

**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)

**July 23, 2007**

(Annual Meeting)

**SEC FORM 17-Q**

**Quarterly Report**

**1<sup>st</sup> Quarter Ending 31 March 2007**

(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 2007
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>741,902,600</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**

- a. Balance Sheet as of 31 March 2007 and December 31, 2006.
- b. Income Statement for the Quarter Ended 31 March 2007 and 31 March 2006.
- c. Statement of Changes in Stockholders Equity for the Quarter Ended 31 March 2007 and 31 March 2006.
- d. Statement of Cash Flows as of 31 March 2007 and 31 March 2006.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, 1<sup>st</sup> Quarter (National Reinsurance Corporation of the Philippines)**

**Results of Operations**

**Reinsurance Premium Income**

Reinsurance premiums in 1<sup>st</sup> Qtr. 2007 increased by 15.2% to ₱723M from ₱628M in 1<sup>st</sup> Qtr. 2006. The increase was mainly due to the booking of new facultative accounts and reinsurance treaties as well as bigger shares on accounts renewed during the quarter. Net premiums retained stood at ₱283 million, higher by 75.6% from ₱161 million in 1<sup>st</sup> Qtr. 2006. The increase was due to higher premiums retained by the Company for 1<sup>st</sup> Qtr. 2007 compared with 1<sup>st</sup> Qtr. 2006. Retention ratio increased to 39.2% from 25.7% for the corresponding period last year.

Premiums earned increased by 56.4%, from ₱158 million to ₱248 million, due to the increase in net premiums retained despite an increase in reserve for unexpired risks of ₱32.3 million, arising from the use of the 24<sup>th</sup> method of recognizing reinsurance premiums.

**Underwriting Deductions**

Share in claims and losses stood at ₱147.5 million and ₱95.4 million, respectively for the 1<sup>st</sup> Qtr. 2007 and 2006, an increase of ₱52.1 million or 54.6%. Recorded losses during the 1<sup>st</sup> Qtr. 2007 were largely losses of previous years which were reported by ceding companies during the period. Although there was an increase of ₱52 million, the average loss ratio improved from 60.1% in 1<sup>st</sup> Qtr. 2006 to 59.5% in 1<sup>st</sup> Qtr. 2007.

Net commissions also increased by ₱26.7 million or 75% in 1<sup>st</sup> Qtr. 2007 compared to 1<sup>st</sup> Qtr. 2006 because of higher premiums retained for the period. Despite the increase, commission ratio remained at 22%.

**Investment and Other Income (Charges)**

Investment and other income in 1<sup>st</sup> Qtr. 2007 amounted to ₱187 million, representing a 65% increase from ₱113 million in 1<sup>st</sup> Qtr. 2006. Interest Income increased by ₱16.3 million as a result of better yields on investments in fixed income securities. While the Company incurred a foreign currency translation loss of ₱26.8 million in 1<sup>st</sup> Qtr. 2007 (compared to a gain of ₱0.8 million in 1<sup>st</sup> Qtr. 2006), this was offset by a ₱136 million increase in other investment income, which included realized trading gains from equity and fixed income securities in the Company's investment portfolio. Investment and other

income in 1<sup>st</sup> Qtr. 2006 included a one-time gain of ₱51 million arising from the merger between the Company and Universal Malayan Reinsurance Corporation, which was completed in March 6, 2006.

**General and Administrative Expenses**

General and administrative expenses increased by 12% to ₱29 million in 1<sup>st</sup> Qtr. 2007 from ₱26 million in 1<sup>st</sup> Qtr. 2006 mainly due to the payment of gratuity benefits of certain resigned employees.

**Provision for Income Tax**

Provision for income tax for the 1<sup>st</sup> Qtr. 2007 was ₱22.4 million, 74% higher than 1<sup>st</sup> Qtr. 2006 income tax of ₱13 million and consistent with the increase in income before tax.

