

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 2012

0 6 2 7

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

("PhIINaRe")

(Company's Full Name)

**18th 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 27, 2012
(Annual Meeting)

SEC FORM 17-Q

Quarterly Report

1st Quarter Ending 31 March 2012

(Form Type)

Amendment Designation (If applicable)

(Secondary License Type and File Number)

Cashier

LCU

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 2012**
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> |
|----------------------------|---|
| <u>Common</u> | <u>2,123,605,600</u> |
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 23 of this report are filed as part of this Form 17-Q:

- a. Statements of Financial Position as of 31 March 2012 and 31 December 2011.
- b. Statements of Income for the Quarters Ended 31 March 2012 and 31 March 2011.
- c. Statements of Comprehensive Income for the Quarters ended 31 March 2012 and 31 March 2011.
- d. Statements of Changes in Stockholders Equity as of 31 March 2012 and 31 March 2011.
- e. Statements of Cash Flows as of 31 March 2012 and 31 March 2011.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, 1st Quarter 2012

Results of Operations

Reinsurance Premium Income

Reinsurance premiums for the quarter ended 31 March 2012 decreased by P80.0 million or 11.3% to P628.0 million from P708.0 million for the quarter ended 31 March 2011. The decline was due to a decrease in non-life reinsurance premiums, which reflects the Company's continuing conservative underwriting stance in light of underwriting losses from previous years.

Reinsurance premiums from the Company's marine business decreased by P29.2 million (46.1%) from P63.3 million in the first quarter of 2011 to P34.1 million in the first quarter of 2012 as the Company continues to wind down its business in this unprofitable line. Premiums from the casualty line decreased by P58.3 million (19%) from P306.1 million in the first quarter of 2011 to P247.9 million in the first quarter of 2012. Reinsurance premiums from fire decreased by P16.4 million (8%) from P204.9 million in the first quarter of 2011 to P188.5 million in the first quarter of 2012. These declines were not sufficiently offset by an increase in reinsurance premiums from the life business which increased by 17.9% or P23.9 million from P133.7 million in the first quarter of 2011 to P157.5 million in the first quarter of 2012.

Reinsurance premiums retained for the quarter ended 31 March 2012 decreased by P45.5 million or 15.8% to P 243 million from P288.5 million for the quarter ended 31 March 2011. The rate of decline was higher than the decrease in gross premiums for the period because of a lower retention ratio for the quarter vs. the corresponding quarter in 2011 (39% vs. 41%)

With the decrease in unearned premium reserve flat at P18 million for the first quarter of 2012 and the first quarter of 2011, earned premiums declined by 14.6% from P306 million in the first quarter of 2011 to P261.5 million in the first quarter of 2012. This decrease is consistent with the drop in net premiums retained.

Underwriting Deductions

Share in claims and losses decreased by P119.9 million or 36.5% in the quarter ended 31 March 2012 to P208 million from P328.4 million in the quarter ended 31 March 2011. The resulting loss ratio of 80% represents a significant improvement in underwriting performance from the loss ratio of 107% in the first three months of 2011. This led to a substantial decline in net underwriting loss for the period compared to the previous year.

Net commission expense in the first quarter of 2012 decreased by P20.1 million or 22% to P71 million from P91.3 million in the first quarter of 2011. While the decline can be traced to a lower level of premiums ceded, it was also due in part to a lower average commission ratio of 29.3% in the first quarter of 2012 as against 31.7% in the corresponding period in 2011.

Investment and Other Income (Charges)

Investment and other income posted an increase of 48% or P89.8 from P187.2 million in the first three months of 2011 to P277.0 million in the first three months of 2012. The growth was largely due to trading gains from equity and fixed income securities in the Company's investment portfolio.

Interest income increased by P5.2 million or 5.6% from P93.4 million for the first quarter of 2011 to P98.7 million for the first quarter of 2012, reflecting a shift to higher yielding corporate debt instruments from government securities.

Foreign currency loss for the first quarter of 2012 was P4.1 million as against a foreign currency loss of P0.4 million for the first quarter of 2011, as the appreciation of the Philippine Peso against the U.S. dollar continued.

