

# COVER SHEET

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S.E.C. Registration Number

NATIONAL REINSURANCE  
CORPORATION  
OF THE PHILIPPINES

(Company's Full Name)

18TH FLOOR PHILIPPINE AXA LIFE  
CENTER SEN. GIL J. PUYAT AVENUE  
CORNER TINDALO ST. MAKATI CITY

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

JOHN E. HUANG

Contact Person

759-58-01

Company Telephone Number

1 2 3 1

Month Day  
Fiscal Year

1 7 Q

FORM TYPE

1st Quarter Ending 31 March 2011

0 6 3 0 11

Month Day  
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

**COVER SHEET**

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**("PhilNaRe")**

\_\_\_\_\_  
(Company's Full Name)

**18<sup>th</sup> Floor, Philippine AXA Life Centre Sen. Gil J. Puyat Avenue**  
**corner Tindalo St., Makati City, Philippines 1200**  
\_\_\_\_\_  
(Company's Address)

**(632) 759-5801 to 06**  
(Telephone Number)

**December 31**  
(Fiscal Year Ending)

**June 30, 2011**  
(Annual Meeting)

**SEC FORM 17-Q**  
**Quarterly Report**  
**1st Quarter Ending 31 March 2011**  
(Form Type)

\_\_\_\_\_  
Amendment Designation (If applicable)

\_\_\_\_\_  
(Secondary License Type and File Number)

\_\_\_\_\_  
Cashier

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LCU

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DTU

**80118**  
S.E.C. REG. No.

\_\_\_\_\_  
Central Receiving Unit

\_\_\_\_\_  
File Number

\_\_\_\_\_  
Document I.D.

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATIONS ACT AND SRC RULE 17 (2)(b) THEREUNDER**

1. For the quarter ended 31 March 2011
2. Commission identification Number 80118
3. BIR Tax Identification Number 000-480-869
4. **NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
Exact name of registrant as specified in its charter
5. **PHILIPPINES**  
Province, country or other jurisdiction of incorporation or organization
6. Industry classification code  (SEC Use Only)
7. **18/F PHILIPPINE AXA LIFE CENTRE, SEN. GIL J. PUYAT AVE.** 1200  
**CORNER TINDALO STREET, MAKATI CITY** Postal Code  
Address of registrant's principal office
8. **(632) 759-5801 to 06**  
Registrant's telephone number, including area code
9. **Not applicable**  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the RSA as of quarter ended:
- | <u>Title of Each Class</u> | <u>Number of Shares of Common Stock Outstanding</u> |
|----------------------------|---|
| <b>Common</b>              | <b>2,159,677,600</b>                                |
11. Are any or all of the securities listed on the Philippine Stock Exchange?
- Yes  No
12. Indicate by check mark whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such report);
- Yes  No
- (b) has been subject to such filing requirements for the past 90 days.
- Yes  No

## **PART 1. - FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

The financial statements listed below and covering pages 9 to 24 of this report are filed as part of this Form 17-Q:

- a. Statements of Financial Position as of 31 March 2011 and 31 December 2010.
- b. Statements of Income for the Quarters Ended 31 March 2011 and 31 March 2010.
- c. Statements of Comprehensive Income for the Quarters ended 31 March 2011 and 31 March 2010.
- d. Statements of Changes in Stockholders Equity as of 31 March 2011 and 2010
- e. Statements of Cash Flows as of 31 March 2011 and 31 March 2010.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, 1st Quarter 2011**

#### **Results of Operations**

##### **Reinsurance Premium Income**

Reinsurance premiums for the three months ended 31 March 2011 increased by P23.4 million or 3.4% to P708.0 million from P684.6 million for the three months ended 31 March 2010. A rise in gross premiums amounting to P24 million from the Company's non-life business more than offset a marginal decline in gross premiums from the Company's life business. Reinsurance premiums from the life business decreased by 0.5% from P134.3 million in 1<sup>st</sup> Qtr. 2010 to P133.7 million in 1<sup>st</sup> Qtr. 2011.

Reinsurance premiums retained for the three months ended 31 March 2011 decreased by P6.5 million or 2.21% to P 288.5 million from P295 million for the three months ended 31 March 2010. The decline is due to the relative increase in non-life business, where the Company's retention is lower.

The decrease in unearned premium reserve of P17.5 million in 1<sup>st</sup> Qtr. 2011 was 45% lower than the decrease in unearned premium reserve of P31.9 million in 1<sup>st</sup> Qtr. 2010. This reflects the lower decrease in reinsurance premiums retained in 1<sup>st</sup> Qtr. 2011 vs. 1<sup>st</sup> Qtr. 2010 (2.21%) as against the decrease in reinsurance premiums retained in 1<sup>st</sup> Qtr. 2010 vs. 1<sup>st</sup> Qtr. 2009 (12.2%).