**Net Income**

As a result of the above-mentioned factors, net income for the 1<sup>st</sup> Qtr. 2007 increased by ₱72 million or 70% from ₱102 million in 1<sup>st</sup> Qtr. 2006 to ₱174 million.

**Financial Condition**

Total assets as of 1<sup>st</sup> Qtr. 2007 amounted to ₱8.6 billion, ₱497 million or 5.45% lower than the total assets of ₱9.1 billion as of December 31, 2006. Material changes in the company's resources are described below:

- **Reinsurance Balances Receivable-net (2,887M vs. 2,956M)**

Reinsurance balances decreased by ₱69 million or 2.3% due to collection of receivables from ceding companies and retrocessionaires.

- **Deferred Reinsurance Premium (1,183M vs. 1,371M) and Deferred Acquisition Cost (200M vs. 275M)**

Following the 24<sup>th</sup> method of revenue recognition, deferred reinsurance premium and deferred acquisition cost decreased by ₱188 million or 13.7% and ₱75 million or 27.13%, respectively, reflecting portions of reinsurance premiums written as of December 31, 2006 that were earned as of March 31, 2007.

- **Investments (3,394M vs. 3,445M)**

Investments decreased by ₱52 million or 1.50% due to pre-termination of certain fixed income securities which were used in payment of a court-mediated Compromise Agreement with dissenting stockholders, which provided for the acquisition of 44,677,400 shares of the Company at a price of ₱2.24 per share, totalling around ₱100 million. These shares reverted to Treasury shares which were subsequently sold at ₱3.80 during the Company's IPO.

- **Loans and Receivables (121M vs. 155M)**

Loans and receivables decreased by ₱33 million or 21.62% mainly due to a decrease of ₱27 million in accrued interest because of the conversion of certain fixed income securities to 5-year Benchmark Bonds and the collection of other receivables amounting to ₱6 million.

- **Property and Equipment, net (90.091M vs. 89,987M)**

Property and equipment, net of accumulated depreciation, amounted to ₱90 million, a slight increase of ₱104,266 or 0.12% from the previous year. There were no major capital expenditures during the period other than the acquisition of motor vehicles for newly-hired officers.

- **Deferred Input Value Added Tax (182M vs. 214M)**

Deferred input value added tax decreased by ₱32 million or 15% to ₱182M in 1<sup>st</sup> Qtr. 2007 from ₱214 million at the end of 2006. The decrease was due to payment of VAT for the account of various retrocessionaires for the 1<sup>st</sup> Qtr. 2007.

- **Deferred Tax Assets (14.6M vs. 28.20M)**

Deferred tax assets decreased by ₱14 million or 48.3% from ₱28 million to ₱15 million in 1<sup>st</sup> Qtr. 2007. This reflected the impact on deferred income tax arising from the difference in accounting for reserve for unexpired risk as prescribed by generally accepted accounting practices (GAAP) versus regulatory accounting practices (RAP), which is the basis for the Company's payment of income tax. The realization of certain foreign exchange translation losses in 1<sup>st</sup> Qtr. 2007 also contributed to the decline in deferred tax assets.

- **Other Assets (115M vs. 79M)**

Other assets increased by ₱35.9 million or 45% from ₱79.5 million in 2006 to ₱115 million in 1<sup>st</sup> Qtr. 2007. The increase was due to excess of input VAT over output VAT of ₱30 million between the last quarter of 2006 and 1<sup>st</sup> Qtr. 2007. Prepayments, particularly IPO related costs, also contributed to the increase.

**Liabilities (4,867M vs. 5,285M)**

Total liabilities decreased by ₱419 million or 7.92% from ₱5.3 billion in 2006 to ₱4.9 billion in 1<sup>st</sup> Qtr. 2007. The decrease in total liabilities are explained below:

- **Reinsurance Balances Payable (2,659M vs. 2,864M)**

Reinsurance balances payable decreased by 7.15% or ₱205 million from ₱2.9 billion at year end 2006 to ₱2.7 billion in 1<sup>st</sup> Qtr. 2007. The decrease was due to settlement of various reinsurance payable accounts.