For the first quarter of 2012, other income, consisting primarily of trading gains (P178.6 million) and dividend income (4.8 million), was almost double the amount booked for the first quarter of 2011.

General and Administrative Expenses

General and administrative expenses increased P12.6 million or 27.9% to P57.6 million for first three months of 2012 compared to P45.1 million for the first three months of 2011. The increase was primarily the result of increases in manpower and related employee benefits costs as well as depreciation expenses for the period.

Tax expense

The Company's tax expense was flat at P18 million for the first quarter of 2012 and the first quarter of 2011.

Net Profit (loss)

The Company's net profit for the first quarter of 2012 amounted to P182.2 million compared to net profit of P10.7 million for the first quarter of 2011. Contributing to the improvement in net income were substantial reductions in underwriting loss as well as significant increase in investment income.

Financial Condition

Total resources as of 31 March 2012 of P13.6 billion was P947 million higher than total resources of P12.6 billion as of December 31, 2011. Material changes in the company's resources are described below:

- **Cash and cash equivalents (P1,751M vs. P1,700M)**

Cash and cash equivalents were up by 3% or P51.4 million to P1.8 billion due to collection of receivables on the sale of some fixed income securities at the end of 2011.

- **Reinsurance Balances Receivable-net (P4,766M vs. 3,892M)**

Reinsurance balances receivable rose by 22.4% or P874 million largely due to increase in reinsurance recoverable on losses (representing the amount of claims that can be recovered from the Company's retrocessionaires) from P3.9 billion as of 31 December 2011 to P4.8 billion as of 31 March 2012. These loss recoveries relate largely to claims related to the recent floods in Thailand. The Company booked losses in excess of P1 billion for the November-December 2011 Thai floods (see Claims Payable below) but, with the exception of the Company's underlying retention of P30 million, substantially all these claims are recoverable from the Company's excess of loss reinsurers.

- **Available-for Sale Financial Assets (P5,593M vs. 5,366M)**

Available for sale (AFS) financial assets as of 31 March 2012 increased to P5.6 billion from P5.4 billion as of 31 December 2011 due to gains in the fair value of AFS assets and additional investments in equity securities.

- **Loans and Receivables (P612M vs. P585M)**

Loans and receivables increased by P27.7 million or 4.7% mainly due to additional investment in term loans.

- **Property and Equipment, net (P128M vs. P127M)**

Property and equipment, net of accumulated depreciation, amounted to P127.9 million, as of 31 March 2012, a small increase of 0.39% from P127.4 million as of 31, December 2011. The increase is accounted for by minor office renovation costs.

- **Deferred Acquisition Cost (P166 vs. P136M)**

The decrease of P29.5 million in deferred acquisition cost relate to portions of reinsurance commissions deferred as of December 31, 2011 that were expensed as of March 31, 2012 under the 24th method of reinsurance accounting.

- **Deferred Reinsurance Premium (P342M vs. P564M)**

Deferred reinsurance premium decreased by P222.4 million or 39.4% as of 31 March 2012 due to recognition of a portion of reinsurance premiums deferred as of December 31, 2011 as ceded under the 24th method of reinsurance accounting.

- **Other Assets (P285M vs. P266M)**

Other assets increased by 7.1% or P18.8 million from P266.1 million as of 31 December 2011 to P284.9 million as of 31 March 2012 largely as a result of increases in intangible assets, primarily software licenses (P6 million), input VAT (P6 million) and prepayments (P3 million).

- **Liabilities (P7,291M vs. P6,512M)**

Total liabilities increased by P779 million or 11.9% from P6.5 billion as of 31 December 2011 to P7.3 billion as at 31 March 2012. The increase in total liabilities is explained below:

- **Reinsurance Balances Payable (P6,418M vs. P5,428M)**

Reinsurance balances payable increased by P990.6 million or 18.3% from P5.4 billion as of December 31, 2011 to P6.4 billion as of 1st Qtr. 2012 primarily due increase in claims payable, related to the Thai floods mentioned above.

- **Accounts Payable and Accrued Expenses (P162M vs. P107M)**

Accounts payable and accrued expenses increased by 50.5% or P54.3 million due to purchases of certain investments on account.