Taking into account the decrease in reinsurance premiums retained as well as the decrease in unearned premium reserve for the quarter, premiums earned for the three months ended 31 March 2011 declined by 6.4% to P306 million from P326.9 million in 1<sup>st</sup> Qtr. 2010.

##### **Underwriting Deductions**

Share in claims and losses increased by 55% or P116.6 million in 1<sup>st</sup> Qtr. 2011 from P211.8 million in 1<sup>st</sup> Qtr. 2010 due to higher claims from the Company's non-life facultative

business. The Company also set up additional loss reserves for claims from previous years.

Net commission expense in 1<sup>st</sup> Qtr. 2011 declined by about 10% or P10.0 million to P91.3 million from P101.3 million in 1<sup>st</sup> Qtr. 2010. The decline was due to the lower level of premiums earned and a slightly lower net commission ratio for the period.

**Investment and Other Income (Charges)**

Investment and other income posted an increase of 121% or P102.5 from P84.7 million in 1<sup>st</sup> Qtr. 2010 to P187.2 million in 1<sup>st</sup> Qtr. 2011. The growth was largely due to realized trading gains from equity and fixed income securities in the Company's investment portfolio.

**General and Administrative Expenses**

General and administrative expenses increased P6.7 million, or 17.6% to P45.1 million for the first three months of 2011 compared to P38.3 million in 2010. The increase is primarily the result of increases in employee benefits cost as well as depreciation of capitalized cost of the Company's Project IRIS (Integrated Reinsurance System).

**Tax expense**

The Company's tax expense was flat at P18 million for the 1<sup>st</sup> Qtr. 2011 and 1<sup>st</sup> Qtr. 2010. This tax relates largely to final tax on interest income, which was relatively flat in 1<sup>st</sup> Qtr. 2011 and 1<sup>st</sup> Qtr. 2010.

**Net Profit (loss)**

The Company's net profit for the 1<sup>st</sup> Qtr. 2011 was P10.7 million as compared to net profit of P42.3 million in 1<sup>st</sup> Qtr. 2010. The Company incurred a net underwriting loss for the period, which was offset by investment income.

**Financial Condition**

Total resources as of 31 March 2011 of P11.7 billion is P830 million lower than total resources of P12.5 billion as of December 31, 2010. Material changes in the Company's resources are described below:

• **Cash and cash equivalents (P1,166M vs. P613M)**

Cash and cash equivalents were up by 90.07% or P552.4 million to P1.2 billion as funds were shifted to short-term investment from longer-dated fixed income securities.

• **Reinsurance Balances Receivable-net (P3,714M vs. P 4,210M)**

Reinsurance balances receivable decreased to P3.7 billion or 11.1% as of 1<sup>st</sup> Qtr. 2011 from P4.2 billion as of December 31, 2010 principally due to improved collections of reinsurance balances receivable.

• **Available-for Sale Financial Assets (P5,698M vs. 6,297M)**

Available for sale financial assets declined by P599 million or 9.5% from P6.3 billion as of December 31, 2010 to P5.7 billion as of 31 March 2011 due to maturities and the sale of some fixed income securities.

- **Loans and Receivables (P266M vs. P361M)**

Loans and receivables decreased by P94.4 million or 26.2% mainly due to collection of accrued interest income (P58 million) and maturity of term loans (P30 million).

- **Property and Equipment, net (P148M vs. P154M)**

Property and equipment, net of accumulated depreciation, amounted to P148 million, as of 31 March 2011, a decrease of P5.9 million or 3.8% from December 31, 2010 mainly due to recorded depreciation of P6.9 million being higher than capital expenditures of P.524 million.

- **Deferred Acquisition Cost (P123 vs.P198M)**

The decrease of P75.5 million in deferred acquisition cost relate to portions of reinsurance commissions as of December 31, 2010 that were earned as of March 31, 2011 under the 24<sup>th</sup> method of revenue recognition.

- **Deferred Reinsurance Premium (P392M vs. P514M)**

Deferred reinsurance premium decreased by P122.3 million or 23.8% as of 31 March 2011 due to recognition of a portion of reinsurance premiums as of December 31, 2010 as earned under the 24<sup>th</sup> method of revenue recognition.

- **Other Assets (P216M vs.P204M )**

Other assets increased by 5.6% or P11.4 million from P204.4 million as of 31 December 2010 to P216 million as of 1<sup>st</sup> Qtr. 2011 due largely to increases in deferred input VAT(P9 million) and prepayments (P3 million).