- **Reserve for Unexpired Risks (1,663M vs. 1,816M) /  
Deferred Reinsurance Commission (170M vs. 221M)**

Reserve for unexpired risk and deferred reinsurance commission decreased by ₱153 million or 8.4% and ₱51 million or 23%, respectively. During the 1<sup>st</sup> Qtr. 2007, as portions of deferred reinsurance premiums at year end 2006 are deemed earned under the 24<sup>th</sup> method of revenue recognition, there is a corresponding reduction in the associated reserve for unexpired risk and deferred reinsurance commission.

- **Deferred Output Value Added Tax (310M vs. 325M)**

Deferred value added tax decreased by ₱14.8 million or 4.6% to ₱310 million in 1<sup>st</sup> Qtr. 2007 from ₱325 million at year end 2006. The decrease came from the collection of reinsurance receivables in 1<sup>st</sup> Qtr. 2007.

- **Accounts Payable and Accrued Expenses (64M vs. 59M)**

Accounts payable and accrued expenses increased by ₱5 million or 8% to ₱64 million in 1<sup>st</sup> Qtr. 2007 from ₱59 million at year end 2006 as a result of an increase in withholding VAT due to non-residents from ₱13 million at year end 2006 to ₱19.5 million in 1<sup>st</sup> Qtr. 2007.

- **Equity (3,752M vs. 3,831M)**

Stockholders equity decreased by ₱78 million or 2% to ₱3,753 million as of 1<sup>st</sup> Qtr. 2007 from ₱3,831 million at year end 2006. The decrease resulted from the acquisition of treasury shares as well as a decline in revaluation reserve which, in turn, arose from the realization of gains from some of the Company's fixed income and equity investments.

**Key Performance Indicators:**

	1 <sup>st</sup> Qtr. 2007	1 <sup>st</sup> Qtr. 2006	% Incr./ Decr.
1. Net Income	₱ 174 million	₱ 102 million	70.59%
2. Earnings per share (a)	₱ 0.12	₱ 0.09	33.33%
3. Retention ratio (b)	39.2%	25.7%	
4. Combined ratio (c)	91.80%	98.38%	
5. Return on average equity	18.32%	14.96%	

(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 (59.45% / 60.15%) commissions ratio (22.04% / 22.10%) and expense ratio (10.31% / 16.13%).

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

1. There are no known trends, demands, commitments, events or uncertainties that have material impact on the Company's liquidity and net income from continuing operations.
2. The Company listed its shares on the Philippine Stock Exchange on April 27, 2007 through the issuance of 638,000,000 new and existing common shares at an offer price of ₱3.80 per share. Of the 638,000,000 shares, 489,493,700 new common shares were issued by the Company from its authorized and unissued capital stock and 148,506,300 common shares were reissued from treasury. The Company also granted its underwriters an over allotment option amounting to an additional 103,902,600 common shares, which option was subsequently exercised thus bringing the total number of shares offered to 741,902,600. The offering generated gross proceeds to ₱2.8 billion for the Company.
3. All of the Company's income arose from its continuing operations.

**PART 11. - OTHER INFORMATION**

B. No other material information.

**NATIONAL REINSURANCE CORPORATION  
OF THE PHILIPPINES**  
(Registrant)



**JOHN E. HUANG**  
Chief Finance Officer



**WILFRIDO C. BANTAYAN**  
President & Chief Executive Officer

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**BALANCE SHEET**  
As of March 31, 2007

