

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

3rd Quarter Ending 30 September 2009

0 6 2 2 09

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

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**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 2009
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> |
|----------------------------|---|
| Common | 2,159,677,600 |
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 10 to 23 of this report are filed as part of this Form 17-Q:

- a. Balance Sheet as of 30 September 2009 and December 31, 2008.
- b. Income Statements:
For the Quarters ended 30 September 2009 and 2008
For the Nine Months ended 30 September 2009 and 2008
- c. Statement of Changes in Stockholders Equity as of 30 September 2009 and 2008
- d. Statement of Cash Flows:
For the Quarters ended 30 September 2009 and 2008
For the Nine months ended 30 September 2009 and 2008

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, 2009 and 2008

Reinsurance Premium Income

Reinsurance premiums declined by P32.5 million (1.2%) from P2,739 million for the nine months ended September 30, 2008 to P2,706 million for the nine months ended September 30, 2009. The decrease was due to the cancellation of certain unprofitable treaty and facultative business, the losses from which have severely impinged on the Company's underwriting performance. Despite the decline, the Company continued its efforts to boost retention, as net premiums retained increased by 7% from P1,001 million for the first nine months of 2008 to P1,071 million for the first nine months of 2009. Correspondingly, premiums earned went up by 10.5% from P952 million in the nine months ended September 30, 2008 to P1,052 million in the nine months ended September 30, 2009. Retention ratio improved from 37% through the first nine months of 2008 to 40% through the first nine months of 2009.

Underwriting Deductions

Share in claims and losses for the nine months ended September 30, 2009 amounted to P1,358 million, a 119% increase from share in claims and losses amounting to P619 million for the comparable period in 2008. A substantial portion of the claims and losses recorded in the current period were for loss events (largely foreign marine hull) occurring in 2008 but for which advices were provided by cedants only in the current calendar year. Loss ratio for the first nine months of 2009 thus amounted to 129% as against 65% for the first nine months of 2008.

Losses do not as yet include reserves covering damage from Typhoons *Ondoy* and *Pepeng*. However, the impact of the Company will be limited to the extent that the Company is covered by catastrophe excess of loss protection from its panel of foreign reinsurers.

Net commissions through September 30, 2009 were at 25% of net premiums retained, higher than the 22% commission ratio for the same period last year. The increase in the net commission ratio can be traced to the lower level of marine hull business being underwritten (because of poor underwriting results). This type of business tends to have lower commission rates. Also, the commission rate on certain life business increased in 2009 from 2008 levels.

Investment and Other Income (Charges)

Investment and other income totaled P356 million for the first three quarters of 2009, higher by P5.7 million or 1.6% from P350 million for the first three quarters of 2008.

Interest income was relatively flat at P289 million through September 2009, compared with P283 million through September 2008. Dividend income was likewise flat at P23 million for both periods. However, foreign currency translation gains decreased by P93 million to P2.7 million in the first nine months of 2009 from P95 million in the first nine months of 2008. This was due to a relatively stable peso/dollar exchange rate so far in 2009. Nevertheless, the drop in foreign exchange earnings was offset by realized investment gains of P41 million in the first nine months of 2009 compared with realized investment losses of P50 million in the first nine months of 2008.

General and Administrative Expenses

In the first nine months of 2009, general and administrative expenses (GAE) grew by 32% to P163 million from P123 million in the comparable period of 2008. The increase was due largely to a P37 million impairment loss, i.e., additional provision for doubtful accounts. Without the provision, GAE would have been flat.

Tax expense

The Company's tax expense was lower by 48% in the first nine months of 2009 compared to 2008 due to underwriting losses for the 2009 period. Taxes booked during the period relate primarily to final tax on certain investment income.

Net Income (loss)

As a result of the foregoing, the Company incurred a net loss of P433 million for the nine-month period ended September 30, 2009 as against a net profit of P238 million for the nine-month period ended September 30, 2008.

For the Quarters ended September 30, 2009 and 2008

Reinsurance Premium Income

Reinsurance premiums in 3rd Qtr. 2009 declined by 16% to P942 million from P1,118 million in 3rd Qtr. 2008. On a gross basis, growth from the Company's life and non-life treaty portfolios were unable to offset a decline in the Company's non-life facultative portfolio. Net retained premiums, however, increased by 8.7% for 3rd Qtr. 2009 compared to 3rd Qtr. 2008 because of the higher retention level on life and non-life treaty business. Correspondingly, premiums earned also increased for 3rd Qtr. 2009 compared to 3rd Qtr. 2008.