- **Liabilities (P6,005M vs.P6,605M)**

Total liabilities decreased by P600 million or 9.1% from P6.6 billion as of 31 December 2010 to P6 billion as at 1<sup>st</sup> Qtr. 2011. The decline in total liabilities is explained below:

- **Reinsurance Balances Payable (P5,111M vs. P5,463M)**

Reinsurance balances payable decreased by P351.8 million or 6.4% from P5.5 billion as of December 31, 2010 to P5.1 billion as of 1<sup>st</sup> Qtr. 2011 primarily due to settlement of certain reinsurance balances payable and claims.

- **Accounts Payable and Accrued Expenses (P71M vs. P109M)**

Payment of withholding taxes and reversal of unreleased checks previously lodged to this account in December 2010 brought down the balance of accounts payable and accrued expenses by P37.6 million or 34.6% as of 1<sup>st</sup> Qtr. 2011.

- **Reserve for Unearned Reinsurance Premiums (P763M vs. P903M)**

The decrease in reserve for unearned premiums of P139.8 million or 15.5% was the resultant effect of premium subject to reserve at the end of 2010 being higher than premium subject to reserve as of 31 March 2011.

- **Deferred Reinsurance Commissions (P60M vs P130M)**

Deferred reinsurance commissions decreased by P70.4 million or 54%, consistent with the decline in deferred acquisition cost for the period.

- **Equity (P5,718M vs. P5,948M)**

The decline in equity of P230.6 million was the result of the negative change in revaluation reserve of P241 offset against net income of P10.7 million as of 1<sup>st</sup> Qtr. 2011.

**Key Performance Indicators:**

	1st Quarter 2011	1st Quarter 2010	% Inc.( Dec).
1. Net Income	P 11 million	P 42 million	(75%)
2. Earnings per share (a)	P 0.005	P .02	(75%)
3. Retention ratio (b)	41%	43%	
4. Combined ratio (c)	155%	112%	
5. Return on average equity	.18%	.68%	

(a) Net income divided by weighted average number of shares issued.

(b) Reinsurance premiums retained divided by reinsurance premiums (gross premiums written or GPW).

(c) Sum of loss ratio (107% / 65%) commissions ratio (32% / 34%) and expense ratio (16% / 13%).

Net Income (NI) - Net Income for the 1st Qtr. 2011 was P11 million compared to P42 in 1<sup>st</sup> Qtr. 2010.

Earnings per share (EPS) - The Company's EPS was at P.005 and P.02 as of 1st. Qtr. 2011 and 2010 respectively

Retention ratio - The retention ratio was at 41% in 1<sup>st</sup> Qtr. 2011, two percentages point lower than retention ratio of 43% in 1<sup>st</sup> Qtr. 2011

Combined ratio - The combined ratio was at 155% and 112% for the 1st Qtr. 2011 and 1<sup>st</sup> Qtr 2010 respectively.

Return on average equity (ROE) - ROE for the 1<sup>st</sup> Qtr. 2011 was at .18% compared to ROE in 1<sup>st</sup> Qtr. 2010 of .68%

**Discussion and Analysis of Material Events and Uncertainties:**

NRCP has nothing to report on the following:

- a) Any known trends, demands, commitments, events or uncertainties that will have a material impact on its liquidity.

- b) Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- c) Material off balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- d) Any material commitments for capital expenditures.
- e) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.
- f) Any significant elements of income or loss that did not arise from the issuer's continuing operations.
- g) Any seasonal aspects that had a material effect on the financial condition or results of operations.

#### **Financial Risk Disclosure**

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 Insurance Commission (IC) for any and all investments. The Company provides the IC with a monthly report on all investments made during the previous month. The IC reviews the investments and may require the immediate sale or disposal of investments deemed too risky.

A portion of the Company's funds are invested in equities. Section 200 of the Insurance Code 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 risk inherent in equity investments. The Company's own investment policy requires that the Company invest only in shares of common stock of companies that are listed on the Philippine Stock Exchange. Furthermore, these listed companies must have profitable business operations and market capitalization which are on a scale that would qualify them as blue chips.

The Company also invests in fixed income securities. The Company attempts to limit interest rate risk by establishing limits on the duration and average maturity of its fixed income portfolio. Investments in fixed income securities are made primarily to ensure adequate cash flow from investments to meet cash requirements. Moreover, investment in fixed income securities are limited only to securities issued by entities of undisputedly strong creditworthiness and to those instruments which have active secondary or resale markets to allow for transparent valuation and immediate liquidation in the event of market turmoil.

A certain portion of the Company's investments are in foreign currencies, particularly the U.S. Dollar. These investments are monitored closely and are limited to dollar-denominated obligations backed by the full faith and credit of the Republic of the Philippines (ROP's).

The Company does not invest in foreign securities nor does it invest in complex financial securities or derivatives. The Company's financial assets are generally classified as available-for-sale (AFS) and



are measured at fair value. For investments that are actively traded in organized financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date. The Company has not made nor does it intend to make any reclassification of financial assets held as investments.