	<u>Notes</u>	March 2007 <u>(Unaudited)</u>	Dec. 2006 <u>(Audited)</u>	<u>Changes</u>
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	2, 15	376,071,835	446,834,344	(70,762,509)
REINSURANCE BALANCES RECEIVABLE-net	3, 15	2,886,793,922	2,955,711,652	(68,917,730)
DEFERRED ACQUISITION COST		200,470,269	275,114,923	(74,644,654)
<b>INVESTMENTS</b>				-
Available for sale	4	3,393,651,697	3,445,458,733	(51,807,036)
Others	4	55,303,206	55,303,206	-
LOANS AND RECEIVABLES	5	121,413,613	154,900,847	(33,487,234)
PROPERTY AND EQUIPMENT-NET	6	90,091,836	89,987,570	104,266
DEFERRED REINSURANCE PREMIUMS	7	1,183,301,394	1,371,157,013	(187,855,619)
DEFERRED INPUT VALUE ADDED TAX		182,012,217	214,182,979	(32,170,762)
DEFERRED TAX ASSETS		14,572,437	28,198,157	(13,625,720)
OTHER ASSETS	8	115,443,571	79,494,921	35,948,650
<b>TOTAL ASSETS</b>		<b>8,619,125,997</b>	<b>9,116,344,345</b>	<b>(497,218,348)</b>
<b>LIABILITIES AND EQUITY</b>				
REINSURANCE BALANCES PAYABLE	3, 15	2,659,002,750	2,863,904,231	(204,901,481)
RESERVE FOR UNEXPIRED RISKS	7	1,663,336,841	1,816,299,487	(152,962,646)
DEFERRED REINSURANCE COMMISSIONS		170,322,846	221,051,056	(50,728,210)
DEFERRED OUTPUT VALUE ADDED TAX		310,098,440	324,901,892	(14,803,452)
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	63,793,005	59,181,794	4,611,211
<b>TOTAL LIABILITIES</b>		<b>4,866,553,882</b>	<b>5,285,338,460</b>	<b>(418,784,578)</b>
<b>EQUITY</b>				
Capital Stock	14	1,588,558,300	1,588,558,300	-
Treasury shares	14	(358,070,611)	(254,639,635)	(103,430,976)
Additional Paid in Capital		1,274,936,540	1,274,936,540	-
Revaluation reserve		229,739,123	378,444,968	(148,705,845)
Retained Earnings		1,017,408,763	843,705,712	173,703,051
<b>Total Equity</b>		<b>3,752,572,115</b>	<b>3,831,005,885</b>	<b>(78,433,770)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>8,619,125,997</b>	<b>9,116,344,345</b>	<b>(497,218,348)</b>

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

For the period January 1, 2007 to March 31, 2007)

(With comparative figures for the period Jan. 1, 2006 to March 31, 2006)

	<u>Notes</u>	<u>March 2007</u>	<u>March 2006</u>	<u>Inc(Dec)</u>	<u>%</u>
<b>Reinsurance Premium Income</b>					
Reinsurance premiums		722,720,208	627,528,194	95,192,014	15.17%
Retroceded premiums		439,686,264	466,311,760	(26,625,496)	-5.71%
Net Premiums retained		283,033,944	161,216,434	121,817,510	75.56%
Inc. in reserve for unexpired risk	7	(34,892,973)	(2,575,565)	(32,317,408)	1254.77%
Premiums Earned		248,140,971	158,640,869	89,500,102	56.42%
<b>Underwriting deductions</b>					
Share in claims & losses		147,519,808	95,422,482	52,097,326	54.60%
Commissions, net		62,368,580	35,628,380	26,740,200	75.05%
	11	209,888,388	131,050,862	78,837,526	60.16%
<b>Net Underwriting Income</b>		38,252,583	27,590,007	10,662,576	38.65%
<b>Investments and Other Income (Charges)</b>					
Interest		66,697,697	50,430,636	16,267,061	32.26%
Foreign currency gain (losses)		(26,830,341)	796,757	(27,627,098)	-3467.44%
Gain on acquisition		-	51,295,702	(51,295,702)	
Others		147,177,816	10,921,097	136,256,719	1247.65%
<b>Investment and Other Income</b>	10	187,045,172	113,444,192	73,600,980	64.88%
<b>Income after Investment Income</b>		225,297,755	141,034,199	84,263,556	59.75%
<b>General and Administrative Expenses</b>	12, 13	29,179,847	25,999,497	3,180,350	12.23%
<b>Income Before Tax</b>		196,117,908	115,034,702	81,083,206	70.49%
<b>Tax Expense</b>		22,414,859	12,906,859	9,508,000	73.67%
<b>Net Income</b>		173,703,049	102,127,843	71,575,206	70.08%
<b>Earnings per Share</b>	16	0.12	0.09		

