highlights

Reaching More Sectors



PhilHealth pursued its commitment in attaining its mandate of universal coverage through various initiatives. This effort was supported by Her Excellency Gloria Macapagal-Arroyo through Proclamation 994, issued on February 8, declaring February 8 to March 8, 2006 as National Health Insurance Program (NHIP) Month. The Proclamation called for the continuous enrollment of less fortunate Filipinos to the NHIP to enable them to gain access to high quality medical care benefits and for the aggressive health insurance coverage of overseas Filipino workers to entitle them to health care financing benefits anywhere in the world. The Proclamation also enlisted the support of various agencies of government [particularly the Department of Health (DOH), the Department of Labor and Employment (DOLE), the Overseas Workers Welfare Administration (OWWA), and the Philippine Overseas Employment Administration (POEA)] and of the private sector in providing health insurance coverage for the less privileged. Local Government Units (LGUs), on the other hand, were tasked to primarily undertake the enrollment of indigent families in their own localities into the Sponsored Program.

PhilHealth further strengthened its membership through Memoranda of Agreements (MOAs) with various institutions under the Sponsored and Individually Paying Programs.

One of these initiatives was the MOA with the Couples for Christ (CFC) Medical Mission Foundation, Inc. for the enrollment of its Gawad Kalusugan Program beneficiaries into the NHIP under the Sponsored Program. It was PhilHealth's

thrust on rationalizing the delivery of medical care benefits to the poorest of the poor that prompted the Foundation to enter into a tie-up with PhilHealth. As partner in this undertaking, CFC Medical Mission Foundation will make its available chapters nationwide as distribution centers for PhilHealth's information materials.

In July, some 4,000 workers in the film/entertainment industry were enrolled in



PhilHealth to entitle them to health care benefits. In ceremonies held at the Amoranto Multi-Purpose Hall in Quezon City, at least 1,382 PhilHealth ID cards were initially released to members of the Nagkakaisang Manggagawa ng Pelikulang Pilipino (NMPP).

Likewise in July, PhilHealth signed an agreement with the Novaliches Development Cooperative Inc. (NOVADECI) to provide health and medical benefits for its 25,000 members from Quezon and Caloocan cities. NOVADECI was established in 1976 by a group of vendors. From a simple lending group, it extended its services to include health and medical, mutual benefit, consumer retail and merchandising, educational training, among other projects for its members. The partnership will assist PhilHealth in promoting the Individually Paying Program to the informal sector.

In the last quarter of the year, Globe Telecom signed a MOA with the Municipality of Aloguinsan, Cebu and PhilHealth for the enrollment of indigent families under the Sponsored Program. This was the first private corporate sponsorship successfully negotiated by the PhilHealth Regional Office VII. For this pilot-activity, three hundred (300) indigent families were enrolled in Barangay Poblacion,

Municipality of Aloguinsan, Cebu.

Aside from the initiatives under the Sponsored and Individually Paying Programs, the PhilHealth Marketing Group continues its campaign through various media channels.

The Group guested on “Super Radyo Nationwide,” a weekly program focusing on current issues and government services over Radio DZBB 594 KHz-AM and on “Magandang Umaga Pilipinas” over ABS-CBN Channel 2 to answer members’ queries on benefits and claims, membership enrollment, accreditation, among others.

In August, television station UNTV 37 recognized PhilHealth’s efforts in conveying the good news about the NHIP to its viewers in the awarding ceremonies held during their 2nd Anniversary Celebration at the Marikina Sports Center.

The Corporation continues to air its “Dear PhilHealth” radio program over DZRH during Wednesdays. Aside from providing its partners in better understanding their membership to NHIP, PhilHealth tackles emerging concerns that have impact on the social health insurance through this radio segment.

Enhancing Service Delivery

PhilHealth now accredits 3,349 institutional health care providers and 21,428 health care professionals. The increase in accredited health care providers indicates their growing interest in being part of the service delivery network of PhilHealth.

2006 Accredited Health Care Providers

Institutional Health Care

Providers	3,349
Hospitals	1,589
Rural Health Units	1,149
Outpatient Clinics	582
Ambulatory Surgical Clinics	29

Health Care Professionals **21,428**

	2005	2006
General Practitioners	10,486	10,455
Medical Specialists	10,357	10,594
Dentists	218	238
Midwives	87	141

PhilHealth's continuing endeavor in providing quality service to its members is evident in the increase in number of accredited professionals

specifically the medical specialists. Some of the general practitioners renewed and upgraded their classification of accreditation with PhilHealth to medical specialists.

Towards Better Quality Health Care

The Corporation is now implementing the 3-in-1 accreditation for rural health units (RHUs). This scheme facilitates the accreditation of RHUs for outpatient benefits, maternity care package, and TB DOTs in just one application.

PhilHealth is set towards implementing the new accreditation standards for its partner health care providers through the PhilHealth Benchbook which presents an updated list of standards and criteria against which health care provider organizations and professionals are encouraged to assess themselves prior to applying for accreditation, and more importantly, after accreditation has been granted by PhilHealth.



Moreover, PhilHealth implements a quality assurance program applicable to all institutional health care providers to ensure that the health care services rendered to members by accredited health care providers are of quality necessary to achieve the desired outcome and member satisfaction. This continuous quality improvement is part of their accreditation requirement to PhilHealth.

Guided by the FOURmula One for Health (F1) framework, PhilHealth and DOH worked together with concerned agencies to achieve price transparency and to disseminate this vital information to the public. Both agencies aim to promote drug price transparency, rational and fair drug pricing, and rational drug use through the Drug Price Reference Index.

Upgrading Systems...

As part of the systems upgrading of PhilHealth, the Corporation, together with GlaxoSmithKline Foundation, Inc. under its Family Health and Wellness Program, undertake the Outpatient Benefits System. The OP Benefits System replaces the manual entry of data by city and municipal health officers in the periodic report forms for OP benefits availment in PhilHealth-accredited health centers and rural health units. The System is capable of generating accurate and reliable data on the out-patient diagnostic benefits from members under the participating LGUs particularly on determining the benefits needed by our sponsored members and enables PhilHealth to process the capitation fund that the local government units are entitled to. The eleven project sites of the PhilHealth-GSKF Family Health and Wellness Program OPB System include Sto. Domingo in Ilocos Sur; Tacloban, Leyte; Mainit, Surigao del Norte; Nabunturan, Compostela Valley; Payatas in Quezon City, three towns in Pangasinan, Cainta and Taytay in Rizal Province; and in the City of Manila.

In the 2nd quarter, PhilHealth signed a Memorandum of Agreement (MOA) with the Polytechnic University of the Philippines' Information and Communications Technology Center (ICTC) to provide the necessary expertise and resources to perform encoding services. The group is also tasked to recommend solutions to IT-related problems identified in the process and ensure the integrity and security of the data encoded, particularly the employers' remittance records.

With Our Development Partners...

On March 1, PhilHealth held a Forum with organized groups of Overseas Filipino Workers (OFWs) and stakeholders of its Overseas Workers Program (OWP) to seek inputs to further enhance the OWP and ensure that PhilHealth responds to the health insurance needs of this sector. The OWP Handbook is a ready reference for OFWs, as well as their relatives in the country, on PhilHealth procedures and operations.

In the 2nd quarter of the year, PhilHealth Regional Office X hosted the study tour of delegates from the Local Government Unit (LGU) of Bulacan, to the province of Bukidnon. The tour was participated in by ten local officials of Bulacan, headed by former Department of Health Undersecretary Antonio Lopez now the province's consultant on health programs. The activity showcased the implementation of the Sponsored Program in Bukidnon and how the investment in health care financing brought reforms to the province's health system.

PRO X welcomed the Cambodian delegates on a study tour to the province of Bukidnon. The delegation, led by Dr. Ung Phyrun, Secretary of State for the Ministry of Health of Cambodia, studied how the

implementation of the province's Health System bring down non-index crime rates and improve the delivery of health services to the poor. On hand to brief the delegates on the NHIP was PRO X AVP Datu Masiding Alonto, Jr. Governor Jose Maria R. Zubiri meanwhile discussed the Bukidnon Model, expounding on the effects of the NHIP to his poor constituents and to his province.