Underwriting Deductions

Share in claims and losses doubled in 3rd Qtr. 2009 to P519 million from P236 million in 3rd Qtr. 2008. The escalation of claims was largely on marine hull business, the bulk of which relate to 2008 and prior underwriting years.

Net commissions in 3rd Qtr. 2009 amounted to P102 million as against P92.2 million in 3rd Qtr. 2008, representing an increase of 10.6%. Relative to net premiums retained, however, net commissions were flat, with a commission ratio of 26% for both 3rd Qtr. 2009 and 3rd Qtr. 2008.

Investment and Other Income (Charges)

Investment and other income increased by 5% or P6 million from P119 million in 3rd Qtr. 2008 to P125 in 3rd Qtr. 2009. The Company incurred foreign currency translation losses for 3rd Qtr. 2009 because of the appreciation of the Philippine peso against the U.S. dollar. However, this was offset by realized trading gains during 3rd Qtr. 2009 relative to losses in 3rd Qtr. 2008.

General and Administrative Expenses

The increase in general and administrative expenses (GAE) of P37 million in 3rd Qtr. 2009 as against 3rd Qtr. 2008 relates largely to additional provisions for doubtful accounts taken in 3rd Qtr. 2009.

Tax expense

The tax expense of P17 million in 3rd Qtr. 2009 was lower than tax expense of P35 million in 3rd Qtr. 2008 due to the net loss incurred during the 3rd Qtr. 2009.

Net Income

As a result of the above mentioned factors, the Company sustained a net loss of P193 million for the 3rd Qtr. 2009 as against net income of P46 million in the 3rd Qtr. 2008.

Financial Condition

Total resources as of September 30, 2009 and December 31, 2008 were essentially unchanged at P12.3 billion. Material changes in specific accounts are described below:

- **Cash and cash equivalents (P1,327M vs. P1,150M)**

Cash and cash equivalents increased from P1.1 billion as of December 31, 2008 to P1.3 billion as of September 30, 2009 mainly due to reclassification of certain investments from available for sale (AFS) to cash and equivalents.

- **Reinsurance Balances Receivable-net (P4,206M vs. P 4,353M)**

Reinsurance balances receivable decreased by P147.8 million or 3.3% largely due to collections from ceding companies as well as recoveries from retrocessionaires.

- **Available-for Sale Financial Assets (P5,466M vs. 5,285M)**

Mark-to-market adjustment and additional purchases contributed to the 3% increase in the Company's AFS financial assets from P5.3 billion on December 31, 2008 to P5.5 billion on September 30, 2009.

- **Loans and Receivables (P191M vs. P196M)**

Loans and receivables declined by P5 million or 2.7% between December 31, 2008 and September 30, 2009 mainly due to collection of accrued interest income.

- **Property and Equipment, net (P82M vs. P87M)**

Property and equipment, net of accumulated depreciation, amounted to P82 million as of September 30, 2009, a decrease of P4.4 million or 5% from December 31, 2008 mainly due to recorded depreciation of P7.9 million being higher than capital expenditures of P1.8 million.

- **Deferred Acquisition Cost (P198 vs. P201M)**

Deferred acquisition cost decreased by P2.9 million, consistent with the decrease in reinsurance premiums.

- **Deferred Reinsurance Premiums (P697M vs. P827M)**

Deferred reinsurance premium decreased by P130 million or 16% as of September 30, 2009 due to recognition of a portion of reinsurance premiums as of December 31, 2008 as earned under the 24th method of revenue recognition.

- **Deferred Input Value Added Tax (P63M vs. P64M)**

Deferred input value added tax decreased by P1 million or 1.5% to P63 million due to payment of certain VAT payable during 3rd Qtr. 2009.

- **Other Assets (P115M vs. P109M)**

Other assets increased by P5.5 million from P109 million as of December 31, 2008 to P115 million as of September 30, 2009 primarily due to an increase in unutilized creditable expanded withholding tax.

Liabilities (P6,749M vs. P6,322M)

Total liabilities increased by P427 million or 6.8% from P6.3 billion on December 31, 2008 to P6.7 billion on September 30, 2009. The increase in total liabilities is explained below:

- **Reinsurance Balances Payable (P5,318M vs. P4,706M)**

Reinsurance balances payable increased by P612 million or 13% primarily as a result of an increase in loss reserves (claims payable) during the first three quarters of 2009.

