



**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**

**3rd Quarter Ending 30 September 2007**

(Form Type)

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

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

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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 30 September 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 30 September 2007 and December 31, 2006.
- b. Income Statements:  
     For the Quarters ended 30 September 2007 and 2006  
     For the Nine Months ended 30 September 2007 and 2006
- c. Statement of Changes in Stockholders Equity as of 30 September 2007 and 2006
- d. Statement of Cash Flows:  
     For the Quarters ended 30 September 2007 and 2006  
     For the Nine months ended 30 September 2007 and 2006

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, 3rd Quarter**

**Results of Operations**

*For the Nine months ended September 30, 2007 and 2006*

**Reinsurance Premium Income**

Reinsurance premiums for the nine months ended September 30, 2007 totaled P2.8 billion as compared to P2.0 billion for the same period last year, an increase of P735 million or 36%. This expansion resulted both from new reinsurance treaties and from additional facultative business. Net premiums retained amounted to P769.5 million, up by P175 million or 29.5% against the prior year's level of P594.3 million. The increase largely came from the Company's treaty portfolio, which benefitted from an increase in premium rates. However, retention ratio decreased to 28% from 29% for the same period last year due to an increase in premiums paid for excess of loss protection/coverage which, while technically expenses, are considered premiums ceded for accounting purposes.

Premiums earned increased by 37.3%, from P552.3 million to P758.1 million, due to the increase in net premiums and a lower reserve for unexpired risk.

**Underwriting Deductions**

Share in claims and losses totaled P437 million for the nine months ended Sept. 30, 2007 as against P330.8 million for the same period last year, an increase of P106.1 million or 32.1%. Despite the increase, the Company's loss ratio improved from 60% in 2007 to 57.6% in 2006. The life business showed a more favorable loss ratio of 35.6% as compared to the non-life business of 62%.

Net commission increased by 22.7% to P135.4 million from last year's P110.4 million. However, commission ratio decreased from 18.6% in 2006 to 17.6% in 2007.

**Investment and Other Income (Charges)**

Investment and other income rose to P375 million in the first nine months of 2007 from P258.8 million during the same period in 2006. This 44.9% increase was a result of higher

realized trading gains as well as higher interest income from fixed income investments, which grew in volume because of the proceeds from the Company's IPO. Foreign currency translation loss of P102.7 (as against P47.7 million last year) was the effect of peso appreciation from P49.132 to P45.063 per dollar through September 2007.

**General and Administrative Expenses**

General and administrative expenses decreased by P18 million, or 16.7% to P89.9 million for the first three quarters of 2007 from P107.9 million for the same period last year. The decline was due to the absence of non-recurring expenses for the current year. In the first nine months of 2006, these expenses amounted to of P34 million, including separation benefits and other merger-related expenses.

Documentary stamps amounting to P3.5 million as well as other expenses of P1.7 million, which were earlier reported as part of general and administrative expenses, were reclassified as IPO-related and, as a result, were directly deducted from capital. Consequently, additional paid in capital decreased by P5.2 million from P3,024 as of 2<sup>nd</sup> Qtr. 2007 to P3,019 million as of 3<sup>rd</sup> Qtr. 2007.

**Provision for Income Tax**

Provision for income tax for the period was P53.5 million, 71.5% higher than last year's P31.1 million and consistent with the increase in income before tax. (P471 million vs. P262 million)

**Net Income**

Net income for the period grew by P186.8 million or 80.9% from P230.8 million in the first nine months of 2006 to P417.5 million for the first nine months of 2007.

**For the Quarters ended September 30, 2007 and 2006**

**Reinsurance Premium Income**

Reinsurance premiums in 3<sup>rd</sup> Qtr. 2007 increased by 23.7% to P747.5 million from P604.5 million in 3<sup>rd</sup> Qtr. 2006. This growth came from new treaty portfolio business. Net premiums retained increased by P75.9 million from P156.6 million in 3<sup>rd</sup> Qtr. 2006 to P232.5 million in 3<sup>rd</sup> Qtr. 2007 or by 48.4%. Retention ratio stood at 31.1% in 3<sup>rd</sup> Qtr. 2007 as compared to 25.9% in 3<sup>rd</sup> Qtr. 2006.

Premiums earned increased by 80.9% from P137.5 million in 3<sup>rd</sup> Qtr. 2006 to 248.9 million 3<sup>rd</sup> Qtr. 2007, in line with the increase in net premiums retained.