**PART 11. - OTHER INFORMATION**

B. No other material information.

**NATIONAL REINSURANCE CORPORATION  
OF THE PHILIPPINES**

(Registrant)



**JOHN E. HUANG**

Senior Vice President and Chief Finance Officer



**ROBERTO B. CRISOL**

President and Chief Executive Officer

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**

**BALANCE SHEET**

**March 31, 2011 and December 31, 2010**

	<u>Notes</u>	<u>Mar. 2011</u> <u>(Unaudited)</u>	<u>Dec. 2010</u> <u>(Audited)</u>	<u>Changes</u>
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	2	1,165,700,068	613,287,054	552,413,014
REINSURANCE BALANCES RECEIVABLE-net	3	3,713,596,683	4,210,444,502	(496,847,819)
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	5,698,120,314	6,297,135,567	(599,015,253)
LOANS AND RECEIVABLES	5	266,251,199	360,688,116	(94,436,917)
PROPERTY AND EQUIPMENT-NET	6	148,474,418	154,407,065	(5,932,647)
DEFERRED ACQUISITION COST		122,875,173	198,420,037	(75,544,864)
DEFERRED REINSURANCE PREMIUMS	7	391,985,112	514,257,825	(122,272,713)
OTHER ASSETS	8	215,882,287	204,444,166	11,438,121
<b>TOTAL ASSETS</b>		<b>11,722,885,254</b>	<b>12,553,084,332</b>	<b>(830,199,078)</b>
<b>LIABILITIES AND EQUITY</b>				
REINSURANCE BALANCES PAYABLE	3	5,110,944,244	5,462,712,883	(351,768,639)
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	71,001,499	108,631,841	(37,630,342)
RESERVE FOR UNEARNED RI PREMIUMS	7	763,088,785	902,887,425	(139,798,640)
DEFERRED REINSURANCE COMMISSIONS		60,038,897	130,486,488	(70,447,591)
<b>TOTAL LIABILITIES</b>		<b>6,005,073,425</b>	<b>6,604,718,637</b>	<b>(599,645,212)</b>
<b>EQUITY</b>				
Capital Stock	14	2,181,954,600	2,181,954,600	-
Treasury Stock		(40,081,811)	(40,081,811)	-
Additional Paid in Capital		3,019,218,457	3,019,218,457	-
Revaluation reserve		152,387,416	393,670,096	(241,282,680)
Retained Earnings		404,333,167	393,604,353	10,728,814
<b>Total Equity</b>		<b>5,717,811,829</b>	<b>5,948,365,695</b>	<b>(230,553,866)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>11,722,885,254</b>	<b>12,553,084,332</b>	<b>(830,199,078)</b>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENTS OF INCOME (unaudited)**

For the Quarters ended March 31, 2011 and 2010)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>Inc(Dec)</u>	<u>%</u>
<b>Reinsurance Premium Income</b>					
Reinsurance premiums-net of returns		708,049,390	684,609,742	23,439,648	3.42%
Retroceded premiums		419,553,085	389,583,477	29,969,608	7.69%
Reinsurance premiums retained		288,496,305	295,026,265	(6,529,960)	-2.21%
Decrease in reserve for unearned reinsurance premiums	7	17,525,926	31,873,725	(14,347,799)	-45.01%
		<u>306,022,231</u>	<u>326,899,990</u>	<u>(20,877,759)</u>	-6.39%
<b>Underwriting deductions</b>					
Share in claims & losses		328,391,601	211,810,157	116,581,444	55.04%
Commissions, net		91,300,092	101,263,285	(9,963,193)	-9.84%
	11	<u>419,691,693</u>	<u>313,073,442</u>	<u>106,618,251</u>	34.06%
<b>Net Underwriting Income (Loss)</b>		<u>(113,669,462)</u>	<u>13,826,547</u>	<u>(127,496,009)</u>	-922.11%
<b>Investments and Other Income (Charges)</b>					
Interest		93,431,843	91,991,794	1,440,049	1.57%
Foreign currency gain (losses)		(490,138)	(17,829,906)	17,339,768	-97.25%
Others		94,231,889	10,526,507	83,705,382	795.19%
<b>Investment and Other Income</b>	10	<u>187,173,594</u>	<u>84,688,396</u>	<u>102,485,198</u>	121.01%
<b>Profit after Investment and Other Income</b>		73,504,132	98,514,943	(25,010,811)	-25.39%
<b>General and Administrative Expenses</b>	12,13	<u>45,063,830</u>	<u>38,318,411</u>	<u>6,745,419</u>	17.60%
<b>Profit Before Tax</b>		28,440,302	60,196,532	(31,756,230)	-52.75%
<b>Tax Expense</b>		17,711,488	17,849,759	(138,271)	-0.77%
<b>Net Profit</b>		<u>10,728,814</u>	<u>42,346,773</u>	<u>(31,617,959)</u>	-74.66%
<b>Earnings (loss) per Share</b>	16	0.005	0.02		