- **Accounts Payable and Accrued Expenses (P35M vs. P45M)**

The decrease in accounts payable and accrued expenses of P11 million or 23.8% resulted from payment of benefits to certain retired/resigned employees of the Company. These payments had been accrued as of December 31, 2008.

- **Reserve for Unearned Reinsurance Premiums (P1,242M vs. P1,353M)**

The decrease in reserve for unearned premiums of P111 million or 8.2% was the resultant effect of premium subject to reserve at the end of 2008 being higher than premium subject to reserve as of September 2009.

- **Deferred Reinsurance Commissions (P99M vs. P108M)**

Deferred reinsurance commissions decreased by P9.4 million or 8.6%, consistent with the decrease in retroceded premiums for the nine month period ended September 30, 2009.

- **Deferred Output Value Added Tax (P55M vs. 109M)**

Deferred output value added tax decreased by P54 million or 50% to P55 million as of September 30, 2009 from P109 million at year end 2008, reflecting payment of VAT payables through September 30, 2009.

- **Equity (P5,596M vs. P5,950M)**

The drop in equity between December 31, 2008 and September 30, 2009 was driven by the following:

- Dividends paid to stockholders amounting to P86.4 million
- Net loss amounting to P433 million
- Increase in revaluation reserve of P166 million

Key Performance Indicators:

	3rd Quarter 2009	3rd Quarter 2008	% Inc. (Dec.)
1. Net Income (loss)	(P 433 million)	P 238 million	(282%)
2. Earnings per share (a)	(P 0.20)	P 0.11	(282%)
3. Retention ratio (b)	40%	37%	
4. Combined ratio (c)	169%	99%	
5. Return on average equity	(8%)	3.7%	

(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 (129% / 65%) commissions ratio (25% / 22%) and expense ratio (15% / 12%).

Net income (NI)—Through 3rd Qtr. of 2009, the Company had a net loss of P433 million as against a net income P238 million through 3rd Qtr. 2008.

Earnings per share (EPS)—The Company's EPS was at (P.20) and P.11 as at 3rd Qtr. 2009 and 2008 respectively.

Retention ratio—The retention ratio was at 40% in 2009, three percentages point higher than 37% through 3rd Qtr. 2008.

Combined ratio—The combined ratio was at 169% and 99% through the 3rd Qtr. 2009 and 2008 respectively.

Return on average equity (ROE)—ROE at end 3rd Qtr. 2009 was at (8%) compared to ROE for 2008 of 3.7%.

Discussion and Analysis of Material Events and Uncertainties:

NRCP has nothing to report on the following:

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

Financial Risk Disclosure

The Company's investments are regulated under the pertinent provisions of Presidential Decree No. 1460 (as amended), otherwise known as The Insurance Code of the Philippines. The Insurance code generally requires all insurance companies to obtain prior approval of the Insurance Commission (IC) for any and all investments. The Company provides the IC with a monthly report on all investments made during the previous month. The IC reviews the investments and may require the immediate sale or disposal of investments deemed too risky.

A portion of the Company's funds are invested in equities. Section 200 of the Insurance Code provides, among other things, that insurance companies may only invest in common stock of Philippine corporations which have a prior three-year dividend payment record. Moreover, the same section limits exposure to any one institution to 10% of an insurer's total admitted assets.

Beyond the provisions of the Insurance Code, the Company, through its Investment Committee, has established additional guidelines to control the risk inherent in equity investments. The Company's own investment policy requires that the Company invest only in shares of common stock of companies that are listed on the Philippine Stock Exchange. Furthermore, these listed companies must have profitable business operations and market capitalization which are on a scale that would qualify them as blue chips.

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

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

The Company does not invest in foreign securities nor does it invest in complex financial securities or derivatives. The Company's financial assets are generally classified as available-for-sale (AFS) and are measured at fair value. For investments that are actively traded in organized financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date. The Company has not made nor does it intend to make any reclassification of financial assets held as investments.