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENT OF CHANGES IN EQUITY (unaudited)**

**As of March 31, 2007**

(With comparative figures as of March 31, 2006)

	<u>Notes</u>	<u>March 2007</u>	<u>March 2006</u>
<b>CAPITAL STOCK - P100 par value</b>			
Authorized - 3,000,000,000 shares			
Issued -1,588,558,300 shares	14	<u>1,588,558,300</u>	<u>1,588,558,300</u>
<b>ADDITIONAL PAID IN CAPITAL</b>		<u>1,274,936,540</u>	<u>1,274,936,540</u>
<b>TREASURY SHARES (at cost)</b>	14	<u>(358,070,611)</u>	<u>(244,029,466)</u>
<b>REVALUATION RESERVE</b>			
Balance at beginning of the year		378,444,968	176,890,913
Changes during the period		<u>(148,705,845)</u>	<u>(140,050,777)</u>
		<u>229,739,123</u>	<u>36,840,136</u>
<b>RETAINED EARNINGS</b>			
Appropriated for contingencies			
Balance at beginning of the year		150,949,099	123,455,961
Additional appropriations		<u>17,370,305</u>	<u>10,212,784</u>
	14	<u>168,319,404</u>	<u>133,668,745</u>
Unappropriated			
Balance at beginning of the year		692,756,613	445,318,371
Net Income		173,703,051	102,127,845
Appropriated for contingencies		<u>(17,370,305)</u>	<u>(10,212,784)</u>
		<u>849,089,359</u>	<u>537,233,432</u>
		<u><b>3,752,572,115</b></u>	<u><b>3,327,207,687</b></u>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**CASH FLOW STATEMENTS (unaudited)**  
**As of March 31, 2007**  
(With comparative figures as of March 31, 2006)

	<b>March 2007</b>	<b>March 2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	P 196,117,908	P 115,034,702
Adjustments for:		
Increase in reserve for unexpired risks	34,892,973	2,575,565
Unrealized foreign currency loss	25,695,109	-
Depreciation	1,807,868	1,613,109
Gain on acquisition	-	(51,295,702)
Interest income	(66,697,697)	(50,430,636)
Dividend income	(1,213,497)	(196,990)
Operating income before working capital changes	190,602,664	17,300,048
(Increase)Dec. in reinsurance balances receivable	60,213,414	(126,576,126)
(ncrease) Dec. in deferred input value added tax	32,170,762	(14,927,039)
Decrease (increase) in deferred acquisition costs	23,916,443	2,300,186
(Increase) in other assets	(35,948,649)	(4,530,524)
(Increase) Decrease in loans and receivables	6,878,927	593,697
Increase (decrease) in reinsurance balances payable	(202,228,790)	41,688,292
Increase (Dec.) in deferred output value added tax	(14,803,452)	28,842,426
Increase (decrease) in accounts payable and accrued exp.	4,611,213	(5,137,086)
Cash generated from (used in) operations	65,412,532	(60,446,126)
Cash paid for income taxes	(8,526,225)	(12,906,859)
Net Cash From (Used in) Operating Activities	<b>56,886,307</b>	<b>(73,352,985)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(113,785,986)	100,278,199
Property and equipment	(1,912,134)	-
Interest received	93,306,004	60,558,700
Dividends received	1,213,497	196,900
Net Cash From (Used in) Investing Activities	<b>(21,178,619)</b>	<b>161,033,799</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance/reissuance of:		
Common shares	-	196,158,513
Acquisitions/payments of:		
Treasury shares	(103,430,976)	-
Net Cash From (Used in) Financing Activities	<b>(103,430,976)</b>	<b>196,158,513</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(67,723,288)</b>	<b>283,839,327</b>
<b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	(3,039,221)	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>446,834,344</b>	<b>141,980,545</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>P 376,071,835</b>	<b>P 425,819,872</b>