- **Reserve for Unearned Reinsurance Premiums (P657M vs. P897M)**

The decrease in reserve for unearned premiums of P240.9 million or 26.8% was the resultant effect of premium subject to reserve at the end of 2011 being higher than premium subject to reserve as of 31 March 2012. This decrease, less the decrease in deferred reinsurance premiums, gives rise to the P18 million decrease in reserve for unearned premium booked in the Company's income statement.

- **Deferred Reinsurance Commissions (P54M vs P79M)**

Deferred reinsurance commissions decreased by P25.0 million or 31.5%, as reinsurance commission income subject to 24th method of reinsurance accounting as of December 31, 2011 deemed earned as of 31 March 2012.

- **Equity (P6,294M vs. P6,126M)**

Equity increased by P167.9 million due to a combination of net income for the period of P182.2 million and a decline in revaluation reserve of P14.3 as of 31 March 2012.

Key Performance Indicators:

	1st Quarter 2012	1 st Quarter 2011	% Inc.(Dec).
1. Net Income	₱ 182 million	₱ 11 million	1555%
2. Earnings per share (a)	₱ 0.09	₱ .005	1627%
3. Retention ratio (b)	39%	41%	
4. Combined ratio (c)	133%	155%	
5. Return on average equity	2.9%	.18%	

- (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 (80% /107%) commissions ratio (29% / 32%) and expense ratio (24% /16%).

Net Income (NI) - Net Income for the 1st Qtr. 2012 was P182 million compared to P11 million in 1st Qtr. 2011.

Earnings per share (EPS) - The Company's EPS was at P.09 and P.005 for 1st Qtr.2012 and 1st Qtr. 2011, respectively.

Retention ratio - The retention ratio was at 39% in 1st Qtr. 2012 , two percentages point lower than retention ratio of 41% in 1st Qtr. 2011

Combined ratio - The combined ratio was at 133% and 155% for the 1st Qtr. 2012 and 1st Qtr 2011 respectively.

Return on average equity (ROE) - ROE for 1st Qtr. 2012 was at 2 .9% compared to ROE in 1st Qtr. 2011 of .18%

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.

PFRS 9 Disclosure

In line with SEC Memorandum Circular No. 3 (Series of 2011) on Guidelines on the Implementation of PFRS 9 (Financial Instruments: Recognition and Measurement), the Company, as of the date of this report, discloses that it does not expect to implement and adopt PFRS 9 until the effective date of said standard or until all chapters of this new standard have been published.

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, 2012 and December 31, 2011

	<u>Notes</u>	<u>Mar. 2012</u> <u>(Unaudited)</u>	<u>Dec. 2011</u> <u>(Audited)</u>	<u>Changes</u>
ASSETS				
CASH AND CASH EQUIVALENTS	2	1,751,192,562	1,699,806,389	51,386,173
REINSURANCE BALANCES RECEIVABLE-net	3	4,765,678,370	3,892,173,173	873,505,197
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	5,592,631,742	5,365,644,659	226,987,083
LOANS AND RECEIVABLES	5	612,282,347	584,623,402	27,658,945
PROPERTY AND EQUIPMENT-NET	6	127,870,483	127,375,909	494,574
DEFERRED ACQUISITION COST		108,374,709	137,880,973	(29,506,264)
DEFERRED REINSURANCE PREMIUMS	7	342,037,918	564,483,447	(222,445,529)
OTHER ASSETS	8	284,926,617	266,094,166	18,832,451
TOTAL ASSETS		13,584,994,748	12,638,082,118	946,912,630
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	3	6,418,406,957	5,427,830,997	990,575,960
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	161,793,983	107,474,813	54,319,170
RESERVE FOR UNEARNED RI PREMIUMS	7	656,544,222	897,469,364	(240,925,142)
DEFERRED REINSURANCE COMMISSIONS		54,262,046	79,232,764	(24,970,718)
TOTAL LIABILITIES		7,291,007,208	6,512,007,938	778,999,270
EQUITY				
Capital Stock	14	2,181,954,600	2,181,954,600	-
Treasury Stock		(100,525,432)	(100,525,432)	-
Additional Paid in Capital		3,019,218,457	3,019,218,457	-
Revaluation reserve		320,407,115	334,665,263	(14,258,148)
Retained Earnings		872,932,800	690,761,292	182,171,508
Total Equity		6,293,987,540	6,126,074,180	167,913,360
TOTAL LIABILITIES & EQUITY		13,584,994,748	12,638,082,118	946,912,630