PhilHealth, together with the International Social Security Association (ISSA), Social Security System (SSS), and the Philippine Social Security Association (PHILSSA), co-organized the ISSA Training Course at the Asian Institute of Management in Makati City. The five-day course was aimed at expanding the knowledge of participants on social security concerns, and upgrade their proficiency in social security operations and



actuarial practices. It was participated in by 71 participants from 15 countries in the Region.

After this undertaking, PhilHealth delved into another activity, the First International Social Health Insurance Conference with its theme "Extending Social Health Insurance to Informal Economy Workers" which was successfully concluded in October.

In November, PhilHealth participated in the 8th National Cooperative Summit held in Puerto Princesa, Palawan. The main objective of the summit was to unite the broadest number of cooperatives in common policy, technical and business agenda. This was a venue for PhilHealth to update its members on NHIP and promote the Program to prospective stakeholders.

The Scientific Symposium held at the Pearl Manila Hotel also brought together representatives from PhilHealth's partners in the area of quality assurance, information dissemination, accreditation, marketing and membership, among others. This was the first time for PhilHealth to



hold an activity that highlighted its responses to the changing medical and health insurance environment.

Strengthening the Workforce

During the 2nd quarter, Philippines-Australia Human Resource Development Facility (PAHRDF) sponsored the Appraisal of Burden of Disease (BOD) Capability Building Activity to equip PhilHealth personnel with skills in developing a responsive Benefit Package for PhilHealth members. The participants came from offices that are directly involved in the formulation and implementation of Benefit Packages in the Corporation.

Also in this quarter, PhilHealth Regional and Central personnel were provided a one-week *simINS* training session. This is in response to the need of PhilHealth for a tool that could generate financial projections on the basic mechanisms of social health insurance. The workshop was sponsored by the local GTZ-SHI project, WHO Philippines Country Office with the support of the WHO Regional Office.

In July, the training course "Developing and Installing a Performance Management Framework" was provided to the Senior Management of PhilHealth. The activity aimed to further enhance the efficiency and effectiveness of PhilHealth officers in their work as decision makers and

implementers of the NHIP by linking the Executive Performance Management System (EPMS) to the overall business and planning process of the Corporation.

In the pre-anniversary celebration of PhilHealth held at the Annabel's Restaurant, Acting President and CEO Lorna O. Fajardo thanked the media for supporting the Corporation's information dissemination efforts through the years. The Agency also extended its gratitude to its personnel and stakeholders, in their efforts to make PhilHealth more stable, through the "Gabi ng Pasasalamat" rites held at the UP Abelardo Hall.

PHICEA Corner

Housing Project



In response to Malacañang Memorandum Circular No. 112 on Housing Fair for Employees in the Public Sector and in compliance with the directive of the Office of the Vice-President and Chairman of the Housing and Urban Development Coordinating Council (HUDCC) Vice-President Noli M. De Castro, a Housing Fair was held on October 27-28, 2006 simultaneously in Makati City for Luzon and Metro-Manila; Cebu City for Visayas; and Davao City for Mindanao area. The program coincided with the celebration of the National Shelter Month, giving preference to and opportunity for the government sector workers to avail themselves of discounted housing projects and access to foreclosed housing properties. President Gloria Macapagal-Arroyo and Vice-President Noli de Castro were the Guests of Honor in the said activity.

In consonance with this endeavor, the Philippine Health Insurance Corporation Employees Association (PHICEA) in cooperation with PhilHealth and Philippine Government Employees Association (PGEA), conducted a Housing Seminar in October in Pasig City .

The implementation of the PGEA Village Housing Project for government employees is in cooperation with Pag-IBIG and Vice-President Noli De Castro.

The project is supported by PhilHealth management and the Board through the provision of Fund Support for buyers equity. This is in partnership with Pag-IBIG Fund, P. A. Alvarez Properties & Development Corporation, and ASPV Realty.

Your Association is always seeking ways and means to help lighten the burden of employees in the face of economic difficulties.



Republic of the Philippines

COMMISSION ON AUDIT

Commonwealth Avenue, Quezon City, Philippines

STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Board of Directors

Philippine Health Insurance Corporation
Citystate Centre, 709 Shaw Boulevard,
Pasig City

We have audited the accompanying balance sheet of Philippine Health Insurance Corporation as of December 31, 2006 and the related statements of income, changes in net worth and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted state auditing standards in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Philippine Health Insurance Corporation as of December 31, 2006 and the results of its operations and its cash flows for the year then ended in conformity with applicable generally accepted state accounting principles in the Philippines.

COMMISSION ON AUDIT

JOSE R. ROCHA, JR.

Director IV

Cluster II, Financial B
Corporate Government Sector

March 15, 2007

PHILIPPINE HEALTH INSURANCE CORPORATION

BALANCE SHEET

December 31, 2006

(With Comparative Figures for 2005)

	2006	2005 (As restated)	Increase (Decrease)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 2.4 and 3)	P 8,544,325,657	P 4,587,437,706	P 3,956,887,951
Short-term investments (Note 4)	31,809,934,759	14,783,340,910	17,026,593,849
Receivables-net (Note 5)	3,879,131,120	3,607,047,394	272,083,726
Inventories (Notes 2.5 and 6)	38,202,932	29,184,686	9,018,246
Intangible assets-net (Notes 2.7 and 7)	25,107,936	17,206,060	7,901,876
Other current assets (Note 8)	<u>1,623,362</u>	<u>1,623,362</u>	<u>-</u>
Total Current Assets	<u>44,298,325,766</u>	<u>23,025,840,118</u>	<u>21,272,485,648</u>
Investments - net (Note 9)	22,750,657,880	33,314,656,419	(10,563,998,539)
Property and Equipment - net (Notes 2.1.d, 2.6 and 10)	<u>1,164,006,688</u>	<u>1,102,804,539</u>	<u>61,202,149</u>
	<u>23,914,664,568</u>	<u>34,417,460,958</u>	<u>(10,502,796,390)</u>
Miscellaneous Assets and Deferred Charges (Note 11)	33,257,101	38,359,449	(5,102,348)
Other Assets - net (Note 12)	<u>656,755,336</u>	<u>662,393,819</u>	<u>(5,638,483)</u>
TOTAL ASSETS	<u>68,903,002,771</u>	<u>58,144,054,344</u>	<u>10,758,948,427</u>
LIABILITIES AND NET WORTH			
Payables (Note 13)	4,118,931,746	2,528,871,130	1,590,060,616
Trust Liabilities (Note 14)	405,948,506	403,415,829	2,532,677
Other Deferred Credits (Note 15)	<u>6,754,895</u>	<u>9,910,497</u>	<u>(3,155,602)</u>
	<u>4,531,635,147</u>	<u>2,942,197,456</u>	<u>1,589,437,691</u>
Net Worth (Notes 17 to 19)	<u>64,371,367,624</u>	<u>55,201,856,888</u>	<u>9,169,510,736</u>
TOTAL LIABILITIES AND NET WORTH	<u>P 68,903,002,771</u>	<u>P 58,144,054,344</u>	<u>P 10,758,948,427</u>

See accompanying Notes to Financial Statements.