**Underwriting Deductions**

Share in claims and losses were at P89 million and P136.2M, respectively for the 3<sup>rd</sup> Qtr. 2006 and 2007, an increase of P47.2 million or 53%. Despite the increase, loss ratio improved from 64.7% in 2006 to 54.8% in 2007. Large losses paid in 3<sup>rd</sup> Qtr. 2007 include, among others, Globe Coco Products, BSJ Fishing & Trading and Carlos Gothong Lines.

Net commissions increased to P46.7 million in 3<sup>rd</sup> Qtr. 2007 from P22.2 million in 3<sup>rd</sup> Qtr. 2006 consistent with the increase in reinsurance premium income for the quarter.

**Investment and Other Income (Charges)**

Investment and other income posted an increase of 13.6% from P72.3 million in 3<sup>rd</sup> Qtr. 2006 to P82.1 million in 3<sup>rd</sup> Qtr. 2007 largely because of higher interest income from fixed income investments related to funds generated from the Company's initial public offering. Other income declined by P32.3 million or 63.6% from P50.8 million in 3<sup>rd</sup> Qtr. 2006 to P18.5 million in 3<sup>rd</sup> Qtr. 2007. Results for 2006 benefitted from a gain on the exchange of certain government securities to 10-year benchmark bonds. Foreign exchange loss for the quarter amounted to P32.5 million owing to the continued appreciation of the Philippine peso vis-à-vis the U.S. dollar.

**General and Administrative Expenses**

General and administrative expenses increased by 39.8% to P29.8 million in 3<sup>rd</sup> Qtr. 2007 from P21.3 million in 3<sup>rd</sup> Qtr. 2006 due to increases of certain expenses including depreciation, salaries, professional fees and printing cost of annual reports.

**Provision for Income Tax**

Provision for income tax increased by P15 million or 200% from P7.5 million to P22.6 million due to realization of certain deferred tax liabilities.

**Net Income**

As a result of the above-mentioned factors, net income for 3<sup>rd</sup> Qtr. 2007 increased by P25.8 million or 37% to P95.6 million from P69.8 million for 3<sup>rd</sup> Qtr. 2006.

**Financial Condition**

Total resources as of the end of September 2007 totaled P10.8 billion, P1.7 billion higher than the level of P9.1 billion as of December 31, 2006. Material changes in the company's resources are described below:

- **Cash and cash equivalents (2,593M vs. 447M)**

Cash and cash equivalents increased from P447 million as of December 31, 2006 to P2.6 billion as of September 30, 2007 (an increase of P2.1 billion or 480%) mainly because of capital raised during the Company's IPO on April 27, 2007.

- **Reinsurance Balances Receivable-net (2,416M vs. 2,956M)**

Reinsurance balances decreased by P540 million or 18.3% due to collections during the period.

- **Deferred Acquisition Cost (202M vs. 275M)**

Deferred acquisition cost decreased by P72.8 million or 26%, reflecting portions of reinsurance commissions booked as of December 31, 2006 that were charged to commission expense as of 3<sup>rd</sup> Qtr. 2007.

- **Investments (3,864M vs. 3,445M)**

The proceeds from the listing of the Company's shares on the PSE also resulted in an increase in investments by 12.1% to P3,863.6 million from P3,445.5.

- **Loans and Receivables (185M vs. 155M)**

Loans and receivables increased by P30.4 million or 19.6% mainly due to additional loans (among the Company's investment outlets) and accrued interest on available-for-sale (AFS) investments.

- **Property and Equipment, net (91.792M vs. 89,987M)**

Property and equipment, net of accumulated depreciation increased by P1.8 million or 2% due to additional cost incurred in the renovation of an extension office intended for the Company's Accounting Department.

- **Deferred Reinsurance Premiums (1,521M vs. 1,371M)**

Deferred reinsurance premium also showed a decrease of P175 million or 12.8% as portions of deferred reinsurance premiums at year end 2006 were deemed earned under the 24<sup>th</sup> method of revenue recognition.

- **Deferred Input Value Added Tax (124M vs. 214M)**

Deferred input value added tax decreased by P90.1 million or 42% to P124 million as of 3<sup>rd</sup> Qtr. 2007 from P214 million at the end of 2006 because of discontinuance of VAT on reinsurance premiums effective April 6, 2007 (BIR Revenue Reg. 4-2007)

- **Deferred Tax Assets (13.1M vs. 28.20M)**

Deferred tax assets decreased by P15.1 million or 53.7% from P28 million to P13.1 million as of 3<sup>rd</sup> Qtr. 2007 due to the realization of certain foreign exchange translation losses for the period.