PART 11. - OTHER INFORMATION

B. No other material information.

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


JOHN E. HUANG
Chief Finance Officer


ROBERTO B. CRISOL
President & Chief Executive Officer

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
BALANCE SHEET

September 30, 2009 and December 31, 2008

	September 2009	Dec. 2008		
	Notes	(Unaudited)	(Audited)	
			Changes	
ASSETS				
CASH AND CASH EQUIVALENTS	2	1,327,012,026	1,149,558,287	177,453,739
REINSURANCE BALANCES RECEIVABLE-net	3	4,205,613,526	4,353,404,620	(147,791,094)
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	5,466,140,704	5,284,585,889	181,554,815
LOANS AND RECEIVABLES	5	190,511,858	195,738,148	(5,226,290)
PROPERTY AND EQUIPMENT-NET	6	82,161,739	86,546,717	(4,384,978)
DEFERRED ACQUISITION COST		197,746,541	200,656,735	(2,910,194)
DEFERRED REINSURANCE PREMIUMS	7	696,987,776	827,251,651	(130,263,875)
DEFERRED INPUT VALUE ADDED TAX		63,489,651	64,455,903	(966,252)
OTHER ASSETS	8	114,910,697	109,444,086	5,466,611
TOTAL ASSETS		12,344,574,518	12,271,642,036	72,932,482
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	3	5,318,012,819	4,705,635,537	612,377,282
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	34,643,744	45,463,886	(10,820,142)
RESERVE FOR UNEARNED REINSURANCE PREMIUMS	7	1,241,925,740	1,353,110,258	(111,184,518)
DEFERRED REINSURANCE COMMISSIONS		98,986,656	108,339,395	(9,352,739)
DEFERRED OUTPUT VALUE ADDED TAX		54,945,183	109,378,539	(54,433,356)
TOTAL LIABILITIES		6,748,514,142	6,321,927,615	426,586,527
EQUITY				
Capital Stock	14	2,181,954,600	2,181,954,600	-
Additional Paid in Capital		3,019,218,458	3,019,218,458	-
Treasury Stocks		(40,081,811)	(40,081,811)	-
Revaluation reserve		(3,700,270)	(169,811,574)	166,111,304
Retained Earnings		438,669,399	958,434,748	(519,765,349)
Total Equity		5,596,060,376	5,949,714,421	(353,654,045)
TOTAL LIABILITIES & EQUITY		12,344,574,518	12,271,642,036	72,932,482

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
INCOME STATEMENTS (unaudited)

For the Quarters ended September 30, 2009 and 2008

	<u>Notes</u>	<u>2009</u>	<u>2008</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums		942,422,738	1,118,280,720	(175,857,982)	-15.73%
Retroceded premiums		557,868,399	764,471,511	(206,603,112)	-27.03%
Net Premiums retained		<u>384,554,339</u>	<u>353,809,209</u>	<u>30,745,130</u>	8.69%
(Increase) decrease in reserve for unearned reinsurance premiums	7	<u>16,793,658</u>	<u>(20,915,460)</u>	<u>37,709,118</u>	-180.29%
Premiums Earned		<u>401,347,997</u>	<u>332,893,749</u>	<u>68,454,248</u>	20.56%
Underwriting deductions					
Share in claims & losses		518,736,222	236,204,209	282,532,013	119.61%
Commissions, net		101,998,639	92,206,806	9,791,833	10.62%
	11	<u>620,734,861</u>	<u>328,411,015</u>	<u>292,323,846</u>	89.01%
Net Underwriting Income		<u>(219,386,864)</u>	<u>4,482,734</u>	<u>(223,869,598)</u>	-4994.04%
Investments and Other Income (Charges)					
Interest		94,994,907	88,632,072	6,362,835	
Foreign currency gain (losses)		(11,077,221)	37,160,721	(48,237,942)	
Others		41,416,064	(6,422,326)	47,838,390	
Investment and Other Income	10	<u>125,333,750</u>	<u>119,370,467</u>	<u>5,963,283</u>	5.00%
Income after Investment Income		<u>(94,053,114)</u>	<u>123,853,201</u>	<u>(217,906,315)</u>	-175.94%
General and Administrative Expenses	12, 13	<u>81,177,365</u>	<u>43,360,361</u>	<u>37,817,004</u>	87.22%
Income Before Tax		<u>(175,230,479)</u>	<u>80,492,840</u>	<u>(255,723,319)</u>	-317.70%
Tax Expense		<u>17,397,281</u>	<u>34,663,875</u>	<u>(17,266,594)</u>	-49.81%
Net Income		<u>(192,627,760)</u>	<u>45,828,965</u>	<u>(238,456,725)</u>	-520.32%

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
INCOME STATEMENTS (unaudited)