PHILIPPINE HEALTH INSURANCE CORPORATION

STATEMENT OF INCOME

For the Year Ended December 31, 2006
(With Comparative Figures for 2005)

	2006	2005 (As restated)	Increase (Decrease)
REVENUES (Note 2.9 and Schedule I)			
NHIP premium contribution	P 22,579,590,653	P 18,735,504,649	P 3,844,086,004
Interest income	5,615,342,764	5,071,672,125	543,670,639
Accreditation fees	19,005,807	11,816,029	7,189,778
Gain on disposal of assets	438,336	65,552	372,784
Gain/Loss on Foreign Exchange	945	-	945
Other income	<u>8,961,364</u>	<u>11,569,852</u>	<u>(2,608,488)</u>
	<u>28,223,339,869</u>	<u>23,830,628,207</u>	<u>4,392,711,662</u>
APPLICATIONS (Note 2.9,16 and Schedule II)			
Benefit payments	17,200,879,570	17,511,410,725	(310,531,155)
Operating expenses	<u>1,916,125,421</u>	<u>1,758,102,405</u>	<u>158,023,016</u>
	<u>19,117,004,991</u>	<u>19,269,513,130</u>	<u>(152,508,139)</u>
NET REVENUE	P <u>9,106,334,878</u>	P <u>4,561,115,077</u>	P <u>4,545,219,801</u>

See accompanying Notes to Financial Statements.

PHILIPPINE HEALTH INSURANCE CORPORATION

STATEMENT OF CHANGES IN NET WORTH

For the Year Ended December 31, 2006
(With Comparative Figures for 2005)

	2006	2005 (As restated)	Increase (Decrease)
RESERVE FUND (Note 17)	P 35,287,000,000	P 35,287,000,000	P -
CONTINGENT CAPITAL (Note 18)	1,428,233	7,066,662	(5,638,429)
NET UNREALIZED LOSS FROM DECLINE IN VALUE OF LONG-TERM INVESTMENTS	(39,423,091)	(108,237,378)	68,814,287
RETAINED EARNINGS (Note 19)			
Balance at beginning of year	20,016,027,604	15,453,913,098	4,562,114,506
Adjustment of prior years' errors	-	999,429	(999,429)
	20,016,027,604	15,454,912,527	4,561,115,077
	9,106,334,878	4,561,115,077	4,545,219,801
Balance at end of year	29,122,362,482	20,016,027,604	9,106,334,878
NET WORTH	P 64,371,367,624	P 55,201,856,888	P 9,169,510,736

See accompanying Notes to Financial Statements.

PHILIPPINE HEALTH INSURANCE CORPORATION

CASH FLOW STATEMENT

For the Year Ended December 31, 2006
(With Comparative Figures for 2005)

	2006	2005 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Premium contributions	P 19,402,668,569	P 16,571,992,960
Subsidy from National Government	1,977,000,000	135,202,825
Subsidy from LGUs and sponsors	759,736,515	687,965,870
Receipts from GOCCs	304,296,069	275,000,000
OWWA Fund for OWWA benefit payments	-	259,224,811
Accreditation fees received from health care providers	15,850,205	12,159,400
Cash received from various operating activities and motor vehicle loans	5,366,098	10,368,922
Cash received in trust	2,532,677	14,957,807
Benefit payments	(15,640,998,079)	(16,124,583,881)
Cash received/(paid) for OWWA (backlog) benefit claims	119,957,213	(214,851,318)
MOOE/Personal Services/supplies and materials paid	(1,841,077,355)	(1,642,015,125)
Payment of miscellaneous assets and deferred charges	5,102,348	(12,170,030)
Income from grants and donation	461,978	-
Net Cash Provided (Used in) by operating activities	<u>5,110,896,238</u>	<u>(26,747,759)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Matured bonds	10,632,812,826	4,043,696,834
Interest received on investments	5,360,245,154	4,986,079,304
Short-term investments	(17,026,593,849)	(8,709,735,863)
Payment of equipment purchased	(107,721,580)	(99,811,695)
Acquisition of intangible assets	(15,269,633)	(8,017,376)
Rent collected	2,080,458	-
Gain on sale of disposed assets	438,336	-
Net Cash Provided (Used in) by Investing Activities	<u>(1,154,008,287)</u>	<u>212,211,204</u>
Net Increase in Cash and Cash Equivalents	3,956,887,951	185,463,445
CASH AND CASH EQUIVALENTS at beginning of year	<u>4,587,437,706</u>	<u>4,401,974,261</u>
CASH AND CASH EQUIVALENTS at end of year	<u>P 8,544,325,657</u>	<u>P 4,587,437,706</u>

See accompanying Notes to Financial Statements.

PHILIPPINE HEALTH INSURANCE CORPORATION

REVENUES

For the Year Ended December 31, 2006
(With Comparative Figures for 2005)

	2006	2005 (As restated)	Increase (Decrease)
BUSINESS INCOME			
NHIP Premium Contribution			
Premium contribution - private sector	P 12,918,426,813	P 11,614,689,347	P 1,303,737,466
Premium contribution - government sector	4,433,828,249	4,334,411,373	99,416,876
Premium contribution - individually paying member	891,591,254	764,703,498	126,887,756
Subsidies from LGU's for indigent program	770,539,221	659,878,293	110,660,928
Subsidy from national government for regular NHIP	1,400,000,000	500,000,000	900,000,000
Premium contribution - overseas workers program	600,552,964	507,521,904	93,031,060
Subsidy from NG for enhanced GMA program	1,500,000,000	250,000,000	1,250,000,000
Subsidies for LGU's indigent program from PDAF	58,334,002	53,027,360	5,306,642
Subsidies for LGU's indigent program from private sector	54,150	1,072,874	(1,018,724)
Subsidy from other NGA - Off.Pres.-PSF for indigent program	-	200,000	(200,000)
Subsidy from other NGA - PCSO for enhanced GMA	<u>6,264,000</u>	<u>50,000,000</u>	<u>(43,736,000)</u>
	<u>22,579,590,653</u>	<u>18,735,504,649</u>	<u>3,844,086,004</u>
INTEREST INCOME			
Treasury bonds	4,376,577,708	3,991,645,346	384,932,362
Treasury bills	678,344,141	833,720,791	(155,376,650)
Time deposits / special saving deposits	550,671,232	236,651,239	314,019,993
Savings and current deposits	<u>9,749,683</u>	<u>9,654,749</u>	<u>94,934</u>
	<u>5,615,342,764</u>	<u>5,071,672,125</u>	<u>543,670,639</u>
OTHER BUSINESS INCOME			
Accreditation fees of health care providers	<u>19,005,807</u>	<u>11,816,029</u>	<u>7,189,778</u>
Gain/Loss on Foreign Exchange (Forex)	945	-	945
Gain on Disposal of Assets	<u>438,336</u>	<u>65,552</u>	<u>372,784</u>
	<u>439,281</u>	<u>65,552</u>	<u>373,729</u>
OTHER INCOME			
Fines and penalties	1,959,471	2,781,580	(822,109)
Income from grants and donations	461,978	839,821	(377,843)
Rent income	2,080,458	2,359,974	(279,516)
Dividend income	45,030	50,159	(5,129)
Miscellaneous income	<u>4,414,427</u>	<u>5,538,318</u>	<u>(1,123,891)</u>
	<u>8,961,364</u>	<u>11,569,852</u>	<u>(2,608,488)</u>
	P 28,223,339,869	P 23,830,628,207	P 4,392,711,662

See accompanying Notes to Financial Statements.