- **Other Assets (77M vs. 79M)**

Other assets decreased by P2.3 million or 2.9% from P79.5 million in 2006 to P77.2 million as of 3<sup>rd</sup> Qtr. 2007. The discontinuance of VAT on reinsurance premium (particularly withholding VAT on GSIS) resulted in the decrease of deferred withholding VAT.

**Liabilities (4,327M vs. 5,285M)**

Total liabilities decreased by P958.5 million or 18.1% from P5,285 million in 2006 to P4,327 million as of 3<sup>rd</sup> Qtr. 2007. The decrease in total liabilities is explained below:

- **Reinsurance Balances Payable (2,283M vs. 2,864M)**

Reinsurance balances payable decreased by P580.7 million from P2,864 million at year end 2006 to P2,283 million as of end 3<sup>rd</sup> Qtr. 2007. The decrease was brought about by our settlement of reinsurance premium due to retrocessionaires.

- **Reserve for Unexpired Risks (1,653M vs. 1,816M)**

Reserve for unexpired risk decreased by P163.8 million or 9%. During the period, portions of the reserve were taken up as earned in line with the 24<sup>th</sup> method of calculating premium income.

- **Deferred reinsurance commissions (135M vs. 221M)**

Deferred reinsurance commissions decreased by P85.7 million or 38.8%, reflecting the portion of commissions on retrocessions booked prior and up to December 31, 2006 that were credited to income through the 3<sup>rd</sup> Qtr. 2007.

- **Deferred Output Value Added Tax (208M vs. 325M)**

Deferred value added tax decreased by P117 million or 36% to P207.8 million as of 3<sup>rd</sup> Qtr. 2007 from P325 million at year end 2006 because reinsurance premiums are no longer subject to VAT, as explained earlier.

- **Accounts Payable and Accrued Expenses (48M vs. 59M)**

Payment of taxes and expenses brought down the balances of accounts payable and accrued expenses by P11 million or 18.9% as of 3<sup>rd</sup> Qtr. 2007.

- **Equity (6,562M vs. 3,831M)**

Stockholders equity rose by P2.6 billion largely due to proceeds of the Company's initial public offering of 741,902,600 shares at a price of P3.80 per share on April 27, 2007. Capital stock net of treasury shares in 2006 grew by 63.6% or P848 million and additional paid in capital expanded from P1.3 billion to P3 billion or by 137%. Revaluation reserve decreased by 55.9% due to realization of gains from some of the Company's fixed income and equity investments. Retained Earnings also increased by 31.4% net of the P.07 per share cash dividend paid on August 6, 2007 amounting to P152.7 million.

**Key Performance Indicators:**

	As of 3 <sup>rd</sup> Quarter 2007	As of 3 <sup>rd</sup> Quarter 2006	% Incr./ Decr.
1. Net Income	₱ 418 million	₱ 231million	81%
2. Earnings per share (a)	₱ 0.22	₱ 0.17	29%
3. Retention ratio (b)	28%	29%	
4. Combined ratio (c)	87%	91%*	
5. Return on average equity	11%	11%	

(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 (58% / 60%) commissions ratio (17% / 19%) and expense ratio (12% / 12%).

**\*(exclusive of non-recurring expenses in 2006)**

Net Income (NI)—Net income as of 3<sup>rd</sup> Qtr. 2007 increased to P418 million from P231 million as of 3<sup>rd</sup> Qtr. 2006.

Earnings per share (EPS)—The Company's EPS was at P.22 and P.17 as of 3<sup>rd</sup> Qtr. 2007 and 2006 respectively.

Retention ratio—The retention ratio was at 28% in 2007, one percentage point lower than in 2006.

Combined ratio—The decrease in combined ratio to 87% as of 3<sup>rd</sup> Qtr. 2007 vs. 91% as of 3<sup>rd</sup> Qtr. 2006, indicates continuing profitability of insurance operations.

Return on average equity (ROE) – Flat at 11% for 2007 and 2006.