For the Nine Months ended September 30, 2009 and 2008

	<u>Notes</u>	<u>2009</u>	<u>2008</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
Reinsurance premiums		2,706,394,216	2,738,944,705	(32,550,489)	-1.19%
Retroceded premiums		1,635,437,224	1,737,641,200	(102,203,976)	-5.88%
Net Premiums retained		<u>1,070,956,992</u>	<u>1,001,303,505</u>	69,653,487	6.96%
(Increase) decrease in reserve for unearned reinsurance premiums	7	<u>(19,079,356)</u>	<u>(48,932,527)</u>	29,853,171	-61.01%
Premiums Earned		<u>1,051,877,636</u>	<u>952,370,978</u>	99,506,658	10.45%
Underwriting deductions					
Share in claims & losses		1,358,026,177	619,041,136	738,985,041	119.38%
Commissions, net		266,890,454	218,889,596	48,000,858	21.93%
	11	<u>1,624,916,631</u>	<u>837,930,732</u>	786,985,899	93.92%
Net Underwriting Income		<u>(573,038,995)</u>	<u>114,440,246</u>	<u>(687,479,241)</u>	-600.73%
Investments and Other Income (Charges)					
Interest		289,439,161	283,312,883	6,126,278	
Foreign currency gain (losses)		2,693,922	95,348,336	(92,654,414)	
Others		63,944,328	(28,243,873)	92,188,201	
Investment and Other Income	10	<u>356,077,411</u>	<u>350,417,346</u>	5,660,065	1.62%
Income after Investment Income		(216,961,584)	464,857,592	(681,819,176)	-146.67%
General and Administrative Expenses	12, 13	<u>163,135,005</u>	<u>123,613,061</u>	39,521,944	31.97%
Income Before Tax		(380,096,589)	341,244,531	(721,341,120)	-211.39%
Tax Expense		<u>53,281,656</u>	<u>103,402,642</u>	(50,120,986)	-48.47%
Net Income		<u>(433,378,245)</u>	<u>237,841,889</u>	(671,220,134)	-282.21%
Earnings (loss) per Share	16	(0.20)	0.11		

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENT OF CHANGES IN EQUITY (unaudited)
As of September 30, 2009 and 2008