PHILIPPINE HEALTH INSURANCE CORPORATION

APPLICATIONS

For the Year Ended December 31, 2006
(With Comparative Figures for 2005)

	2006	2005 (As restated)	Increase (Decrease)
BENEFIT PAYMENTS			
Private sector	P 8,332,998,283	P 10,406,885,031	P(2,073,886,748)
Government sector	3,861,066,755	4,395,349,441	(534,282,686)
Indigent program	2,778,874,010	2,709,176,253	69,697,757
Overseas Foreign Worker sector	420,790,309	-	420,790,309
Individually paying member	1,408,901,740	-	1,408,901,740
Non-paying member	<u>398,248,473</u>	<u>-</u>	<u>398,248,473</u>
Total Benefit Payments	<u>17,200,879,570</u>	<u>17,511,410,725</u>	<u>(310,531,155)</u>
OPERATIONAL EXPENSES			
Personal Services			
Salaries and wages	377,590,995	352,929,554	24,661,441
Other compensation	275,850,379	225,900,239	49,950,140
Personnel benefit contribution	33,090,907	38,026,820	(4,935,913)
Other personnel benefit	<u>7,973,743</u>	<u>440,170</u>	<u>7,533,573</u>
	<u>694,506,024</u>	<u>617,296,783</u>	<u>77,209,241</u>
Maintenance and Other Operating Expenses			
Remuneration expenses	520,459,568	491,375,853	29,083,715
Rents	114,444,301	103,759,556	10,684,745
Communication services	78,423,536	75,790,436	2,633,100
Supplies and materials	69,874,379	61,184,962	8,689,417
Security services	61,214,769	51,624,688	9,590,081
Water illumination and power services	58,633,130	49,875,755	8,757,375
Contract/research services	57,854,237	10,890,199	46,964,038
Depreciation expense	60,829,802	55,480,831	5,348,971
Travelling expenses	37,749,866	35,329,030	2,420,836
Janitorial services	24,572,747	19,684,496	4,888,251
Other services	15,988,151	16,752,241	(764,090)
Auditing services	17,952,219	15,908,753	2,043,466
Advertising expense	16,486,299	13,997,364	2,488,935
Enumerators fee	12,974,702	5,315,677	7,659,025
Gas, oil, and lubricants	10,664,910	7,974,843	2,690,067
Marketing and promotional expenses	10,292,638	8,392,637	1,900,001
Repairs and maintenance	10,156,380	10,745,327	(588,947)
Printing and binding	9,563,514	12,706,721	(3,143,207)
Reward and other claims (P.S. We Care)	8,769,485	5,638,418	3,131,067
Fidelity bond and insurance premiums	6,993,060	5,304,757	1,688,303
Consultancy services	4,829,808	5,917,583	(1,087,775)
Training and seminar expenses	3,232,363	7,467,284	(4,234,921)
Bank charges	883,388	1,112,002	(228,614)
Taxes, duties and fees	629,683	59,916,760	(59,287,077)
Transportation expense	361,288	572,962	(211,674)
Miscellaneous and extraordinary expenses	7,785,174	8,086,487	(301,313)
	<u>1,221,619,397</u>	<u>1,140,805,622</u>	<u>80,813,775</u>
Total Operational Expenses	<u>1,916,125,421</u>	<u>1,758,102,405</u>	<u>158,023,016</u>
	<u>P 19,117,004,991</u>	<u>P 19,269,513,130</u>	<u>P (152,508,139)</u>

See accompanying Notes to Financial Statements.

**PHILIPPINE HEALTH INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS**

1. GENERAL INFORMATION

National Health Insurance Act of 1995 (Republic Act No. 7875) as amended by RA 9241 instituted a National Health Insurance Program (NHIP) that “shall provide health insurance coverage and ensure affordable, acceptable, available and accessible health care services for all citizens of the Philippines, xxx. This social insurance program shall serve as the means for the healthy to help pay for the care of the sick and for those who can afford medical care to subsidize those who cannot.”

The Philippine Health Insurance Corporation (PhilHealth) is a tax-exempt government corporation attached to the Department of Health (DOH) for policy coordination and guidance. Its Head Office is located at 709 CityState Center Building, Barangay Oranbo, Shaw Blvd., Pasig City. The Corporation is governed by a Board of Directors composed of thirteen (13) members. The Corporation has the power and functions, among others, to formulate and promulgate policies for the sound administration of the National Health Insurance Program. It is also vested with quasi-judicial powers.

PhilHealth Regional Offices (PROs) and their respective Service Offices (SOs) - The Corporation adopted the Home and Branch Accounting System since July 1999. Processing of benefit payments and operating expenditures has been decentralized to all fifteen (15) PROs while the three expanded Service Offices in Metro Manila perform processing of benefit payments only.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared on the basis of government accounting rules and regulations, as well as the Philippine Accounting Standards (PAS) issued by the Accounting Standards Council (ASC) of the Philippines. The Corporation adopts calendar year and uses commercial accounting.

The preparation of financial statements requires the use of certain critical accounting estimates and judgments as follows:

- a. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
- b. One of the accounting estimates being done is to set-up the accrued benefits payments at the end of each month based on the average benefit payment per claim computed by dividing the total amount of benefit payment for the month by total number of claim processed for the same period. The average amount per claim differs geographically.
- c. The amount being set-up for accrued NHIP premium remittance from the collecting banks/agents is based on the assumption that the actual premium collection for the 2nd half of the current month is equivalent to the amount remitted on the first two weeks of the following month.
- d. The economic life of every property and equipment is based on COA Circular, with 10% residual value, depreciated on the straight-line method. PRO 3, which is occupying a PHIC-owned building, imputed rent expense annually.

- e. The General Appropriations Act sets-up a ceiling for National Government (subsidy) counterpart for the Sponsored Sector.

The Corporation is in the process of improving its policies regarding the recognition of NHIP premium contributions and NHIP benefit payments.

2.2 Consolidation

- a. Head Office (HO)

Monthly consolidated trial balances are prepared through working papers by eliminating the reciprocal accounts, but in the year-end consolidation, all nominal accounts that will have been closed in the PROs will be booked-up in the HO.

- b. PhilHealth Regional Offices (PROs)

The PROs' financial position and results of operations are presented in the trial balance without any non-contingent equity account. All nominal accounts are closed every end of calendar year.

- c. Service Offices (SOs)

The financial transactions of SOs were recorded in the books of accounts of their respective PROs. The SOs maintain petty cash fund and receive over-the-counter collection of premiums from the PhilHealth members.

2.3 Foreign currency transaction

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transaction. Foreign exchange losses resulting from the settlement of such transactions are recognized in the income statement.

2.4 Cash and cash equivalents

For purpose of the statement of cash flows, PhilHealth considers special savings deposits as cash equivalents.

2.5 Inventories

In accordance with PGAS 5 under COA Resolution no. 2006-006 dated January 31, 2006, Inventories include assets held for transfer and for consumption in the normal course of operations. Inventories are measured at cost which includes purchase price, import duties and taxes, freight, handling and other costs directly attributable to the acquisition of finished goods, materials and services; as well as other costs incurred in bringing the inventories to their present location and condition. The perpetual inventory system is used in accounting for inventories.

Office Order No. 0112 s. 2006, dated Nov. 9, 2006 provides that for the small tangible items not more than P5,000 with estimated useful life of more than one year shall be recorded as inventories upon acquisition and expense upon issuance.

The Asset Method and the First-In-First-Out (FIFO) method are used in recording transactions concerning supplies and materials.

2.6 Property and equipment

In accordance with PGAS no. 7 under COA Resolution no. 2006-006 dated January 31, 2006, Property and equipment (PE) includes non-current assets held for use in operation and are expected to be used for more than one year. PE have initially been recognized at cost which includes purchase price and incidental

costs such as import duties, freight, installation and any other directly attributable costs. Subsequent costs on PE which result in increased future economic benefits or service potential have been added to its carrying amount. Subsequent to initial recognition as an asset, PE shall have been carried at its cost less any accumulated depreciation, following the straight-line method and using the revised estimated useful life (per COA Circular No. 2003-007 dated December 11, 2003, as amended by COA Circular No. 2004-005 dated August 9, 2004). Depreciation has been recorded starting the month following date of purchase. A residual value equivalent to ten percent of the purchase cost has been set up.

2.7 Intangible Assets

Intangible Assets refers to computer software purchased by the Corporation, in accordance with Section 4 of the International Accounting Standard No. 38 issued by the Accounting Standards Council (ASC), and as recommended by the Commission on Audit – PhilHealth Field Office through the Audit Observation Memorandum No. 2006-004 dated January 26, 2006.

In accordance with PGAS 9.2 under COA Resolution No. 2006-006 dated January 31, 2006, and as it is probable that future economic benefits attributable to the assets shall flow to the agency, the computer software have been recognized at cost, and reported herein as net of accumulated amortization. Amortization is based on the straight-line method less ten percent residual value.

2.8 Actuary

The Corporation, through its Actuary and Finance Departments, is developing a policy in estimating and recording the incurred but not yet reported (IBNR) benefits.