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**  
For the Quarters ended March 31, 2011 and 2010)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>Inc(Dec)</u>	<u>%</u>
NET PROFIT		10,728,814	42,489,161	(31,760,347)	74.75%
OTHER COMPREHENSIVE INCOME (LOSS)					
Fair value gains (losses)-net of taxes		<u>(241,282,679)</u>	<u>79,546,424</u>	(320,829,103)	403.32%
TOTAL COMPREHENSIVE INCOME (LOSS)		<u><b>(230,553,865)</b></u>	<u><b>122,035,585</b></u>	(352,589,450)	288.92%

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENT OF CHANGES IN EQUITY (unaudited)**  
**As of March 31, 2011 and 2010**

	<u>Notes</u>	<u>March. 2011</u>	<u>March. 2010</u>
<b>CAPITAL STOCK - P1 par value</b>			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2011 and 2010	14	<u>2,181,954,600</u>	<u>2,181,954,600</u>
<b>ADDITIONAL PAID IN CAPITAL</b>		<u>3,019,218,457</u>	<u>3,019,218,457</u>
<b>TREASURY SHARES (at cost)</b>		<u>(40,081,811)</u>	<u>(40,081,811)</u>
<b>REVALUATION RESERVE</b>			
Balance at beginning of the year		393,670,095	18,443,858
Changes during the period		<u>(241,282,679)</u>	<u>79,546,424</u>
		<u>152,387,416</u>	<u>97,990,282</u>
<b>RETAINED EARNINGS</b>			
Appropriated for contingencies			
Balance at beginning of the year		231,638,712	231,638,712
Additional appropriations		<u>1,072,881</u>	<u>4,234,677</u>
	14	<u>232,711,593</u>	<u>235,873,389</u>
Unappropriated			
Balance at beginning of the year		161,965,641	743,448,290
Net Income		10,728,814	42,346,773
Cash Dividend		-	-
Appropriated for contingencies		<u>(1,072,881)</u>	<u>(4,234,677)</u>
		<u>171,621,574</u>	<u>781,560,386</u>
		<u><b>5,717,811,829</b></u>	<u><b>6,276,515,303</b></u>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**CASH FLOW STATEMENTS (unaudited)**  
**For the three months period ended March 31, 2011 and March 31, 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	P 28,440,302	P 60,196,532
Adjustments for:		
Increase in reserve for unearned RI Premiums	(17,525,926)	(31,873,725)
Unrealized foreign currency loss (gain)	1,432,883	17,901,767
Depreciation	6,879,861	2,448,411
Interest income	(93,431,843)	(91,991,794)
Dividend income	(6,458,726)	(3,886,391)
Operating income before working capital changes	(80,663,449)	(47,205,200)
(Increase)Dec. in reinsurance balances receivable	495,251,776	(155,891,834)
Decrease (increase) in deferred acquisition costs	5,097,272	4,465,334
(Increase) in other assets	(11,861,501)	1,108,983
(Increase) Decrease in loans and receivables	39,581,187	8,744,870
Increase (decrease) in reinsurance balances payable	(350,409,212)	154,606,818
Increase (decrease) in accounts payable and accrued exp.	(37,630,341)	(16,462,929)
Cash generated from (used in) operations	59,365,732	(50,633,958)
Cash paid for income taxes	(17,711,488)	(17,707,371)
<b>Net Cash From (Used in) Operating Activities</b>	<b>41,654,244</b>	<b>(68,341,329)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	355,780,590	(30,967,534)
Property and equipment	(523,835)	(27,261,942)
Other investments	-	-
Interest received	150,567,573	138,032,200
Dividends received	6,458,726	3,886,391
<b>Net Cash From (Used in) Investing Activities</b>	<b>512,283,054</b>	<b>83,689,115</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividends	-	-
<b>Net Cash From (Used in) Financing Activities</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>553,937,298</b>	<b>15,347,786</b>
<b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	<b>(1,524,284)</b>	<b>(9,010,617)</b>
<b>CASH AND CASH EQUIVALENTS -January 1</b>	<b>613,287,054</b>	<b>683,659,159</b>
<b>CASH AND CASH EQUIVALENTS -March 31</b>	<b>P 1,165,700,068</b>	<b>P 689,996,328</b>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**Notes and Other Disclosures**

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense

**2. CASH AND CASH EQUIVALENTS**

This account consists of:

	<u>March 2011</u>	<u>December 2010</u>
Time deposits	P 1,037,772,198	P 582,571,993
Cash on hand and in banks	<u>127,927,870</u>	<u>30,715,061</u>
	<u>P 1,165,700,068</u>	<u>P 613,287,054</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 annual interest rates ranging from 3.75% to 4.31% in March 2011 and 1.25% to 4.25% in 2010 while dollar time deposits earn annual interest rates ranging from 1.50% to 1.55% in March 2011 and 0.20% to 1.63% in 2010. Cash in banks generally earn interest at rates based on daily bank deposit rates. The Cash and Cash Equivalents account includes foreign currency denominated cash of US\$2,718,311 (or P118,061,692) as of March 31, 2011 and of US\$3,824,365 (or P167,832,271) as of December 31, 2010.