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

1. The financial statements of the Company had been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and have been prepared consistent with its most recent annual financial statements as of December 31, 2006.. PFRS are adopted by the Financial Reporting Standards Council (FRSC), formerly Accounting Standards Council, from the pronouncements issued by the International Accounting Standards Board (IASB). PFRS consist of:
- (i) PFRS- corresponding to International Financial Reporting Standards;
  - (ii) Philippine Accounting Standards (PASs)-corresponding to International Accounting Standards; and
  - (iii) Interpretations to existing standards-representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), of the IASB which are adopted by the FRSC.

**2. Cash and cash equivalents**

This account consists of:

	<u>March 2007</u>	<u>December 2006</u>
Time Deposits	P 294,813,312	P 384,673,854
Cash on hand and in banks	<u>81,258,523</u>	<u>62,160,490</u>
	<u>P 376,071,835</u>	<u>P 446,834,344</u>

**3. Reinsurance Balances**

The details of reinsurance balances are as follows:

	<u>March 2007</u>	<u>December 2006</u>
Reinsurance balances receivable:		
Due from ceding companies	P 1,966,307,871	P 2,072,946,667
Reinsurance recoverable on losses	945,828,451	906,797,090
Funds held by ceding companies	<u>81,457,071</u>	<u>82,767,366</u>
	2,993,593,393	P 3,062,511,123
Allowance for impairment	( <u>106,799,471</u> )	( <u>106,799,471</u> )
	<u>P 2,886,793,922</u>	<u>P 2,955,711,652</u>
Reinsurance balances payable:		
Due to retrocessionaires	P 1,318,187,879	P 1,537,298,404
Claims payable	1,285,042,602	1,270,902,819
Funds held for retrocessionaires	<u>55,772,269</u>	<u>55,703,008</u>
	<u>P 2,659,002,750</u>	<u>P 2,863,904,231</u>

**4. Investments**

**4.1 Available-for-sale financial Assets**

This account is composed of:

	<u>March 2007</u>	<u>December 2006</u>
Bonds	P 2,695,736,902	P2,903,086,959
Equity securities	482,005,784	437,785,083
Investment in Asian Re shares	65,801,762	66,987,944
Various funds	<u>150,107,249</u>	<u>37,598,747</u>
	<u>P 3,393,651,697</u>	<u>P 3,445,458,733</u>

#### 4.2 Others

Other investment pertain to investment properties consisting of a piece of land and building and improvements which are owned for investment purposes only.

Cost	P72,384,818
Accumulated depreciation	( 17,081,612)
Net carrying amount	<u>P55,303,206</u>

#### 5. Loans and receivables

This account includes the following:

	<u>March 2007</u>	<u>December 2006</u>
Current:		
Accrued interest receivable	P 36,093,042	P 62,701,350
Term loans	30,000,000	30,000,000
Others	356,323	4,517,086
Non-current:		
Term loans	40,000,000	40,000,000
Loans receivable	<u>14,964,248</u>	<u>17,682,411</u>
	<u>P 121,413,613</u>	<u>P154,900,847</u>