2.9 Income and expense recognition

Income and expense are recognized based on a modified accrual method of accounting in accordance with Philippine Government Accounting Standards 2.1 (d) of COA Resolution No. 2006-006 dated January 31, 2006. Under this method, all expenses shall be recognized when incurred and reported in the financial statements in the period to which they relate. Income shall be on accrual basis except where it is impractical or when other methods are required by law.

Pending the completion of the database build-up, accrual for premium contributions can be done only to those remitted through the accredited collecting banks inasmuch as the information is available. Under the Indigent Program, premium counterpart of the National Government is recorded as income only if covered by Special Allotment Release Order (SARO) with corresponding Notice of Cash Allocation (NCA).

The subsidy from local government units (LGUs) is recorded based on the report submitted by the PRO Collection and Premium Accounts Management Division verified correct by the Accountant and evidenced by the LGU and PhilHealth Memorandum of Agreement supported by Certificate of Availability of Funds.

Usual monthly expenses (e.g., for janitorial services, security services, light and water and rental) are recognized as expenses at the time they are incurred, not when paid. On the other hand, accruals for benefits payments refer to outstanding claims. The estimated amount of claims filed but not yet processed is recognized as accrued expenses.

3. **CASH AND CASH EQUIVALENTS**

This account consists of:

	<u>2006</u>		<u>2005</u>
Collecting offices	P 418,628,278	P	381,117,194
Disbursing officers	830,110		88
Petty cash funds	136,313		208,345
Cash in bank	598,072,145		604,812,815
Special savings deposit	7,526,658,811		3,601,299,264
	P 8,544,325,657		P 4,587,437,706

- 3.1 The Corporation deploys at least one Collecting Officer per PRO and SO to provide more windows for the over-the-counter collection.
- 3.2 Included in this account is Land Bank of the Philippines - Pasig-Kapitolyo Branch Dollar Account No. 0674-0010-29 and the balance is converted to its peso equivalent using current exchange rate at the end of the year. The difference is recorded as Gain/Loss on Foreign Exchange.

4. SHORT-TERM INVESTMENTS

This account consists of:

	<u>2006</u>	<u>2005</u>
Treasury bills	P 20,146,273,306	P 6,059,164,063
Treasury bonds	11,663,661,453	8,724,176,847
	<u>P 31,809,934,759</u>	<u>P 14,783,340,910</u>

These are treasury bills and bonds which are placed between 90 to 364 days and also include the currently maturing treasury bonds.

5. RECEIVABLES

This account consists of:

	<u>2006</u>	<u>2005</u>
Accrued interest receivable – Investment	P 1,886,736,339	P 1,631,638,729
Due from National Government Agencies	1,538,000,000	615,000,000
Accrued premium receivables	157,811,500	716,080,788
Due from GOCCs	151,921,933	391,620,000
Due from other funds – OWWA	94,894,105	214,851,318
Due from LGUs	32,265,671	21,408,814
Other receivables	16,331,551	15,692,543
Due from officers and employees	1,170,021	755,202
	<u>P 3,879,131,120</u>	<u>P 3,607,047,394</u>

- 5.1 Accrued Premium Receivables account represents NHIP premium collections of accredited collecting agents (ACAs) for the 2nd half of December 2006 which were remitted on the first two weeks of January 2007.
- 5.2 Accrued Interest Receivable – Investment represents interest earned from all short-term and long-term investments.
- 5.3 Due from National Government Agencies

All Special Allotment Release Orders (SAROs) received from DBM were all paid by the Bureau of Treasury.

SARO No. With NCA Received	Date of SARO	Amount of SARO (in million)	Releases Last Year (in million)	Releases This Year (in million)
D-05-02702	07/04/2005	750	P 135	P 615
D-06-00023	01/11/2006	500	-	500
D-06-00177	02/07/2006	250	-	250
D-06-01206	03/22/2006	500	-	500
D-06-01904	04/06/2006	500	-	500
D-06-09811	12/27/2006	1,150	-	-
			<u>P 135</u>	<u>P 2,365</u>

The cash releases for P1.15 billion SARO was received on the first week of January 2007.

While the P388 million cash releases representing National Government shares for NHIP Premium of Government employees for CY 2006 was also received on the first week of January 2007.

5.4 Due from Government-Owned and Controlled Corporations (GOCCs)

- a. Due from the Philippine Charity Sweepstakes Office (PCSO) amounting to P150 million net of long term receivable represents premium counterpart of various LGUs under the Enhanced PCSO– Greater Medicare Access (PCSO-GMA) Program (Plan 5M) also known as the “Universal Family Health Insurance Program”. The Memorandum of Agreement through Executive Order No. 276 s. 2004 entered into by and between DBM, PCSO and PhilHealth dated January 21, 2004 stated that PCSO will provide the LGU counterpart in the amount of P1.5 billion. Further, PCSO Board Resolution Nos. 180 s. 2003 and 718 s. 2004 provided an aggregate amount of P1.5 billion allocation for the said project. The Corporation received an amount of P695 million out of the P1.5 billion. Furthermore, per letter of the Manager, Budget and Accounting Department, PCSO, to the Chairman, PCSO dated January 25, 2006, PCSO was committed to pay PhilHealth the amount of P30 million a month or P360 million for CY 2006, thus Certificate of Availability of Funds (CAF) dated February 14, 2006 was issued. (P360 million – P210 million = P150 million)
- b. Due from Bangko Sentral ng Pilipinas (BSP) amounting to P1,620,000 representing uncollected lot rentals.
- c. Due from Home Guaranty Corporation (HGC) amounting to P301,933 representing interest income for the overlooked maturity date of P54 million Debenture Bonds.

5.5 Due from LGUs consists of counterpart premium for the Sponsored Program:

PROs	2006	2005
PRO CAR	P 723,085	514,531
PRO I	12,481,465	9,207,153
PRO II	3,985,100	3,652,661
PRO III	3,625,360	697,050
PRO IV-A	4,987,648	4,761,070
PRO IV-B	6,312,220	917,849
PRO IX	150,793	1,658,500
	P 32,265,671	P 21,408,814

5.6 Due from Other Funds - OWWA amounting to P94,894,105.

This amount represents balance of bills sent to OWWA for benefit claims filed before March 1, 2005 which were turned-over to PhilHealth. The benefit claims processed from March 1, 2005 to August 31, 2006 are as follows:

Bill No.	Benefit Claims Processed Date	Amount	Amount Collected	Balance
1	March 1-31, 2005	P 957,355	P 957,355	P -
2	April 1-15, 2005	2,976,048	2,976,048	-
3	April 16-30, 2005	3,110,075	3,110,075	-
4	May 1-31; April 26-27, 2005	12,781,153	12,781,153	-
5	June 1-15, 2005	23,679,590	23,679,590	-
6	June 16-30, 2005	350,600	350,600	-
7	July 1-31, 2005	15,475,164	15,475,164	-
8	August 1-15, 2005	20,422,365	20,422,365	-
9	Autust 16-31, 2005	9,800,314	9,800,314	-
10	September 1-30, 2005	58,473,157	58,473,157	-
11	October 1-31, 2005	81,314,878	-	81,314,878
12	November 1-30, 2005	28,577,302	28,559,088	18,214
13	December 1-31, 2005	1,070,813	1,033,676	37,137
14	January 1-31, 2006	1,483,264	1,483,264	-

15	February 1-28, 2006	1,395,316	-	1,395,316
16	March 1-31, 2006	5,433,773	-	5,433,773
17	April 1-30, 2006	2,327,760	-	2,327,760
18	May 1-31, 2006	2,124,191	-	2,124,191
19	June 1-30, 2006	1,865,734	-	1,865,734
19	July 1-31, 2006	510,733	-	510,733
20	August 1-31, 2006	383,553	-	383,553
		274,513,138	179,101,849	95,411,289
	Less: Returned and stale checks	517,184	-	517,184
		P 273,995,954	P 179,101,849	P 94,894,105

5.7 Other Receivables include the receivables from the Motor Vehicle Loan Program and accrued penalties of authorized collecting agents (ACAs). Details of the account are as follows:

<u>Nature of Receivable</u>	<u>2006</u>	<u>2005</u>
Accrued penalties (ACA's)	P 14,794,313	P 13,783,287
Motor vehicle loan	1,468	524,285
Other receivable	1,535,770	1,384,971
	P 16,331,551	P 15,692,543

6. INVENTORIES

The account consists of supplies and materials amounting to P38,202,932 and P29,184,686 for CYs 2006 and 2005, respectively.