	<u>Notes</u>	<u>Sept. 2009</u>	<u>Sept. 2008</u>
CAPITAL STOCK - P1 par value			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2009 and 2008			
	14	<u>2,181,954,600</u>	<u>2,181,954,600</u>
ADDITIONAL PAID IN CAPITAL			
		<u>3,019,218,458</u>	<u>3,019,218,458</u>
TREASURY SHARES (at cost)			
	14	<u>(40,081,811)</u>	<u>-</u>
REVALUATION RESERVE			
Balance at beginning of the year			
		(169,811,574)	175,513,508
Changes during the period			
		<u>166,111,304</u>	<u>(284,669,165)</u>
		<u>(3,700,270)</u>	<u>(109,155,657)</u>
RETAINED EARNINGS			
Appropriated for contingencies			
Balance at beginning of the year			
		221,334,777	211,890,435
Additional appropriations			
	14	<u>221,334,777</u>	<u>23,784,189</u>
			<u>235,674,624</u>
Unappropriated			
Balance at beginning of the year			
		737,099,971	1,088,491,813
Net Income (loss)			
		(433,378,245)	237,841,889
Cash Dividend			
		(86,387,104)	(436,390,920)
Appropriated for contingencies			
		<u>217,334,622</u>	<u>(23,784,189)</u>
		<u>866,158,593</u>	<u>866,158,593</u>
		<u>5,596,060,376</u>	<u>6,193,850,618</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS (unaudited)
For the nine months period ended September 30, 2009 and September 30, 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	(P 380,096,589)	P 341,244,531
Adjustments for:		
Inc. (Dec.) in reserve for unearned reinsurance premiums	19,079,356	48,932,526
Unrealized foreign currency loss (gain)	8,530,748	(76,823,423)
Depreciation	7,930,277	8,056,837
Interest income	(289,439,160)	(283,312,883)
Dividend income	(22,999,629)	(22,869,867)
Operating income before working capital changes	<u>(656,994,997)</u>	<u>15,227,721</u>
(Increase)Dec. in reinsurance balances receivable	142,803,170	(324,664,450)
(ncrease) Dec. in deferred input value added tax	966,252	16,642,708
Decrease (increase) in deferred acquisition costs	(6,442,545)	(22,077,202)
(Increase) in other assets	(7,214,146)	(10,442,522)
(Increase) Decrease in loans and receivables	(38,856,812)	1,196,928
Increase (decrease) in reinsurance balances payable	617,099,967	513,965,561
Increase (Dec.) in deferred output value added tax	(54,433,356)	(47,345,736)
Increase (decrease) in accounts payable and accrued exp.	(10,820,142)	(3,678,219)
Cash generated from (used in) operations	<u>(13,892,609)</u>	<u>138,824,789</u>
Cash paid for income taxes	<u>(51,663,313)</u>	<u>(55,282,438)</u>
 Net Cash From (Used in) Operating Activities	 <u>(65,555,922)</u>	 <u>83,542,351</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(17,437,955)	(291,503,398)
Property and equipment	(1,797,764)	(1,909,965)
Interest received	333,522,263	320,413,275
Dividends received	<u>22,999,629</u>	<u>22,869,867</u>
 Net Cash From (Used in) Investing Activities	 <u>337,286,173</u>	 <u>49,869,779</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisitions/payments of:		
Cash dividends	-	-
	<u>(86,387,104)</u>	<u>(436,390,920)</u>
 Net Cash From (Used in) Financing Activities	 <u>(86,387,104)</u>	 <u>(436,390,920)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 185,343,147	 (302,978,790)
 EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	 (7,889,408)	 6,495,458
 CASH AND CASH EQUIVALENTS -January 1	 1,149,558,287	 1,346,912,651
 CASH AND CASH EQUIVALENTS -September 30	 <u>P 1,327,012,026</u>	 <u>P 1,050,429,319</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS (unaudited)
For the Quarters ended September 30, 2009 and September 30, 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	(P 175,230,479)	P 80,492,841
Adjustments for:		
Inc. (Dec.) in reserve for unearned reinsurance premiums	(16,793,658)	20,915,460
Unrealized foreign currency (gain) loss	29,077,404	(16,591,398)
Depreciation	2,657,513	2,707,518
Interest income	(94,994,907)	(88,632,072)
Dividend income	(9,780,692)	(9,519,884)
Operating income before working capital changes	<u>(265,064,819)</u>	<u>(10,627,535)</u>
(Increase)Dec. in reinsurance balances receivable	(371,842,163)	(161,572,084)
(ncrease) Dec. in deferred input value added tax	(1,462,309)	4,837,729
Decrease (increase) in deferred acquisition costs	1,228,803	(5,294,364)
(Increase) in other assets	(6,565,993)	1,400,341
(Increase) Decrease in loans and receivables	(49,799,259)	(9,172,028)
Increase (decrease) in reinsurance balances payable	662,193,553	225,741,360
Increase (Dec.) in deferred output value added tax	(6,045,115)	(15,525,221)
Increase (decrease) in accounts payable and accrued exp.	549,877	(5,651,231)
Cash generated from (used in) operations	<u>(36,807,425)</u>	<u>24,136,967</u>
Cash paid for income taxes	<u>(17,148,062)</u>	<u>(13,498,874)</u>
 Net Cash From (Used in) Operating Activities	 <u>(53,955,487)</u>	 <u>10,638,093</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	283,008,864	(49,825,865)
Property and equipment	(1,234,452)	-
Other investments	-	(576,692)
Interest received	152,131,587	120,169,108
Dividends received	9,780,692	9,519,884
 Net Cash From (Used in) Investing Activities	 <u>443,686,691</u>	 <u>79,286,435</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisitions/payments of:		
Cash dividends	(86,387,104)	-
 Net Cash From (Used in) Financing Activities	 <u>(86,387,104)</u>	 <u>-</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 303,344,100	 89,924,528
 EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	 (11,804,840)	 (4,108,059)
 CASH AND CASH EQUIVALENTS - June 30	 <u>1,035,472,766</u>	 <u>984,612,850</u>
 CASH AND CASH EQUIVALENTS - September 30	 <u>P 1,327,012,026</u>	 <u>P 1,070,429,319</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

Notes and Other Disclosures

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

The Financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on historical cost basis, except for the revaluation of certain financial assets.