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

For the Quarters ended March 31, 2012 and 2011)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums-net of returns		628,029,227	708,049,390	(80,020,163)	-11.30%
Retroceded premiums		385,022,900	419,553,085	(34,530,185)	-8.23%
Reinsurance premiums retained		243,006,327	288,496,305	(45,489,978)	-15.77%
Decrease in reserve for unearned reinsurance premiums	7	18,479,612	17,525,926	953,686	5.44%
		<u>261,485,939</u>	<u>306,022,231</u>	<u>(44,536,292)</u>	<u>-14.55%</u>
Underwriting deductions					
Share in claims & losses		208,504,011	328,391,601	(119,887,590)	-36.51%
Commissions, net		71,212,427	91,300,092	(20,087,665)	-22.00%
	11	<u>279,716,438</u>	<u>419,691,693</u>	<u>(139,975,255)</u>	<u>-33.35%</u>
Net Underwriting Income (Loss)		<u>(18,230,499)</u>	<u>(113,669,462)</u>	<u>95,438,963</u>	<u>-83.96%</u>
Investments and Other Income (Charges)					
Interest		98,660,890	93,431,843	5,229,047	5.60%
Foreign currency gain (losses)		(4,079,297)	(490,138)	(3,589,159)	732.28%
Others		182,370,554	94,231,889	88,138,665	93.53%
Investment and Other Income	10	<u>276,952,147</u>	<u>187,173,594</u>	<u>89,778,553</u>	<u>47.97%</u>
Profit after Investment and Other Income		258,721,648	73,504,132	185,217,516	251.98%
General and Administrative Expenses	12,13	<u>57,621,262</u>	<u>45,063,830</u>	<u>12,557,432</u>	<u>27.87%</u>
Profit Before Tax		201,100,386	28,440,302	172,660,084	607.10%
Tax Expense		<u>18,928,879</u>	<u>17,711,488</u>	<u>1,217,391</u>	<u>6.87%</u>
Net Profit		<u>182,171,507</u>	<u>10,728,814</u>	<u>171,442,693</u>	<u>1597.97%</u>
Earnings per Share	16	0.09	0.005		

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
For the Quarters ended March 31, 2012 and 2011)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>	<u>Inc(Dec)</u>	<u>%</u>
NET PROFIT		182,171,507	10,728,814	171,442,693	1597.97%
OTHER COMPREHENSIVE INCOME (LOSS)					
Fair value gains (losses)-net of taxes	4	<u>(14,258,148)</u>	<u>(241,282,679)</u>	227,024,531	94.09%
TOTAL COMPREHENSIVE INCOME (LOSS)		<u>167,913,359</u>	<u>(230,553,865)</u>	398,467,224	172.83%

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENT OF CHANGES IN EQUITY (unaudited)
As of March 31, 2012 and 2011