7. INTANGIBLE ASSETS

This represents cost of various software application / programs purchased by the Corporation amounting to P25,107,936, net of accumulated amortization of P7,367,757.

8. OTHER CURRENT ASSETS

This represents the reclassified Philippine National Bank Account No. 260-840034-9 with a book balance of P1,623,362. This account was already closed per passbook. However, in the books of the Corporation, it remains open pending the documentation of all transactions pertaining to this account. These transactions refer to the generated Debit-Credit System (DCS) checks during Oplan Bilis Bayad from November 1998 to May 1999.

9. INVESTMENTS - NET

Investments of the NHIF are limited to government securities bearing the unconditional guaranty of the Republic of the Philippines in the authorized government depository banks except the investment in Meralco Common stocks.

9.1 The Corporation's long-term investment portfolio is summarized as follows:

	<u>2006</u>	<u>2005</u>
Investment in shares of stocks (at cost)		
Meralco Commons -A	P 132,906,650	P 132,906,650
Less : Allowance for decline in value	39,423,092	108,237,378
Net book value	93,483,558	24,669,272
PLDT - Subscriber Investment Plan	613,500	613,500
Investment in Debenture Bonds - HGC	-	54,238,356
Investment in Treasury Bonds	22,656,560,822	33,235,135,291
	P 22,750,657,880	P 33,314,656,419

9.2 The amount for investments represent the following:

- a. Stocks representing the 1,442,648 Meralco Common-A shares have been transferred by GSIS to PhilHealth at a transfer cost of P92.13 per share. After the 20% stock dividend of 288,529 shares with a P10 par value, the total Meralco shares increased to 1,731,177 shares amounting to P132,906,650.
- b. Per PhilHealth Board Resolution No. 671 s. 2004 dated 27th April 2004, any revaluation of market value per share should be recognized annually. Accordingly, the Allowance for Decline in Value of Long-Term Investment was adjusted to P39,423,092 where the fair market value of the Meralco A at the end of the year is P54.00 per share per letter dated 15 January 2007 from Meralco Stocks and Dividends Administration Manager and Head.
- c. Investment in PLDT Stocks was acquired under the Subscriber Investment Plan amounting to P 613,500 representing 195 subscribed telephone lines. Based on PLDT's records, PhilHealth has 251 telephone lines and 72,530 shares at 10% cumulative convertible preferred stock amounting to P725,300. However, we are still requesting PLDT for the issuance of the said certificates.
- d. Treasury bonds (net of amortization) with more than one (1) year maturity period are broken down as follows:

		2006		2005
T-bonds transferred by GSIS to PHIC	P	-	P	61,200,000
Retail T-bonds		1,367,500,000		11,967,500,000
2-year T-bonds (4 certificates)		-		3,387,826,816
3-year T-bonds (23 certificates)		1,388,952,915		6,465,789,915
4-year T-bonds (10 certificates)		11,552,087,834		11,411,479,487
5-year T-bonds (11 certificates)		8,135,620,073		8,453,115,920
7-year T-bonds (3 certificates)		212,400,000		212,400,000
Gross Amount		22,656,560,822		41,959,312,138
Less: Currently maturing bonds		-		8,724,176,847
		P 22,656,560,822		P 33,235,135,291

9.3 Straight-line method of amortization was used to amortize the bond premium and bond discount over the remaining life of the bond.

9.4 The investing activities of the Corporation were carried out only in the Head Office to maximize the opportunity for high yield interest bearing instruments.

10. PROPERTY AND EQUIPMENT – NET

This account consists of:

Particulars		Land and Land Improvements Leasehold Improvements		Building and Structure/ Equipment and Books		Furniture and Fixtures		Total
Cost								
January 1, 2006	P	866,756,260	P	30,831,777	P	471,235,496	P	1,368,823,533
Additions		75,000		4,303,707		109,447,096		113,825,803
Adjustments		-		1,869,609		(1,031,217)		838,392
December 31, 2006	P	866,831,260	P	37,005,093	P	579,651,375	P	1,483,487,728
Accumulated depreciation								
January 1, 2006	P	30,344	P	5,474,370	P	260,514,280	P	266,018,994
Depreciations for the Year		35,340		1,844,109		51,582,597		53,462,046
December 31, 2006		65,684		7,318,479		312,096,877		319,481,040
Net Book Value	P	866,765,576	P	29,686,614	P	267,554,498	P	1,164,006,688

Included under Land and Buildings accounts are the following:

Global-City property acquired from converted investment on Fort Bonifacio Development Corporation Global City Receivable Repayment Right to land amounting to P 404,278,003 plus cost of documentary stamp tax, transfer tax and registration fees with aggregate amount of P9,567,801. In addition, per Technical Appraisal Report of A.C. DORIA – Appraisal Company, Inc., the subject property has a fair market value as of June 10, 2005, at P120,000 per square meter, of about P522,600,000.

The Corporation purchased from Bangko Sentral ng Pilipinas a parcel of land situated in East Avenue, Quezon City with a total area of 17,230.50 square meters amounting to P439,377,750. Of this , P219,688,875 or 50% has been paid. The payment of the remaining 50% shall be made within one year from the signing of the Contract to Sell, or after the land title shall have been freed from any lis pendens, whichever comes later. The latest update from BSP Asset Management Department Director’s letter dated 2 August 2006 is that BSP has filed a Motion to Strike off the Complaint with the MTC in Quezon City. The Head Office of PhilHealth shall be constructed in this lot.

PhilHealth Regional Office (PRO) III also purchased a lot and building in San Fernando, Pampanga amounting to P13,059,200 and P25,520,363 respectively, intended to be its permanent Regional Office. Some of its office spaces were rented-out. As of this report the rental income is P2,080,458.

A donated 2,897-sq. m. lot at Regional Government Center (RGC), Tuguegarao City through a Memorandum of Agreement (MOA) executed with the DPWH Region 2 representing the Republic of the Philippines has a fair market value as of July 17, 2006 in the amount of P4,056,000.00 per appraisal report of eValue Phils, Inc., a professional property consultants & valuer. In compliance to the said MOA, the Regional Development Council 2 extended, upon request of PRO-II, the construction of its office building for another two (2) years per RDC-2 Resolution No. 02-037 s. 2005.

11. MISCELLANEOUS ASSETS AND DEFERRED CHARGES

	<u>2006</u>	<u>2005</u>
Prepayments	P 9,069,691	P 16,262,196
Guaranty deposit	24,187,410	22,097,253
	<u>P 33,257,101</u>	<u>P 38,359,449</u>

11.1 Prepayments include authorized payments made for the purchase of goods from the Procurement Service of DBM, insurance of motor vehicles and of the officers of the Corporation.

11.2 Guaranty deposits are office rental deposits made by the Head Office and PROs in compliance with the requirements provided in the contracts.

12. OTHER ASSETS – LONG TERM RECEIVABLE

This account consists of long-term receivables in net amount of P656,755,336.

The Long Term Receivable from Department of Budget and Management (DBM) representing Medicare Premium contributions from various government offices amounting to P649,111,090 were transferred to PhilHealth by the GSIS under MOA signed on May 23, 2001 between DBM, GSIS and Bureau of Treasury (BTR). Per letter dated December 12, 2005 of the Director of DBM Financial Service, PhilHealth was informed that the supposed settlement as provided in the MOA did not materialize but some discussions/negotiations are currently being undertaken. This Long Term Receivable was reclassified as Other Asset Account.