#### 6. Property and equipment

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

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Carrying Amount</u>
Condominium units	P104,227,734	P 28,706,462	P75,521,272
Office Improvement	12,810,688	9,055,620	3,755,068
Office furniture and equipment	8,677,279	8,385,708	291,571
Transportation equipment	11,477,995	2,676,887	8,801,108
EDP equipment	<u>11,392,764</u>	<u>9,669,947</u>	<u>1,722,817</u>
	<u>P148,586,460</u>	<u>P 58,494,624</u>	<u>P90,091,836</u>

#### 7. Deferred reinsurance premiums and Reserve for unexpired risks

The movement of these accounts is as follows:

	<u>Deferred Reinsurance Premiums</u>	<u>Reserve for Unexpired risk</u>
Balance at beg. of year-January 1, 2007	P1,371,157,013	P1,816,299,487
Inc. (Dec.) during the period	( 187,855,619)	( 152,962,646)
Balance at end of quarter-March 31, 2007	<u>P1,183,301,394</u>	<u>P1,663,336,841</u>

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

Reserve for Unexpired Risks is the portion of reinsurance premiums assumed that relate to the unexpired periods of the policies at balance sheet date.

The difference between the increase in Deferred Reinsurance Premiums and Reserve for Unexpired Risks for the year is presented as Increase in Reserve for Unexpired Risks in the income statements.

### 8. Other Assets

The Other Assets account includes the following:

	<u>March 2007</u>	<u>December 2006</u>
Deferred withholding VAT	P 38,641,924	P 43,554,265
Input VAT	53,712,349	23,553,408
Creditable expanded withholding tax	7,990,153	6,282,710
Prepayments	8,255,012	1,416,025
Deposit	577,392	358,147
Security Fund	192,888	192,888
Others	6,073,853	4,137,478
	<u>P115,443,571</u>	<u>P 79,494,921</u>

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. The fund was created under Section 367 of Presidential Decree No. 612, as amended under Presidential Decree No. 1640, 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 2007</u>	<u>December 2006</u>
Defined benefit liability	P 33,803,697	P33,803,697
Withholding taxes payable	19,854,692	15,584,497
Accrued expenses	8,851,223	8,564,879
Accounts payable and other liabilities	1,283,393	1,228,721
	<u>P 63,793,005</u>	<u>P59,181,794</u>

The fair values of accounts payable and accrued expenses have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the balance sheets to be a reasonable approximation of their fair values.

### 10. Investment and other income

The details of this account follow:

	<u>March 2007</u>	<u>March 2006</u>
Interest	P 66,697,697	P 50,430,636
Trading Gain	99,977,380	7,757,327
Gain on acquisition	-	51,295,702
Dividend income	1,213,497	196,990
Gain on sale of stocks	26,697,973	41,141
Foreign exchange (loss) Gain	( 26,830,341)	796,757
Miscellaneous	19,288,966	2,925,639
	<u>P187,045,172</u>	<u>P113,444,192</u>

## 11. Underwriting Deductions

### 11.1 Share in claims and losses

This account represents the aggregate amount of the Company's share in net losses and claims relative to its acceptances under treaty and facultative reinsurances.

### 11.2 Commissions-net

This account consists of the following:

	<u>March 2007</u>	<u>March 2006</u>
Commission expense	P 123,044,707	P 88,858,909
Reinsurance revenue	<u>60,676,127</u>	<u>53,230,529</u>
	<u>P 62,368,580</u>	<u>P 35,628,380</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 2007</u>	<u>March 2006</u>
Salaries and employee benefits	P 19,129,644	P 15,795,810
Retirement	292,936	465,873
Depreciation	1,807,867	1,613,109
Representation and entertainment	859,450	1,094,188
Professional fees	1,817,526	834,655
Transportation & Traveling	672,507	797,669
Repairs and maintenance	991,047	362,851
Taxes, licenses and fees	686,857	419,062
Documentary stamps	-	2,942,792
Light and water	594,405	241,029
Printing and office supplies	516,380	299,314
Communication and postages	334,524	184,122
Insurance	205,123	162,260
Donations and contributions	41,000	5,257
Bank charges	84,764	11,106
Professional & Technical Devt.	27,645	33,454
Miscellaneous	1,118,172	736,946
	<u>P 29,179,847</u>	<u>P25,999,497</u>