	<u>Notes</u>	<u>March. 2012</u>	<u>March. 2011</u>
CAPITAL STOCK - P1 par value			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2012 and 2011			
	14	<u>2,181,954,600</u>	<u>2,181,954,600</u>
-			
ADDITIONAL PAID IN CAPITAL		<u>3,019,218,457</u>	<u>3,019,218,457</u>
-			
TREASURY SHARES (at cost)	14	<u>(100,525,432)</u>	<u>(40,081,811)</u>
REVALUATION RESERVE			
Balance at beginning of the year		334,665,263	393,670,095
Changes during the period		<u>(14,258,147)</u>	<u>(241,282,679)</u>
		<u>320,407,116</u>	<u>152,387,416</u>
RETAINED EARNINGS			
Appropriated for contingencies			
Balance at beginning of the year		265,673,762	231,638,712
Additional appropriations		<u>18,217,151</u>	<u>1,072,881</u>
	14	<u>283,890,913</u>	<u>232,711,593</u>
Unappropriated			
Balance at beginning of the year		425,087,530	161,965,641
Net Income		182,171,507	10,728,814
Cash Dividend		-	-
Appropriated for contingencies		<u>(18,217,151)</u>	<u>(1,072,881)</u>
		<u>589,041,886</u>	<u>171,621,574</u>
		<u>6,293,987,540</u>	<u>5,717,811,829</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS (unaudited)
For the three months period ended March 31, 2012 and March 31, 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	P 201,100,387	P 28,440,302
Adjustments for:		
Increase in reserve for unearned RI Premiums	(18,479,612)	(17,525,926)
Unrealized foreign currency loss (gain)	2,330,330	1,432,883
Gain on sale of available-for-sale financial assets	(54,951,570)	(28,038,784)
Gain on sale of property and equipment	(10,000)	-
Depreciation	8,335,336	6,879,861
Interest income	(98,660,890)	(93,431,843)
Dividend income	(4,767,411)	(6,458,726)
Operating income before working capital changes	34,896,570	(108,702,233)
(Increase)Dec. in reinsurance balances receivable	(886,675,982)	495,251,776
Decrease (increase) in deferred acquisition costs	4,535,546	5,097,272
(Increase) in other assets	(12,751,544)	(11,861,501)
(Increase) Decrease in loans and receivables	(54,844,673)	39,581,187
Increase (decrease) in reinsurance balances payable	1,006,949,436	(350,409,212)
Increase (decrease) in accounts payable and accrued exp.	54,319,170	(37,630,341)
Cash generated from (used in) operations	146,428,523	31,326,948
Cash paid for income taxes	(18,928,879)	(17,711,488)
Net Cash From (Used in) Operating Activities	127,499,644	13,615,460
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(189,835,356)	383,819,374
Property and equipment	(14,900,817)	(523,835)
Other investments	-	-
Interest received	125,846,618	150,567,573
Dividends received	4,767,411	6,458,726
Net Cash From (Used in) Investing Activities	(74,122,144)	540,321,838
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	-	-
Net Cash From (Used in) Financing Activities	-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	53,377,500	553,937,298
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	(1,991,327)	(1,524,284)
CASH AND CASH EQUIVALENTS -January 1	1,699,806,389	613,287,054
CASH AND CASH EQUIVALENTS -March 31	P 1,751,192,562	P 1,165,700,068

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 2012</u>	<u>December 2011</u>
Short-term placements	P 1,526,116,591	P 1,663,869,249
Cash on hand and in banks	<u>225,075,971</u>	<u>35,937,140</u>
	<u>P 1,751,192,562</u>	<u>P 1,699,806,389</u>

Short-term placements include time deposits and special deposit accounts made for varying periods between one day and one month depending on the liquidity requirements of the Company. Peso short-term placements earn annual interest rates ranging from 1.5% to 4.4375% in 2012 and from 1.25% to 4.75% in 2011 while dollar short-term placements earn annual interest rates ranging from 1.0% to 1.60% in 2012 and from 0.02% to 1.75% in 2011. 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\$796,625 (or P34,254,875) as of March 31, 2012 and US\$4,906,842 (or P215,547,761) as of December 31, 2011.

3. REINSURANCE BALANCES

The details of reinsurance balances are as follows:

	<u>March 2012</u>	<u>December 2011</u>
Reinsurance balances receivable:		
Reinsurance recoverable on unpaid losses	P 3,962,950,400	P 2,589,586,325
Due from ceding companies	610,639,075	1,076,598,889
Reinsurance recoverable on paid losses	365,628,597	396,607,866
Funds held by ceding companies	<u>142,090,257</u>	<u>145,010,052</u>
	5,081,308,329	4,207,803,132
Allowance for impairment	(<u>315,629,959</u>)	(<u>315,629,959</u>)
	<u>P 4,765,678,370</u>	<u>P 3,892,173,173</u>
Reinsurance balances payable:		
Claims payable	P 6,038,364,595	P 4,661,427,080
Due to retrocessionaires	293,583,591	677,808,010
Funds held for retrocessionaires	<u>86,458,771</u>	<u>88,595,907</u>
	<u>P 6,418,406,957</u>	<u>P 5,427,830,997</u>