**3. REINSURANCE BALANCES**

The details of reinsurance balances are as follows:

	<u>March 2011</u>	<u>December 2010</u>
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	P 2,858,596,072	P 2,725,681,141
Due from ceding companies	612,673,908	1,180,189,544
Reinsurance recoverable on paid losses	393,016,801	454,499,264
Funds held by ceding companies	<u>132,439,861</u>	<u>133,204,512</u>
	3,996,726,642	4,493,574,461
Allowance for impairment	( <u>283,129,959</u> )	( <u>283,129,959</u> )
	<u>P 3,713,596,683</u>	<u>P 4,210,444,502</u>
Reinsurance balances payable:		
Claims payable	P 4,929,087,894	P 4,664,381,653
Due to retrocessionaires	90,994,802	706,510,346
Funds held for retrocessionaires	<u>90,861,548</u>	<u>91,820,884</u>
	<u>P 5,110,944,244</u>	<u>P 5,462,712,883</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.

#### 4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>March 2011</u>	<u>December 2010</u>
Bonds	P 4,673,521,483	P 5,293,842,809
Equity securities - net	726,512,293	860,523,387
Investment in Asian Re shares	72,107,439	72,859,527
Various funds	<u>225,979,099</u>	<u>69,909,844</u>
	<u>P 5,698,120,314</u>	<u>P 6,297,135,567</u>

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting P190,000,000 both in 2011 and 2010, which are on deposit with the IC as security for the benefit of policyholders and creditors of the Company in accordance with the provisions of the Insurance Code of the Philippines.

Bonds earn interest at annual rates ranging from 3.75% to 15.00% both in 2011 and 2010. Interest income recognized are presented as part of Investment and Other Income in the statements of income (see Note 10).

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

	<u>March 2011</u>	<u>December 2010</u>
Due within one year	P 50,000,000	P 321,292
Due after one year through five years	2,470,515,274	2,954,923,197
Due after five years through ten years	2,037,285,464	2,216,792,651
Due after ten years	<u>115,720,745</u>	<u>121,805,669</u>
	<u>P 4,673,521,483</u>	<u>P 5,293,842,809</u>

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

	<u>March 2011</u>	<u>December 2010</u>
Cost:		
Quoted in the stock exchange	P 557,758,672	P 572,025,999
Not quoted in the stock exchange	<u>141,936,735</u>	<u>192,195,157</u>
	<u>699,695,407</u>	<u>764,221,156</u>
Fair value gains (losses):		
Quoted in the stock exchange	47,653,918	117,160,265
Not quoted in the stock exchange	<u>( 20,837,033)</u>	<u>( 20,858,034)</u>
	<u>26,816,885</u>	<u>96,302,231</u>
	<u>P 726,512,292</u>	<u>P 860,523,387</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 value and changes in the fair values are recognized under Other Comprehensive Income (Loss) in the statement of comprehensive income. The fair value of investment in Asian Re shares amounted to P72,107,439 and P72,859,527, as of March 31, 2011 and December 2010, respectively.

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

	<u>March 2011</u>	<u>December 2010</u>
Balance at beginning of year	P 6,297,135,567	P 6,048,736,164
Additions	2,311,462,323	1,698,465,088
Disposals/maturities	( 2,667,242,913)	( 1,809,273,516)
Fair value gains - net	( 241,282,679)	375,226,237
Foreign currency gains losses	( 1,951,984)	( 9,621,256)
Impairment losses	-	( 6,397,150)
Balance at end of year	<u>P 5,698,120,314</u>	<u>P 6,297,135,567</u>

Changes in fair value of available-for-sale financial assets, net of taxes, recognized as Fair Value Gains (Losses) account under Other Comprehensive Income (Loss) in the statements of comprehensive income amounted to P241,282,679 fair value loss in 2011 and P375,226,237 fair value loss in 2010.