**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.

**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

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**BALANCE SHEET**

September 30, 2007 and December 31, 2006

	<u>Notes</u>	<u>Sept. 2007</u> <u>(Unaudited)</u>	<u>Dec. 2006</u> <u>(Audited)</u>	<u>Changes</u>
<b>ASSETS</b>				
<b>CASH AND CASH EQUIVALENTS</b>	2, 15	2,592,723,667	446,834,344	2,145,889,323
<b>REINSURANCE BALANCES RECEIVABLE-net</b>	3, 15	2,415,744,777	2,955,711,652	(539,966,875)
<b>DEFERRED ACQUISITION COST</b>		202,295,957	275,114,923	(72,818,966)
<b>INVESTMENTS</b>				
Available for sale	4	3,863,586,632	3,445,458,733	418,127,899
Others	4	41,487,568	55,303,206	(13,815,638)
<b>LOANS AND RECEIVABLES</b>	5	185,313,835	154,900,847	30,412,988
<b>PROPERTY AND EQUIPMENT-NET</b>	6	91,791,854	89,987,570	1,804,284
<b>DEFERRED REINSURANCE PREMIUMS</b>	7	1,195,998,122	1,371,157,013	(175,158,891)
<b>DEFERRED INPUT VALUE ADDED TAX</b>		124,035,996	214,182,979	(90,146,983)
<b>DEFERRED TAX ASSETS</b>		13,060,368	28,198,157	(15,137,789)
<b>OTHER ASSETS</b>	8	77,224,179	79,494,921	(2,270,742)
<b>TOTAL ASSETS</b>		<b>10,803,262,955</b>	<b>9,116,344,345</b>	<b>1,686,918,610</b>
<b>LIABILITIES AND EQUITY</b>				
<b>REINSURANCE BALANCES PAYABLE</b>	3, 15	2,283,200,767	2,863,904,231	(580,703,464)
<b>RESERVE FOR UNEXPIRED RISKS</b>	7	1,652,523,325	1,816,299,487	(163,776,162)
<b>DEFERRED REINSURANCE COMMISSIONS</b>		135,348,506	221,051,056	(85,702,550)
<b>DEFERRED OUTPUT VALUE ADDED TAX</b>		207,769,749	324,901,892	(117,132,143)
<b>ACCOUNTS PAYABLE &amp; ACCRUED EXPENSES</b>	9	48,005,602	59,181,794	(11,176,192)
<b>TOTAL LIABILITIES</b>		<b>4,326,847,949</b>	<b>5,285,338,460</b>	<b>(958,490,511)</b>
<b>EQUITY</b>				
Capital Stock	14	2,181,954,600	1,588,558,300	593,396,300
Treasury shares	14		(254,639,635)	254,639,635
Additional Paid in Capital		3,019,218,457	1,274,936,540	1,744,281,917
Revaluation reserve		166,733,592	378,444,968	(211,711,376)
Retained Earnings		1,108,508,357	843,705,712	264,802,645
Total Equity		<b>6,476,415,006</b>	<b>3,831,005,885</b>	<b>2,645,409,121</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>10,803,262,955</b>	<b>9,116,344,345</b>	<b>1,686,918,610</b>

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

For the Quarters ended September 30, 2007 and 2006)

	<u>2007</u>	<u>2006</u>	<u>Inc(Dec)</u>	<u>%</u>
<b>Reinsurance Premium Income</b>				
Reinsurance premiums	747,509,609	604,466,184	143,043,425	23.66%
Retroceded premiums	515,005,582	447,839,255	67,166,327	15.00%
Net Premiums retained	<u>232,504,027</u>	<u>156,626,929</u>	<u>75,877,098</u>	48.44%
Inc. in reserve for unexpired risk	16,262,574	(19,100,974)	35,363,548	-185.14%
Premiums Earned	<u>248,766,601</u>	<u>137,525,955</u>	<u>111,240,646</u>	80.89%
<b>Underwriting deductions</b>				
Share in claims & losses	136,225,015	89,010,681	47,214,334	53.04%
Commissions, net	46,704,035	22,213,355	24,490,680	110.25%
	<u>182,929,050</u>	<u>111,224,036</u>	<u>71,705,014</u>	64.47%
<b>Net Underwriting Income</b>	<u>65,837,551</u>	<u>26,301,919</u>	<u>39,535,632</u>	150.31%
<b>Investments and Other Income (Charges)</b>				
Interest	96,096,656	71,512,200	24,584,456	34.38%
Foreign currency gain (losses)	(32,512,062)	(50,085,198)	17,573,136	-35.09%
Others	18,533,661	50,847,149	(32,313,488)	-63.55%
Investment and Other Income	<u>82,118,255</u>	<u>72,274,151</u>	<u>9,844,104</u>	13.62%
<b>Income after Investment Income</b>	147,955,806	98,576,070	49,379,736	50.09%
<b>General and Administrative Expenses</b>	<u>29,767,157</u>	<u>21,290,081</u>	<u>8,477,076</u>	39.82%
<b>Income Before Tax</b>	118,188,649	77,285,989	40,902,660	52.92%
<b>Tax Expense</b>	<u>22,575,296</u>	<u>7,506,173</u>	<u>15,069,123</u>	200.76%
<b>Net Income</b>	<u>95,613,353</u>	<u>69,779,816</u>	<u>25,833,537</u>	37.02%