Reinsurance balances receivable pertains to the following:

- Reinsurance recoverable on unpaid losses represents amounts due from retrocessionaires under treaty and facultative agreements as their share in losses.
- Due from ceding companies refers to the premiums receivable from the cedants as a result of treaty and facultative acceptances.
- Funds held by ceding companies pertains to the portion of reinsurance premiums withheld by ceding companies in accordance with treaty and facultative agreements.

Reinsurance balances payable relates to the following:

- Claims payable are losses and claims due to ceding companies under treaty and facultative agreements.
- Due to retrocessionaires are unremitted share in premiums of retrocessionaires.
- Funds held for retrocessionaires represents portion of the reinsurance premium ceded to retrocessionaires which was withheld by the Company in accordance with treaty and facultative agreements.

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 2012</u>	<u>December 2011</u>
Bonds	P 4,489,262,770	P 4,570,453,923
Equity securities - net	840,892,393	602,079,356
Investment in Asian Re shares	76,252,330	77,897,962
Various funds	<u>186,224,249</u>	<u>115,213,418</u>
	<u>P 5,592,631,742</u>	<u>P 5,365,644,659</u>

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting P428,500,000 and 187,500,000 in March 2012 and December 2011 respectively, 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 4.00% to 15.00% and 3.75% to 15.00% in 2012 and December 2011 respectively. Interest incomes 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 2012</u>	<u>December 2011</u>
Due within one year	P 354,199,738	P 332,831,836
Due after one year through five years	969,034,878	782,494,524
Due after five years through ten years	1,751,237,166	1,073,433,259
Due after ten years	<u>1,414,790,988</u>	<u>2,381,694,304</u>
	<u>P 4,489,262,770</u>	<u>P 4,570,453,923</u>

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

	<u>March 2012</u>	<u>December 2011</u>
Cost:		
Quoted in the stock exchange	P 735,271,101	P 539,093,950
Not quoted in the stock exchange	<u>86,439,762</u>	<u>40,636,735</u>
	<u>821,710,863</u>	<u>579,730,685</u>
Fair value gains (losses):		
Quoted in the stock exchange	40,636,735	43,803,877
Not quoted in the stock exchange	(21,455,205)	(21,455,206)
	<u>19,181,530</u>	<u>22,348,671</u>
	<u>P 840,892,393</u>	<u>P 602,079,356</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 P76,252,330 and P77,897,962, as of March 31, 2012 and December 2011, respectively.

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

	<u>March 2012</u>	<u>December 2011</u>
Balance at beginning of year	P 5,365,644,659	P 6,297,135,567
Additions	2,752,102,533	7,213,870,663
Disposals/maturities	(2,507,315,607)	(8,086,208,824)
Fair value gains(loss) - net	(14,258,148)	(59,004,832)
Foreign currency gains (losses)	(3,541,695)	(147,915)
Balance at end of year	<u>P 5,592,631,742</u>	<u>P 5,365,644,659</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 P14,258,148 and P59,004,832 fair value losses in March 2012 and December 2011.