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

## 5. LOANS AND RECEIVABLES

This account includes the following:

	<u>March 2011</u>	<u>December 2010</u>
Current:		
Term loans	P 150,000,000	P 150,000,000
Accrued interest receivable	35,390,298	92,526,029
Others	<u>23,587,914</u>	<u>30,593,197</u>
	<u>208,978,212</u>	<u>273,119,226</u>
Non-current:		
Term loans	50,000,000	80,000,000
Loans receivable	<u>7,272,987</u>	<u>7,568,890</u>
	<u>57,272,987</u>	<u>87,568,890</u>
	<u>P 266,251,199</u>	<u>P 360,688,116</u>

## 6. PROPERTY AND EQUIPMENT

Presented below are the gross carrying amounts and accumulated depreciation of property and equipment.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Carrying Amount</u>
Condominium Units	P 104,227,734	40,817,743	63,409,991
Office Improvement	7,918,239	6,179,507	1,738,732
Office Furniture/Equip.	9,703,881	9,385,051	318,830
Transportation equip.	10,021,769	5,938,697	4,083,072
Edp equipment	<u>109,387,984</u>	<u>30,464,191</u>	<u>78,923,793</u>
Total	<u>241,259,607</u>	<u>92,785,189</u>	<u>148,474,418</u>

## 7. DEFERRED REINSURANCE PREMIUMS AND RESERVE FOR UNEARNED REINSURANCE PREMIUMS

The movement of these accounts follows:

	<u>Deferred Reinsurance Premiums</u>		<u>Reserve for Unearned Reinsurance Premiums</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of year	P514,257,825	P771,688,546	P 902,887,425	P1,179,075,555
Decrease during the year	( <u>122,272,713</u> )	( <u>257,430,721</u> )	( <u>139,798,640</u> )	( <u>276,188,130</u> )
Balance at end of year	<u>P 391,985,112</u>	<u>P514,257,825</u>	<u>P 763,088,785</u>	<u>P 902,887,425</u>

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

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

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

## 8. OTHER ASSETS

The Other Assets account includes the following:

	<u>March 2011</u>	<u>December 2010</u>
Deferred input VAT	P 75,020,444	P 72,128,569
Creditable withholding tax	60,191,994	58,147,770
Investment property - net	34,231,729	34,655,106
Input VAT	30,009,458	24,095,334
Deferred withholding VAT	9,113,038	9,113,038
Prepayments	3,843,607	2,847,332
Deposit	590,200	575,200
Security fund	192,888	192,888
Others	2,688,929	2,688,929
	<u>P 215,882,287</u>	<u>P 204,444,166</u>

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

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

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

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

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

## 9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	<u>March 2011</u>	<u>December 2010</u>
Deferred output VAT	P 46,500,674	P 41,793,329
Accrued expenses	4,878,430	36,204,807
Defined benefit liability	13,273,056	13,273,056
Accounts payable and other liabilities	4,484,862	10,311,445
Withholding taxes payable	<u>1,864,477</u>	<u>7,049,204</u>
	<u>P 71,001,499</u>	<u>P 108,631,841</u>

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

## 10. INVESTMENT AND OTHER INCOME

The details of this account follow:

	<u>March 2011</u>	<u>March 2010</u>
Interest	P 93,431,843	P 91,991,795
Gain (loss) on sale of stocks	28,038,784	7,033,382
Dividend income	6,458,726	3,886,391
Foreign exchange gains (losses)	( 490,138 )	( 17,829,906 )
Trading gain	60,065,622	-
Other income (charges)	<u>( 331,243 )</u>	<u>( 393,266 )</u>
	<u>P 187,173,594</u>	<u>P 84,688,396</u>

**11. UNDERWRITING DEDUCTIONS****a. 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.

**b. Commissions – net**

This account consists of the following:

	<u>March 2011</u>	<u>March 2010</u>
Commission expense	P 153,666,734	P 155,500,400
Reinsurance revenues	<u>( 63,366,642)</u>	<u>( 54,237,115)</u>
	<u>P 91,300,092</u>	<u>P 101,263,285</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.

**12. GENERAL AND ADMINISTRATIVE EXPENSES**

The details of this account follow:

	<u>March 2011</u>	<u>March 2010</u>
Salaries and employee benefits	P 28,314,529	P 26,794,124
Depreciation and amortization	6,879,861	2,448,411
Professional fees	1,027,219	1,965,876
Repairs and maintenance	185,416	330,288
Taxes, licenses and fees	1,521,373	1,307,777
Transportation and traveling	965,850	725,927
Light and water	1,238,501	618,202
Representation and entertainment	1,351,788	722,086
Contract labor	550,598	398,397
Association and pool expense	802,643	761,031
Rental	332,667	587,416
Communication and postages	418,516	334,991
Printing and office supplies	382,447	429,008
Advertising and publicity	124,368	122,230
Insurance	292,902	262,575
Miscellaneous	<u>675,152</u>	<u>510,072</u>
	<u>P 45,063,830</u>	<u>P 38,318,411</u>

### 13. SALARIES AND EMPLOYEE BENEFITS

#### a. *Salaries and Employee Benefits*

Expenses recognized for employee benefits are presented below.