	<u>2006</u>	<u>2005</u>
Long-term receivable from DBM (program fund transferred from GSIS to PHIC in 1997)		
Various Local government units	P 408,875,850	P 408,875,850
Armed Forces of the Philippines	85,000,000	85,000,000
DBM surcharges	<u>155,235,240</u>	<u>155,235,240</u>
	649,111,090	155,235,240
Less: Allowance for doubtful accounts	<u>649,111,090</u>	<u>649,111,090</u>
	P -	P -

Long Term Receivable from the Philippine Charity Sweepstakes Office (PCSO) amounting to P655 million also reclassified as Other Asset Account represents premium counterpart of various LGUs under the Enhanced PCSO – Greater Medicare Access (PCSO-GMA) Program (Plan 5M) also known as the “Universal Family Health Insurance Program”. The MOA, through Executive Order No. 276 s. 2004, entered into by and between DBM, PCSO and PhilHealth dated January 21, 2004 stated that PCSO will provide the LGU counterpart in the amount of P1.5 billion. Further, PCSO Board Resolution Nos. 180 s. 2003 and 718 s. 2004 provided an aggregate amount of P1.5 billion allocation for the said project. The Corporation received an amount of P695 million out of the P1.5 billion. Furthermore, per letter of the Manager, Budget and Accounting Department, PCSO to the Chairman, PCSO dated January 25, 2006, PCSO was committed to pay PhilHealth amount of P30 million a month or P360 million for CY 2006, thus Certificate of Availability of Funds (CAF) dated February 14, 2006 was issued.

	<u>2006</u>	<u>2005</u>
Long-term receivable from PCSO Enhanced GMA Program (PCSO BR#718 s. 2003 & 180 s. 2004)	P 1,500,000,000	P 1,500,000,000
Less: Collection of releases		
CY 2004	230,000,000	230,000,000
CY 2005	275,000,000	275,000,000
Adjustment per PCSO BR#214 s. 2005	(50,000,000)	-
CY 2006	<u>240,000,000</u>	
Total Collections	<u>695,000,000</u>	<u>505,000,000</u>
Total Balance	805,000,000	995,000,000
Less: Current Account receivable	<u>150,000,000</u>	<u>995,000,000</u>
	P 655,000,000	P -

In Phase I of PCSO-GMA Program, the Corporation has an outstanding receivable from PCSO in the amount of P26,349,243 but according to PCSO this balance was subsumed in the Plan 5M Stand-by Fund per PCSO Board Resolution # 718 s, 2003. Negotiation is still on going regarding the continuation of this program.

In addition, the 9th release of fund in the amount of P50 million was adjusted and recorded as premium payment for enrolment of indigents in NCR per PCSO Board Resolution # 214 s, 2005. The Corporation informed and negotiated with the PCSO regarding the funding.

Also, the 12th release of fund in the amount of P3 million was adjusted and recorded as premium payment for IPP enrolment of BHWs in Region 7 per PCSO Board Resolution # 233 s, 2005. The Corporation also informed and negotiated with the PCSO regarding the funding.

Long Term Receivable from Philippine Deposit Insurance Corporation (PDIC) pursuant to Monetary Board Resolution No. 459 dated April 7, 2005 placing Hermosa Savings and Loan Bank, Inc. under liquidation. Estimated collection of NHIP premium for the period January 16 to February 3, 2005 amounting to P327,103 was also reclassified as Other Asset Account due to non-assurance of collection within one year. As result of the meeting regarding this issue last May 8, 2006 at PDIC office, the PDIC as liquidator of Hermosa Bank is still converting the bank’s non-cash assets into cash. With this, a Project of Distribution shall be submitted by PDIC for approval of the Liquidation Court. PhilHealth shall be promptly notified of any action taken by the Liquidation Court on the recommended Project of Distribution for Hermosa Bank.

Disallowances amounting to P1,428,233 refer to disbursements from 1995 to 1999 for travel expenses, employees' benefits, and purchases of goods and services that were subsequently disallowed by COA. Concerned parties are being informed to comply with the documentation as the corporation will appeal to COA for the lifting of said disallowances.

Receivables from former officers and staff of Philippine Medical Care Commission (PMCC) amounting to P2,491,854 are being considered as bad debts due to non-payment despite demands by the Corporation. The request for write-off on a case to case basis will be submitted to the resident COA Auditor.

Expected receivable from Social Security System (SSS) in the amount of P211 million representing unearned interest income from delayed remittance by SSS of NHIP premium collection was not recorded pending resolution of the issue raised by SSS that said receivable has no legal basis. The matter is now with Legal Services Group of the Corporation.

Allowance for Doubtful Accounts was provided for the following:

- a. Unliquidated cash advances in 1996 and 1997 of PhilHealth board members; and cash advances granted to the defunct Medical Care Councils, the Medicare Community Hospitals and other health centers in the amount of P2,491,854. The accounts were transferred by the Philippine Medical Care Commission (PMCC) to PhilHealth in August 1995 and have been in the books of PMCC and PhilHealth for a total of more than 10 years. Request for the write-off of the accounts was already made with the Office of the Ombudsman and COA.
- b. Receivable from Local Government Units (LGUs), Armed Forces of the Philippines (AFP) and National Government for surcharges due to late remittance of the employer counterpart of the premium contribution in the amount of P 649,111,090. This was transferred by the Government Service Insurance System (GSIS) to PhilHealth.
- c. The allowance for doubtful accounts is provided in an amount determined after evaluation of such factors as aging of the accounts, collection experience in relation to particular receivable and identified doubtful accounts.

13. PAYABLES

Payables include the accruals for benefit claims and administrative costs as follows:

	2006	2005	
Accounts payable -			
Personal service	P 25,610,851	P 10,587,898	
MOOE	115,582,339	107,368,782	
Capital outlay	228,430,416	221,487,801	
Claims benefits	1,303,432,767	589,426,649	
Accrued benefit claims	2,445,875,373	1,600,000,000	
	P 4,118,931,746	P 2,528,871,130	

The recognition of accrued expense from claims filed / received but not yet processed has significantly increased the amount of Payables account.

Head Office payables include the amount of P219,688,875 representing the remaining 50% of the total contract price of land situated in East Avenue, Quezon City purchased from Bangko Sentral ng Pilipinas.

14. TRUST LIABILITIES

This account consists of:

	<u>2006</u>	<u>2005</u>
Inter-agency payables	P 92,391,102	P 91,200,238
Trust liabilities -		
OWWA	256,160,140	259,224,811
UNFPA Project	310,721	348,467
WHO Project	335,261	
Donation	19,601,688	19,209,661
Performance/bidders		
bond payable	9,227,091	6,180,349
Other payables	<u>27,922,503</u>	<u>27,252,303</u>
	<u>P 405,948,506</u>	<u>P 403,415,829</u>

Inter-Agency payables include deductions from the salaries of PhilHealth’s officials and employees which are due for remittance to Government Service Insurance System (GSIS), Home Development Mutual Fund (HDMF), National Home Mortgage Finance Corporation (NHMFC), Bureau of Internal Revenue (BIR), and PhilHealth Employees Association (PHICEA), taxes withheld from payments to health service providers.

Trust Liabilities include the amount of P256,160,140 representing the balance of fund transferred from OWWA Medicare Fund to PhilHealth in the amount of P530,382,446 in compliance with Executive Order No. 182 dated February 14, 2003 as amended by Executive Order No. 392 dated December 28, 2004 entitled “Transferring the Medicare Functions of Overseas Workers Welfare Administration to the Philippine Health Insurance Corporation”.