2. Cash and Cash Equivalents

This account consists of:

	September 2009	December 2008
Time Deposits/Short-Term Investment	P 1,213,973,175	P 998,613,936
Cash on hand and in banks	113,038,851	150,944,351
	P 1,327,012,026	P 1,149,558,287

3. Reinsurance Balances

The details of reinsurance balances are as follows:

	September 2009	December 2008
Reinsurance balances receivable:		
Due from ceding companies	P1,331,834,566	P 1,668,805,661
Reinsurance recoverable on losses	2,931,218,130	2,712,140,393
Funds held by ceding companies	119,923,911	112,053,192
	4,382,976,607	4,492,999,246
Allowance for impairment	(177,363,081)	(139,594,626)
	P 4,205,613,526	P 4,353,404,620
Reinsurance balances payable:		
Due to retrocessionaires	P 787,399,834	P 1,105,595,785
Claims payable	4,456,803,277	3,516,236,597
Funds held for retrocessionaires	73,809,708	83,803,155
	P 5,318,012,819	P 4,705,635,537

4. Available-for-Sale Financial Assets

The amounts in the balance sheets are composed of the following financial assets:

	September 2009	December 2008
Bonds	P 4,695,745,452	P 4,720,548,819
Equity securities	598,737,543	424,397,280
Investment in Asian Re shares	79,014,028	84,355,004
Various funds	92,643,681	55,284,786
	P 5,466,140,704	P 5,284,585,889

Bonds include investments reclassified from held-to-maturity securities to available-for-sale financial assets in 2006, and government securities totaling P 139,000,000 and P105,996,443 in September 2009 and December 2008 respectively which are on deposit with the Insurance Commission (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.

Interest income recognized are presented as part of Investment and Other Income in the income statements. (see Note 10)

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

	September 2009	December 2008
Due within one year	P 158,452,461	P 440,727,669
Due after 1 year through 5 years	2,505,938,827	3,280,497,907
Due after 5 years through 10 years	1,995,836,190	762,610,423
Due after ten years	35,517,974	236,712,820
	P 4,695,745,452	P 4,720,548,819

Bonds earn interest at annual rates ranging from 5% to 15% in September 2009 and December 2008. Changes in fair values of these bonds amounted to P9,734,925 (net increase), and P16,237,175 (net decrease) in September 2009 and December 2008, respectively, and are shown as part of Revaluation Reserves account in the statements of changes in equity.

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

	September 2009	December 2008
Cost:		
Quoted in the stock exchange	P 501,425,930	P 454,979,337
Not quoted in the stock exchange	145,043,557	135,608,314
	646,469,487	590,587,651
Fair value gains (losses):		
Quoted in the stock exchange	(31,859,644)	(159,205,907)
Not quoted in the stock exchange	(15,872,300)	(6,984,464)
	P 598,737,543	P 424,397,280

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 values and the changes in the fair values are recognized in equity.

The fair value of investments in Asian Re shares amounted to P79,014,028 and P84,355,004, as of September 2009 and December 2008, respectively. Changes in fair value recognized as part of Revaluation Reserves in the equity section of the balance sheets amounted to P38,652,620, net of deferred taxes amounting to P16,565,408 in September 2009 and P42,428,753, net of deferred taxes amounting to P 18,183,752 in December 2008. The deferred tax was based on the tax rate of 30% in September 2009 and December 2008.

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

	September 2009	December 2008
Balance at beginning of year	P 5,284,585,889	P 5,217,539,378
Additions	3,546,070,396	1,674,812,600
Disposals	(3,538,168,480)	(1,333,353,912)
Fair value gains (losses)	164,492,960	(344,189,814)
Foreign currency gains (losses)	9,159,939	69,777,637
Balance at end of quarter/year	P 5,466,140,704	P 5,284,585,889

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in the active market.

5. Loans and Receivables

This account includes the following:

	September 2009	December 2008
Current:		
Accrued interest receivable	P 49,733,171	P 93,816,273
Term Loans		
Others	1,186,121	10,134,828
Non-current		
Term Loans	130,000,000	80,000,000
Loans receivable	9,592,566	11,787,047
	P 190,511,858	P 195,738,148

6. Property and Equipment

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

	Cost	Accumulated Depreciation	Net Carrying Amount
Condominium units	P 104,227,734	P 36,276,013	P 67,951,721
Office improvement	14,284,102	11,833,235	2,450,867
Office furniture/equipt.	9,581,330	9,021,970	559,360
Transportation equipt.	13,300,379	6,607,812	6,692,567
EDP equipment	17,410,452	12,903,228	4,507,224
	P 158,803,997	P 76,642,258	P 82,161,739