	<u>March 2011</u>	<u>March 2010</u>
Salaries and wages	P 20,018,280	P 19,792,601
Retirement	2,922,905	1,470,991
Allowances and bonus	1,209,412	1,218,037
Compensated absences	3,421,065	3,483,941
Social security costs	421,126	450,554
Others	321,741	378,000
	<u>P 28,314,529</u>	<u>P 26,794,124</u>

### 14. EQUITY

#### a. *Capital Stock*

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

	<u>March 2011</u>	<u>March 2010</u>
Issued	<u>2,181,954,600</u>	<u>2,181,954,600</u>

#### b. *Treasury Shares*

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.

#### c. *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 P232,711,593 as of March 31, 2011, and P235,873,389 as of March 31, 2010 respectively

## 15. 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.

### 15.1 Reinsurance Contracts with Related Parties

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

Reinsurance balances receivable from and payable to related parties are as follows

	<u>March 2011</u>	<u>December 2010</u>
Due from ceding companies	P 80,410,493	P 383,122,276
Reinsurance recoverable on losses	40,993,672	42,822,100
Funds held by ceding companies	47,199,150	51,166,242
Due to retrocessionaires	( 41,635,061)	( 42,822,100)
Funds held for retrocessionaires	( 895,144)	( 895,144)

### 15.2 Bank Accounts

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

	<u>March 2011</u>	<u>December 2010</u>
Time deposits	P -	P 84,000,000
Savings and current accounts	1,551,428	2,838,884
	<u>P 1,551,428</u>	<u>P 86,838,884</u>

### 15.3 Investment Management and Custodianship

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

	<u>March 2011</u>	<u>December 2010</u>
Cash and cash equivalents	P 1,443	P 359
Available-for-sale financial assets	1,504,251,093	1,509,452,819
Loans and receivables	72,062,226	100,626,261
	<u>P 1,576,314,762</u>	<u>P 1,610,079,439</u>

In consideration for the services rendered, the Company pays BPI service fees equivalent to a certain percentage of the market value of the investments. Total service fees paid for the years quarter ended March 31, 2011 and 2010 amounted to P831,324 and P691,344 respectively, and is charged against Other Income (Charges) under Investment and Other Income account (see Note 10) in the statements of income.

**15.4 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.

**16. Earnings (loss) Per Share**

The earnings per share amounts are as follows:

	<u>March 2011</u>	<u>March 2010</u>
Net income (loss) available to common shareholders	P 10,728,813	P 42,346,773
Divided by the average number of outstanding common shares	<u>2,159,677,600</u>	<u>2,159,677,600</u>
	<u>P 0.005</u>	<u>P 0.02</u>

**17. Other SEC requirements**

The following information, as a minimum, should be disclosed in the notes to financial statements, if material and if not disclosed elsewhere in the interim financial report:

<ul style="list-style-type: none"> <li>Explanatory comments about the seasonality or cyclicity of interim operations</li> </ul>	<ul style="list-style-type: none"> <li>Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents</li> </ul>	<ul style="list-style-type: none"> <li>Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>The nature and amount of changes in estimates of amounts reported in prior interim periods of the current fiscal year or changes in estimates of amounts reported prior financial years, if those changes have a material effect in the current interim period</li> </ul>	<ul style="list-style-type: none"> <li>Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>Issuances, repurchases, and repayments of debt and equity securities</li> </ul>	<ul style="list-style-type: none"> <li>Nothing to report.</li> </ul>

<ul style="list-style-type: none"> <li>• Dividends paid (aggregate or per share) separately for ordinary shares and other shares</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report</li> </ul>
<ul style="list-style-type: none"> <li>• Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting. ( This shall be provided only if the issuer is required to disclose segment information in its annual financial statements)</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report</li> </ul>
<ul style="list-style-type: none"> <li>• The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisitions or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• Changes in contingent liabilities or contingent assets since the last annual balance sheet date</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>
<ul style="list-style-type: none"> <li>• Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing to report.</li> </ul>



**AGING OF REINSURANCE BALANCES RECEIVABLE**

As of March 31, 2011

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	613	331	282
Reinsurance recoverable on paid losses	393	9	384
Reinsurance recoverable un unpaid losses	2,859	2,859	-
Funds Held by Ceding companies	132	132	-
	<u>3,997</u>	<u>3,331</u>	<u>666</u>
Allowance for impairment*	<u>(283)</u>		
	<u><u>3,714</u></u>		

\*Our policy on providing provision on receivables of more than one year is by specific identification method and each account has been subjected to impairment test.