**13. Employee benefits****Short-term Benefits**

Expenses recognized for employee benefits are presented below:

	<u>March 2007</u>	<u>March 2006</u>
Salaries and wages	P10,264,825	P 9,493,785
Allowances and bonus	4,569,844	4,738,551
Compensated absences	1,824,996	1,125,634
Separation benefits	1,774,252	-
Social security costs	377,126	290,517
Others	318,601	147,323
	<u>P19,129,644</u>	<u>P15,795,810</u>

**14. Equity****14.1 Capital Stock**

Capital Stock consists of:

Common shares-P1 par value

Issued:

	<u>March 2007</u>	<u>March 2006</u>
Number of shares	<u>1,588,558,300</u>	<u>1,588,558,300</u>
Amount	<u>P1,588,558,300</u>	<u>P1,588,558,300</u>

**14.2 Treasury Shares**

Treasury shares pertain to the Company's shares of stock held by the following:

	<u>Number of Shares</u>	<u>Amount</u>
Universal Malayan Reinsurance Corp.	97,083,900	P 243,855,340
Solid Guaranty, Inc.	18,489,400	41,416,256
Pioneer Asia Insurance Corporation	9,195,400	20,597,696
CICI General Insurance Corporation	8,039,800	18,009,152
R & B Insurance Corporation	4,981,300	10,610,169
Western Guaranty Corporation	4,031,700	9,031,008
Reliance Surety & Insurance Company	2,823,100	6,323,744
Isauro J. Pagdanganan	2,098,000	4,699,520
Aviva General Insurance	1,676,800	3,353,600
First Quezon City Insurance Co., Inc.	86,900	174,126
	<u>148,506,300</u>	<u>P 358,070,611</u>

**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, ten percent (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 P168,319,404 and P150,949,099 as of March 31, 2007 and December 31, 2006, 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 carried out on an arm's length basis.

##### 15.1 Reinsurance accounts with related parties

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

Due from ceding companies	P606,790,436
Reinsurance recoverable on paid losses	9,453,799
Funds held by ceding companies	38,837,003
Due to retrocessionaires	411,737,326
Funds held for retrocessionaires	267,444

##### 15.2 Bank accounts

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

Time deposits	P 40,854,700
Savings and current accounts	<u>11,350,506</u>
	<u>P 52,205,206</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 substantially all investments of the Company subject to terms and conditions in the said agreements. For the services rendered, the Company pays BPI service fees equivalent to 0.175% of the market value of the investments. Total Service fees paid for the 1<sup>st</sup> Quarter 2007 amounted to P522,304

##### 15.4 Retirement Fund Investment Management

The Company has 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 per share

The earnings per share amounts are as follows:

	<u>March 2007</u>	<u>March 2006</u>
Net income available to common shareholders	P 173,703,049	P 102,127,843
Divided by the average number of outstanding common shares	<u>1,470,954,800</u>	<u>1,163,737,900</u>
	<u>P .12</u>	<u>P .09</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 cyclical nature 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>On April 27, 2007, the Company listed its shares on the Philippine Stock Exchange through the issuance of 741,902,600 shares at an offer price of P3.80 per share.</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>
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**AGING OF REINSURANCE BALANCES RECEIVABLE**

As of March 31, 2007

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	1,967	1,535	432
Reinsurance recoverable on paid losses	237	40	197
Reinsurance recoverable un unpaid losses	709	709	-
Funds Held by Ceding companies	81	81	-
	<u>2,994</u>	<u>2,365</u>	<u>629</u>
Allowance for impairment*	<u>(107)</u>		
	<u><u>2,887</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.