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

For the Nine Months ended September 30, 2007 and 2006)

	<u>Notes</u>	<u>2007</u>	<u>2006</u>	<u>Inc(Dec)</u>	<u>%</u>
<b>Reinsurance Premium Income</b>					
Reinsurance premiums		2,779,526,056	2,044,058,772	735,467,284	35.98%
Retroceded premiums		2,010,022,020	1,449,711,812	560,310,208	38.65%
Net Premiums retained		<u>769,504,036</u>	<u>594,346,960</u>	<u>175,157,076</u>	29.47%
Inc. in reserve for unexpired risk	7	<u>(11,382,729)</u>	<u>(42,086,796)</u>	<u>30,704,067</u>	-72.95%
Premiums Earned		<u>758,121,307</u>	<u>552,260,164</u>	<u>205,861,143</u>	37.28%
<b>Underwriting deductions</b>					
Share in claims & losses		436,902,430	330,793,111	106,109,319	32.08%
Commissions, net		<u>135,439,328</u>	<u>110,430,027</u>	<u>25,009,301</u>	22.65%
	11	<u>572,341,758</u>	<u>441,223,138</u>	<u>131,118,620</u>	29.72%
<b>Net Underwriting Income</b>		<u>185,779,549</u>	<u>111,037,026</u>	<u>74,742,523</u>	67.31%
<b>Investments and Other Income (Charges)</b>					
Interest		241,892,737	189,601,840	52,290,897	27.58%
Foreign currency gain (losses)		(102,729,276)	(47,731,147)	(54,998,129)	115.22%
Gain on acquisition		-	51,295,702	(51,295,702)	
Others		<u>235,952,204</u>	<u>65,677,540</u>	<u>170,274,664</u>	259.26%
<b>Investment and Other Income</b>	10	<u>375,115,665</u>	<u>258,843,935</u>	<u>116,271,730</u>	44.92%
<b>Income after Investment Income</b>		560,895,214	369,880,961	191,014,253	51.64%
<b>General and Administrative Expenses</b>	12, 13	<u>89,880,115</u>	<u>107,921,305</u>	<u>(18,041,190)</u>	-16.72%
<b>Income Before Tax</b>		471,015,099	261,959,656	209,055,443	79.80%
<b>Tax Expense</b>		<u>53,475,634</u>	<u>31,180,296</u>	<u>22,295,338</u>	71.50%
<b>Net Income</b>		<u>417,539,465</u>	<u>230,779,360</u>	<u>186,760,105</u>	80.93%
<b>Earnings per Share</b>	16	<b>0.22</b>	<b>0.17</b>		

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENT OF CHANGES IN EQUITY (unaudited)**  
**As of September 30, 2007 and 2006**