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 2012</u>	<u>December 2011</u>
Current:		
Term loans	P 150,000,000	P 150,000,000
Accrued interest receivable	48,622,052	75,807,780
Others	<u>1,983,057</u>	<u>146,395,665</u>
	<u>200,605,109</u>	<u>372,203,445</u>
Non-current:		
Term loans	400,000,000	200,000,000
Loans receivable	<u>11,677,238</u>	<u>12,419,957</u>
	<u>411,677,238</u>	<u>212,419,957</u>
	<u>P 612,282,347</u>	<u>P 584,623,402</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 154,882,915	64,811,179	90,071,736
Office Improvement	14,321,297	6,925,309	7,395,988
Office Furniture/Equipment	11,380,122	9,659,404	1,720,718
Transportation Equipment	12,537,057	2,907,676	9,629,381
EDP Equipment	<u>39,249,101</u>	<u>20,196,441</u>	<u>19,052,660</u>
Total	<u>232,370,492</u>	<u>104,500,009</u>	<u>127,870,483</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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Balance at beginning of year	P 564,483,447	P 514,257,825	P 897,469,364	P 902,887,425
Inc (Dec) during the year	(<u>222,445,529</u>)	<u>50,225,622</u>	(<u>240,925,142</u>)	(<u>5,418,061</u>)
Balance at end of year	<u>P 342,037,918</u>	<u>P 564,483,447</u>	<u>P 656,544,222</u>	<u>P 897,469,364</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 2012</u>	<u>December 2011</u>
Deferred input VAT	P 70,155,276	P 69,065,709
Creditable withholding tax	81,083,782	77,434,655
Intangible assets – net	68,396,441	62,314,284
Investment property - net	2,848,659	2,849,909
Input VAT	43,519,056	38,606,219
Deferred withholding VAT	9,200,181	9,200,181
Prepayments	4,449,788	2,500,391
Deposit	604,312	672,309
Security fund	192,888	192,888
Others	4,476,234	3,257,621
	<u>P 284,926,617</u>	<u>P 266,094,166</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.

Intangible assets pertain to acquired computer software licenses used in production and administration. The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of March 31, 2012 and 2011 follows:

	<u>March 2012</u>	<u>December 2011</u>
Cost	P 100,106,143	P 89,629,802
Accumulated amortization	(31,709,702)	(27,315,518)
Balance at end of year	<u>P 68,396,441</u>	<u>P 62,314,284</u>

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	<u>March 2012</u>	<u>December 2011</u>
Deferred output VAT	P 41,758,605	P 41,439,173
Accrued expenses	6,439,744	8,605,241
Defined benefit liability	14,393,991	11,537,344
Accounts payable and other liabilities	96,111,124	43,935,951
Withholding taxes payable	<u>3,090,519</u>	<u>1,957,104</u>
	<u>P 161,793,983</u>	<u>P 107,474,813</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 2012</u>	<u>March 2011</u>
Interest	P 98,660,890	P 93,431,843
Gain on sale of stocks	54,951,570	28,038,784
Dividend income	4,767,411	6,458,726
Foreign exchange loss	(4,079,297)	(490,138)
Trading gains	123,658,292	60,065,622
Gain on sale of property & equipment	10,000	-
Other income (charges)	<u>(1,016,719)</u>	<u>(331,243)</u>
	<u>P 276,952,147</u>	<u>P 187,173,594</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 2012</u>	<u>March 2011</u>
Commission expense	P 108,685,111	P 153,666,734
Reinsurance revenues	<u>(37,472,684)</u>	<u>(62,366,642)</u>
	<u>P 71,212,427</u>	<u>P 91,300,092</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 2012</u>	<u>March 2011</u>
Salaries and employee benefits	P 37,883,816	P 28,314,529
Depreciation and amortization	8,335,336	6,879,861
Professional fees	1,813,077	1,027,219
Repairs and maintenance	1,865,504	185,416
Taxes, licenses and fees	1,423,696	1,521,373
Transportation and traveling	493,392	965,850
Light and water	772,581	1,238,501
Representation and entertainment	560,142	1,351,788
Contract labor	538,281	550,598
Association and pool expense	1,055,882	802,643
Rental	222,723	332,667
Communication and postages	586,110	418,516
Printing and office supplies	277,369	382,447
Advertising and publicity	136,500	124,368
Insurance	249,322	292,902
Miscellaneous	<u>1,407,531</u>	<u>675,152</u>
	<u>P 57,621,262</u>	<u>P 45,063,830</u>

13. SALARIES AND EMPLOYEE BENEFITS

a. *Salaries and Employee Benefits*

Expenses recognized for employee benefits are presented below.