As of December 31, 2006, the Corporation disbursed the total amount of P274,222,306 broken down as follows:

<u>OWWA Fund</u>	<u>Fund Received</u>	<u>Disbursement</u>	<u>Balance</u>
Benefit payments	P 466,288,968	P 234,321,506	P 231,967,462
Administrative costs	50,134,000	36,701,176	13,432,824
Capital outlay	<u>13,959,478</u>	-	13,959,478
	530,382,446	271,022,682	259,359,764
Other asset account	-	3,199,624	(3,199,624)
	<u>P 530,382,446</u>	<u>P 274,222,306</u>	<u>P 256,160,140</u>

In addition, the Corporation processed OWP backlog claims (claims filed before March 1, 2005 to OWWA and subsequently turned-over to PhilHealth) amounting to P274,513,138 (note 5.6)

The Corporation received from World Health Organization funding for PhilHealth-WHO Project.

<u>PhilHealth – WHO Project</u>	<u>Amount</u>
Total releases from September 2006 to present	P 621,206
Less: Expenses incurred as of this report	<u>285,945</u>
Fund balance as of this report	<u>335,261</u>

The Corporation is one of the recipients/partners of United Nations Population Fund (UNFPA) project entitled “Strengthening and Sustaining the delivery of Integrated Reproductive Health Services” PHLR207.

<u>PhilHealth – UNFPA Project</u>	<u>Amount</u>
Total releases from May 2006 to present	P 1,948,988
Less: Expenses incurred as of this report	<u>1,638,267</u>
Fund balance as of this report	<u>310,721</u>

Other payables – donations include amounts received from the following entities, including the interest thereon:

Trust Liabilities – Donations	2006	2005
Westmont Investment Corp.	P 11,269,108	P 10,583,938
Strategies & Alliance Corp.	5,794,074	5,561,417
All Asia Capital & Trust Corp.	773,909	1,392,816
First Metro Investment Corp.	1,322,763	1,219,869
BF General Insurance Corp.	51,425	51,425
Donation received by PROs	390,409	400,196
	P 19,601,688	P 19,209,661

The donations were made to finance specific projects like:

- a. Assistance to the projects of charitable or socio-civic organizations
- b. Research and development and other studies including P3.50 million ex-gratia fund
- c. Prevention of fraud and such other irregularities against the NHIF and for such other allied undertakings
- d. Used for ex-gratia Medicare claims reimbursement and other appropriate activities to attain the NHIP objectives.

The payable to SSS in the amount of P78 million (based on the demand letter sent by SSS dated March 29, 2001) was not yet recorded pending further studies on the validity of the ratio adjustments made by SSS in 1998 and 1999 which resulted in the occurrence of the said payable.

15. OTHER DEFERRED CREDITS

Other deferred credits are unearned accreditation fees amounting to P6,754,895 and P9,910,497 in CYs 2006 and 2005, respectively, of medical service providers with validity period of three years.

16. EXPENSES

The amount of P19,117,004,991 represents the expenses incurred by the Corporation as of December 31, 2006, broken down as follows:

OFFICE	OPERATING EXPENSES	BENEFIT PAYMENTS	TOTAL
Head Office	P 1,168,626,225	P 21,394,806	P 1,190,021,030
NCR	-	4,957,615,906	4,957,615,906
PRO-CAR	34,503,313	316,225,254	350,728,567
PRO-I	57,781,577	712,981,377	770,762,954
PRO-II	33,696,316	292,539,934	326,236,250
PRO-III	82,280,200	1,550,592,590	1,632,872,790
PRO-IVA	53,882,572	1,167,133,728	1,221,016,300
PRO-IVB	43,848,885	668,345,664	712,194,550
PRO-V	46,096,758	584,532,662	630,629,420
PRO-VI	56,922,473	1,291,239,949	1,348,162,422
PRO-VII	61,183,135	1,394,760,450	1,455,943,585
PRO-VIII	39,216,237	328,087,664	367,303,901
PRO-IX	36,634,919	266,218,955	302,853,874
PRO-X	63,102,789	1,386,638,114	1,449,740,903
PRO-XI	58,135,877	1,094,104,394	1,152,240,271
PRO-XII	45,668,007	880,222,889	925,890,896
PRO-CARAGA	32,198,471	288,245,234	320,443,705
PRO-ARMM	2,347,667	-	2,347,667
TOTAL	P 1,916,125,421	P 17,200,879,570	P 19,117,004,991

Salaries of regular and contractual PRO staff were recorded in the Head Office under the Centralized Payroll System.

Operating Expenses of three expanded Service Office of NCR are included in the Head Office, while benefit payments in Head Office are for Capitation Payment only.

The benefit payments for PRO-ARMM are processed and included in PRO-10 expenses.

The Corporation recorded accrued claims filed at the end of the period in the amount of P644 million in NCR and P1.259 billion in PROs.

17. RESERVE FUND

Reserve Fund account amounting to P35,287,000,000 in CYs 2006 and 2005 represents actuarial estimate for projected program expenditure in the next two years as required under RA 7875. Adjustment on the amount of reserve will be done upon concurrence of management on a new estimate.

18. CONTINGENT CAPITAL

Contingent capital in the amount of P1,428,233 and P7,066,662 in CYs 2006 and 2005, respectively, represent COA disallowances of prior year's expenditure. The decrease of P5,638,429 was due to the settlement of disallowances.

19. RETAINED EARNINGS

In consonance with Philippine Accounting Standards (PAS) No. 8, the Retained Earnings was restated as follows:

	<u>2006</u>	<u>2005</u>
Retained earnings at beginning of year	P 20,016,027,604	P 15,453,913,098
Prior years adjustments*	<u>0</u>	<u>999,429</u>
As restated	20,016,027,604	15,454,912,527
Net income	<u>9,106,334,878</u>	<u>4,561,115,077</u>
Retained earnings at end of year	<u>P 29,122,362,482</u>	<u>P 20,016,027,604</u>

*Correction/adjustment of prior years' errors consists of the following:

Premium collections	P 1,255,130
Fines and penalties	86
Interest income	8
Other income	(13,389)
Personal services	(406,981)
Maintenance and other operating expenses	141,238
Benefit payments	<u>23,337</u>
	<u>P 999,429</u>

20. FINANCIAL RISK MANAGEMENT

Financial risk factors - The Corporation's activities expose it to a variety of financial risks. The Office of the Actuary, this Corporation, prepares a projection of benefit claims. It has already prepared a Financial Risk Management Plan for approval of the President and Chief Executive Officer. On the other hand, the Treasury Department performs risk management for the corporate investment activities. The Corporation's overall risk management program seeks to minimize potential adverse effects on the corporate financial performance.

BOARD OF DIRECTORS



Hon. Francisco T. Duque III, M.D., MSc
Chair of the Board
Secretary of Health



Hon. Lorna O. Fajardo
Vice-Chair of the Board
PhilHealth Acting President & CEO



Hon. Corazon S. De La Paz
Member
President & CEO
Social Security System (SSS)



Hon. Godofredo C. De Guzman
PhilHealth Board Legal Counsel



Hon. Susanita G. Tesiorna
National Anti-Poverty Commission
Basic Sector (NAPC-BS)



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Overseas Filipino Workers
(OFWs)



Hon. Angel T. Concepcion, Jr., M.D.
GSIS Representative



Hon. Asuncion B. Santos
Employers Sector



Hon. Arlyn Grace V. Guico
Health Care Providers Sector



Hon. Ma. Asuncion E. Villanueva
Self-Employed Sector



Hon. Ponciano Z. Jerez, Jr., M.D.
Labor Sector

not in photo:

Hon. Luwalhati F. Pablo
DSWD Representative

Hon. Austere A. Panadero
DILG Representative

Hon. Marianito D. Roque
DOLE Representative

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Acting President & Chief
Executive Officer

Octavino Q. Esguerra
Senior Vice-President &
Chief Actuary and OIC,
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Vice-President, Internal
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OIC, Claims Review Office

Val S. Valila
Vice-President, Program
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Atty. Germain G. Lim
OIC, Protests & Appeals Review
Department & Assistant
Corporate Secretary

Marilyn C. Geduspan
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Victoria Pablo
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Rodolfo M. Balog
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Manager, NCR North



Leticia P. Portugal
Manager, NCR Central



Dr. Leo Douglas V. Cardona, Jr.
Manager, NCR South

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Atty. Khaliqzaman M. Macabato
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