	<u>Notes</u>	<u>Sept. 2007</u>	<u>Sept. 2006</u>
<b>CAPITAL STOCK - P1 par value</b>			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2007 and 1,588,558,300 in 2006			
	14	<u>2,181,954,600</u>	<u>1,588,558,300</u>
<b>ADDITIONAL PAID IN CAPITAL</b>		<u>3,019,218,457</u>	<u>1,274,936,540</u>
<b>TREASURY SHARES (at cost)</b>	14	<u>-</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>(211,711,376)</u>	<u>(103,897,299)</u>
		<u>166,733,592</u>	<u>72,993,614</u>
<b>RETAINED EARNINGS</b>			
Appropriated for contingencies			
Balance at beginning of the year		150,949,100	123,455,961
Additional appropriations		<u>41,753,946</u>	<u>23,077,936</u>
	14	<u>192,703,046</u>	<u>146,533,897</u>
Unappropriated			
Balance at beginning of the year		692,756,614	445,318,372
Net Income		417,539,465	230,779,361
		<u>(152,736,822)</u>	
Appropriated for contingencies		<u>(41,753,946)</u>	<u>(23,077,936)</u>
		<u>915,805,311</u>	<u>653,019,797</u>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**CASH FLOW STATEMENTS (unaudited)**  
**For the Nine Months Period ended September 30, 2007 and September 30, 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	P 471,015,099	P 261,959,657
Adjustments for:		
Increase in reserve for unexpired risks	11,382,729	42,086,796
Unrealized foreign currency loss	53,818,473	46,558,698
Depreciation	7,510,031	6,251,417
Gain on acquisition	-	(51,295,702)
Interest income	(241,892,737)	(189,601,841)
Dividend income	(14,057,895)	(6,816,988)
Operating income before working capital changes	<u>287,775,700</u>	<u>109,142,037</u>
(Increase)Dec. in reinsurance balances receivable	524,068,399	(227,252,175)
(ncrease) Dec. in deferred input value added tax	90,146,982	(31,221,413)
Decrease (increase) in deferred acquisition costs	(12,883,584)	-
(Increase) in other assets	2,270,744	(31,134,594)
(Increase) Decrease in loans and receivables	(12,432,966)	21,789,971
Increase (decrease) in reinsurance balances payable	(571,020,536)	27,269,488
Increase (Dec.) in deferred output value added tax	(117,132,143)	83,939,843
Increase (decrease) in accounts payable and accrued exp.	(11,176,190)	(13,830,487)
Cash generated from (used in) operations	<u>179,616,406</u>	<u>(61,297,330)</u>
Cash paid for income taxes	<u>(40,549,876)</u>	<u>(31,180,297)</u>
 Net Cash From (Used in) Operating Activities	 <u><b>139,066,530</b></u>	 <u><b>(92,477,627)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(669,541,877)	33,519,274
Property and equipment	(9,314,315)	(3,741,876)
Other investments	12,181,038	-
Interest received	223,912,715	176,437,617
Dividends received	<u>14,057,895</u>	<u>6,816,988</u>
 Net Cash From (Used in) Investing Activities	 <u><b>(428,704,544)</b></u>	 <u><b>213,032,003</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance/reissuance of common shares	-	196,158,513
Payment of cash dividend	(152,736,822)	
Proceeds from Initial Public Offering (IPO)	<u>2,592,317,852</u>	<u>-</u>
 Net Cash From (Used in) Financing Activities	 <u><b>2,439,581,030</b></u>	 <u><b>196,158,513</b></u>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 <b>2,149,943,016</b>	 <b>316,712,889</b>
 <b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	 (4,053,693)	 (596,746)
 <b>CASH AND CASH EQUIVALENTS -January 1</b>	 <u><b>446,834,344</b></u>	 <u><b>141,980,545</b></u>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**CASH FLOW STATEMENTS (unaudited)**  
For the Quarters ended Sept. 30, 2007 and Sept. 30, 2006

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	P 118,188,648	P 77,285,989
Adjustments for:		
Increase in reserve for unexpired risks	(16,262,574)	19,100,974
Unrealized foreign currency loss	20,887,001	46,558,698
Depreciation	2,733,074	2,683,941
Interest income	(96,096,656)	(68,342,070)
Dividend income	(8,145,903)	(5,935,648)
Operating income before working capital changes	21,303,590	71,351,884
(Increase)Dec. in reinsurance balances receivable	613,511,955	(45,659,458)
(ncrease) Dec. in deferred input value added tax	10,916,596	(9,246,890)
Decrease (increase) in deferred acquisition costs	2,681,927	-
(Increase) in other assets	22,220,260	26,738,907
(Increase) Decrease in loans and receivables	1,139,935	16,776,949
Increase (decrease) in reinsurance balances payable	(568,906,027)	(29,454,044)
Increase (Dec.) in deferred output value added tax	(57,706,437)	(10,175,134)
Increase (decrease) in accounts payable and accrued exp.	(3,052,837)	(22,308,574)
Cash generated from (used in) operations	42,108,962	(1,976,360)
Cash paid for income taxes	(18,360,789)	(7,506,173)
Net Cash From (Used in) Operating Activities	<u>23,748,173</u>	<u>(9,482,533)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(125,160,644)	(63,772,580)
Property and equipment	(3,041,943)	(5,076,052)
Other investments	12,181,038	-
Interest received	90,666,203	55,017,056
Dividends received	8,145,903	5,935,648
Net Cash From (Used in) Investing Activities	<u>(17,209,443)</u>	<u>(7,895,928)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of cash dividend	(152,736,822)	-
Adjustment on Proceeds from Initial Public Offering (IPO)	(5,253,767)	-
Net Cash From (Used in) Financing Activities	<u>(157,990,589)</u>	<u>-</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(151,451,859)</b>	<b>(17,378,461)</b>
<b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	<b>3,107,932</b>	<b>(596,746)</b>
<b>CASH AND CASH EQUIVALENTS -June 30</b>	<b><u>2,741,067,594</u></b>	<b><u>476,071,895</u></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:

	September 2007	December 2006
Time Deposits/Short-Term Investment	P 2,549,982,391	P 384,673,854
Cash on hand and in banks	42,741,276	62,160,490
	<b>P 2,592,723,667</b>	<b>P 446,834,344</b>

**3. Reinsurance Balances**

The details of reinsurance balances are as follows:

	September 2007	December 2006
Reinsurance balances receivable:		
Due from ceding companies	P 1,196,521,582	P 2,072,946,667
Reinsurance recoverable on losses	1,237,617,093	906,797,090
Funds held by ceding companies	88,405,573	82,767,366
	2,522,544,248	3,062,511,123
Allowance for impairment	( 106,799,471)	( 106,799,471)
	<b>P 2,415,744,777</b>	<b>2,955,711,652</b>

Reinsurance balances payable:

Due to retrocessionaires	P 660,203,095	P 1,537,298,404
Claims payable	1,564,529,119	1,270,902,819
Funds held for retrocessionaires	58,468,553	55,703,008
	<b>P 2,283,200,767</b>	<b>P 2,863,904,231</b>

**4. Investments**

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

This account is composed of:

	September 2007	December 2006
Bonds	P 3,217,106,877	P 2,903,086,959
Equity securities	489,909,619	437,785,083
Investment in Asian Re shares	71,273,533	66,987,944
Various funds	85,296,603	37,598,747
	<b>P 3,863,586,632</b>	<b>P 3,445,458,733</b>

#### 4.2 Others

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

	September 2007	December 2006
Cost	P 60,203,779	P 72,384,818
Accumulated depreciation	( 18,716,211)	( 17,081,612)
Net carrying amount	<b>P 41,487,568</b>	<b>P 55,303,206</b>

#### 5. Loans and receivables

This account includes the following:

	September 2007	December 2006
Current:		
Accrued interest receivable	P 80,681,371	P 62,701,350
Term Loans	-	30,000,000
Others	1,356,998	4,517,086
Non-current		
Term Loans	90,000,000	40,000,000
Loans receivable	13,275,466	17,682,411
	<b>P 185,313,835</b>	<b>P 154,900,847</b>

#### 6. Property and equipment

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

	Cost	Accumulated Depreciation	Net Carrying Amount
Condominium units	P 104,227,734	P 30,220,372	P 74,007,362
Office improvement	14,158,751	9,564,255	4,594,496
Office furniture/equipt.	9,103,160	8,479,716	623,444
Transportation equipt.	12,708,104	3,834,169	8,873,935
EDP equipment	14,043,357	10,350,740	3,692,617
	<b>P 154,241,106</b>	<b>P 62,449,252</b>	<b>P 91,791,854</b>

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

The movement of these accounts is as follows:

	Deferred Reinsurance Premiums	Reserve for Unexpired risk
Balance at beg. Of year-January 1, 2007	P1,371,157,013	P1,816,299,487
Increase (decrease) during the period	( 175,158,891)	( 163,776,162)
Balance at end of quarter-Sept. 30, 2007	<b>P1,195,998,122</b>	<b>P1,652,523,325</b>

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:

	September 2007	December 2006
Deferred withholding VAT	P 13,638,047	P 43,554,265
Input VAT	35,373,209	23,553,408
Creditable expanded withholding tax	13,899,234	6,282,710
Prepayments	5,354,116	1,416,025
Deposit	690,392	358,147
Security fund	192,888	192,888
Others	8,076,293	4,137,478
	<b>P 77,224,179</b>	<b>P 79,494,921</b>

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:

	September 2007	December 2006
Defined benefit liability	P 33,803,697	P 33,803,697
Withholding taxes payable	1,627,773	15,584,497
Accrued expenses payable	10,222,232	8,564,879
Accounts payable and other liabilities	2,351,900	1,228,721
	<b>P 48,005,602</b>	<b>P 59,181,794</b>