	<u>March 2012</u>	<u>March 2011</u>
Salaries and wages	P 19,908,622	P 20,018,280
Retirement	4,388,744	2,922,905
Allowances and bonus	7,747,838	1,209,412
Compensated absences	4,621,508	3,421,065
Social security costs	441,420	421,126
Others	775,684	321,741
	<u>P 37,883,816</u>	<u>P 28,314,529</u>

14. EQUITY

14.1 Capital Stock

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

On April 27, 2007, the SEC approved the listing of the Company's shares totalling 741,902,600. The shares were initially issued at an offer price of P3.80 per share. As of March 31, 2012, there are 288 holders of the listed shares. Such listed shares closed at P2.48 per share as of March 31, 2012

14.2 Treasury Shares

In 2011, the Company acquired 36,072,000 of its own shares at a total cost of P60,443,621. The total reacquired shares as of March 31, 2012 and December 31, 2011 is 58,349,000 at a total cost of P100,525,432.

14.3 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 P283,890,913 as of March 31, 2012, and P265,673,762 as of December 31, 2011 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:

	<u>March 2012</u>	<u>December 2011</u>
Premiums	P 94,853,784	P 1,146,301,458
Retrocessions	1,198,990	78,331,370
Commission income	-	10,617,793
Commission expenses	22,687,876	190,804,367
Losses incurred	17,720,862	208,301,660
Loss recoveries	149,969	1,069,069

As a result of the above transactions, reinsurance balances receivable from and payable to related parties are as follows (see Note 3):

	<u>March 2012</u>	<u>December 2011</u>
Due from ceding companies	P 262,766,589	P 349,177,047
Reinsurance recoverable on losses	56,489,404	86,781,419
Funds held by ceding companies	51,805,122	51,280,665
Claims payable	974,744,011	933,975,767
Due to retrocessionaires	18,825,198	33,293,883
Funds held for retrocessionaires	164,032	164,032

The balance of due from ceding companies pertaining to related parties is presented net of P30,700,236 allowance for impairment as of March 31, 2012 and December 2011.

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 2012</u>	<u>December 2011</u>
Time deposits	P -	P -
Savings and current accounts	<u>2,631,609</u>	<u>4,457,906</u>
	<u>P 2,631,609</u>	<u>P 4,457,906</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 2012</u>	<u>December 2011</u>
Cash and cash equivalents	P 8,361,770	P 290,649,107
Available-for-sale financial assets	1,699,275,536	1,276,647,973
Loans and receivables	<u>111,465,447</u>	<u>120,626,261</u>
	<u>P 1,819,102,753</u>	<u>P 1,687,923,341</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, 2012 and 2011 amounted to P948,979 and P831,324 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.

16. Earnings (loss) Per Share

The earnings per share amounts are as follows:

	<u>March 2012</u>	<u>March 2011</u>
Net income (loss) available to common shareholders	P 182,171,508	P 10,728,813
Divided by the average number of outstanding common shares	<u>2,123,605,600</u>	<u>2,159,677,600</u>
	<u>P 0.09</u>	<u>P 0.005</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"> Explanatory comments about the seasonality or cyclical nature of interim operations 	<ul style="list-style-type: none"> Nothing to report.
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Nothing to report.
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Nothing to report.
<ul style="list-style-type: none"> Issuances, repurchases, and repayments of debt and equity securities 	<ul style="list-style-type: none"> Nothing to report.
<ul style="list-style-type: none"> Dividends paid (aggregate or per share) separately for ordinary shares and other shares 	<ul style="list-style-type: none"> Nothing to report.

<ul style="list-style-type: none"> • 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) 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period 	<ul style="list-style-type: none"> • Nothing to report
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • Changes in contingent liabilities or contingent assets since the last annual balance sheet date 	<ul style="list-style-type: none"> • Nothing to report.
<ul style="list-style-type: none"> • Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period. 	<ul style="list-style-type: none"> • Nothing to report.

AGING OF REINSURANCE BALANCES RECEIVABLE

As of March 31, 2012

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	611	182	429
Reinsurance recoverable on paid losses	366	20	346
Reinsurance recoverable un unpaid losses	3,963	3,963	-
Funds Held by Ceding companies	142	142	-
	<u>5,082</u>	<u>4,307</u>	<u>775</u>
Allowance for impairment*	<u>(316)</u>		
	<u>4,766</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.