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:

	September 2007	September 2006
Interest	P 241,892,737	P 187,953,217
Trading gain	101,256,465	48,126,717
Gain on acquisition	-	51,295,702
Dividend income	14,057,895	6,816,988
Gain on sale of stocks	91,443,180	3,940,011
Foreign exchange (loss) gain	( 102,729,275)	( 47,731,147)
Miscellaneous	29,194,663	8,442,447
	<b>P 375,115,665</b>	<b>P 258,843,935</b>

## 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:

	September 2007	September 2006
Commission expense	P 303,953,672	P 293,525,366
Reinsurance revenue	168,514,344	183,095,339
	<b>P 135,439,328</b>	<b>P 110,430,027</b>

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:

	September 2007	September 2006
Salaries and employee benefits	P 51,924,481	P 73,932,974
Retirement	611,044	1,168,455
Depreciation	7,510,031	6,251,417
Representation and entertainment	3,082,465	4,662,351
Professional fees	6,346,108	2,649,564
Transportation & traveling	2,595,281	2,292,284
Repairs and maintenance	595,523	945,067
Taxes, licenses and fees	2,257,443	2,268,862
Documentary stamps		2,207,484
Light and water	2,093,576	1,753,864
Printing and office supplies	1,348,072	1,415,970
Communication and postages	1,379,291	1,011,086
Insurance	531,695	470,353
Donations and contributions	159,902	497,506
Bank charges	170,131	245,019
Professional and technical development	559,063	222,511
Miscellaneous	8,716,009	5,926,539
	<b>P 89,880,115</b>	<b>P 107,921,305</b>

### 13. Employee benefits

#### *Short-term Benefits*

Expenses recognized for employee benefits are presented below:

	September 2007	September 2006
Salaries and wages	P 40,834,120	P 34,734,048
Allowances and bonus	4,051,831	5,261,845
Compensated absences	1,932,298	2,867,901
Separation benefits	1,809,073	28,557,869
Social security costs	1,209,367	1,081,256
Others	2,087,792	1,430,055
	<b>P 51,924,481</b>	<b>P 73,932,974</b>

#### 14.1 Capital Stock

Capital Stock consists of:

Common shares-P1 par value

Issued:

Number of shares  
Amount

	September 2007	September 2006
Number of shares	<b>2,181,954,600</b>	<b>1,588,558,300</b>
Amount	<b>P 2,181,954,600</b>	<b>P 1,588,558,300</b>

#### 14.2 Treasury Shares

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

	September 2006	
	No. of shares	Amount
Universal Malayan Reinsurance Corp.	97,083,900	P 243,855,340
First Quezon City Insurance Co., Inc.	86,900	174,126
	<b>97,170,800</b>	<b>P 244,029,466</b>

#### 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 P192,703,046 and P146,533,897 as of September 30, 2007 and 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:

	September 2007	December 2006
Due from ceding companies	P 403,793,958	P 760,626,683
Reinsurance recoverable on losses	36,000,328	54,624,018
Funds held by ceding companies	42,235,388	40,449,783
Due to retrocessionaires	157,913,619	558,356,875
Funds held for retrocessionaires	261,527	198,182

### 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:

	September 2007	December 2006
Time Deposits	P 107,936,171	P 19,133,027
Savings and current accounts	4,032,852	8,187,161
	<b>P 111,969,023</b>	<b>P 27,320,188</b>

### 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 as of 3rd Quarter 2007 amounted to P 1,696,824

### 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:

	September 2007	September 2006
Net income available to common shareholders	P 417,539,465	P 230,779,360
Divided by the average number of outstanding common shares	1,862,521,044	1,382,170,967
	<b>P .22</b>	<b>P .17</b>

## 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>• The Board of Directors approved the declaration of P0.07/share cash dividend payable to stockholders of record as of July 16, 2007 (record date). Payment of said cash dividend was made on August 6, 2007.</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 September 30, 2007

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	1,196	778	418
Reinsurance recoverable on paid losses	279	54	225
Reinsurance recoverable un unpaid losses	959	959	-
Funds Held by Ceding companies	88	88	-
	<u>2,522</u>	<u>1,879</u>	<u>643</u>
Allowance for impairment*	<u>(107)</u>		
	<u>2,415</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.