7. Deferred Reinsurance Premiums and Reserve for Unearned Reinsurance Premiums

The movements in these accounts are as follows:

	Deferred Reinsurance Premiums	Reserve for Unearned reinsurance premiums
Balance at beg. of year-January 1, 2009	P 827,251,651	P 1,353,110,258
Increase (decrease) during the period	(130,263,875)	(111,184,518)
Balance at end of quarter-September 30, 2009	P 696,987,776	P 1,241,925,740

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

Reserve for Unearned reinsurance premiums 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 Unearned reinsurance premiums for the year is presented as Increase in Reserve for Unearned Reinsurance Premiums in the income statements.

8. Other Assets

The Other Assets account includes the following:

	September 2009	December 2008
Investment property	P 36,827,475	P 38,575,009
Deferred withholding VAT	9,356,009	13,382,875
Input VAT	26,877,501	31,352,419
Creditable expanded withholding tax	30,837,387	16,774,651
Prepayments	3,620,316	3,196,500
Deposit	577,695	573,907
Security fund	192,888	192,888
Others	6,621,426	5,395,837
	P 114,910,697	P 109,444,086

Investment properties consist of condominium units and improvements which are owned for investment purposes only.

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 Insurance Commission (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 2009	December 2008
Defined benefit liability	P 28,897,908	P 28,897,908
Withholding taxes payable	1,901,156	1,866,518
Accrued expenses payable	848,776	12,175,498
Accounts payable and other liabilities	2,995,904	2,523,962
	P 34,643,744	P 45,463,886

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 2009	September 2008
Interest	P 289,439,161	P 283,312,883
Trading gain	28,835,347	2,121,968
Dividend income	22,999,629	22,869,867
Gain (loss) on sale of stocks	12,836,404	(52,521,530)
Foreign exchange gain	2,693,922	95,348,336
Miscellaneous	(727,052)	(714,178)
	P 356,077,411	P 350,417,346

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 2009	September 2008
Commission expense	P 496,493,903	P 515,994,849
Reinsurance revenue	229,603,449	297,105,253
	P 266,890,454	P 218,889,596

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 2009	September 2008
Salaries and employee benefits	P 79,388,818	P 83,424,745
Impairment loss	37,768,455	
Professional fees	11,203,401	9,070,341
Depreciation	7,930,277	8,056,838
Taxes, licenses and fees	6,256,928	5,161,770
Representation and entertainment	2,364,629	2,248,860
Transportation & traveling	2,338,236	2,494,073
Association & pool	2,302,548	2,262,710
Advertising and publicity	1,231,682	1,751,210
Light and water	1,807,047	1,771,263
Communication and postages	1,547,894	1,431,054
Contract labor	3,345,990	1,395,681
Printing and office supplies	1,155,128	1,216,133
Repairs and maintenance	891,746	683,314
Insurance	802,677	735,660
Miscellaneous	2,799,549	1,909,409
	P 163,135,005	123,613,061

13. Employee Benefits

Short-term Benefits

Expenses recognized for employee benefits are presented below (see Note 12):

	September 2009	September 2008
Salaries and wages	P 58,748,676	P 53,693,406
Allowances and bonus	9,798,341	21,422,576
Retirement	6,048,049	4,776,821
Separation benefits	-	-
Social security costs	1,340,893	1,299,025
Others	3,452,859	2,232,917
	P 79,388,818	P 83,424,745

14. Equity

14.1 Capital Stock

Capital Stock consists of:

Common shares-P1 par value

Issued:

	September 2009	September 2008
Number of shares	2,181,954,600	2,181,954,600
Amount	P 2,181,954,600	P 2,181,954,600

14.2 Appropriation for Contingencies

On April 18, 1989, the Company's Board of Directors 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 P221,334,777 and P235,674,623 as of September 30, 2009 and 2008, 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 2009	December 2008
Due from ceding companies	P 447,616,167	P 554,211,494
Reinsurance recoverable on losses	39,731,013	33,196,941
Funds held by ceding companies	49,694,298	45,448,771
Due to retrocessionaires	(57,898,344)	(36,881,959)
Funds held for retrocessionaires	(884,234)	(112,727)

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 2009	December 2008
Time Deposits	P 166,735,200	P 205,056,480
Savings and current accounts	1,082,890	3,451,311
	P 167,818,090	P 208,507,791

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 2009 amounted to P 1,813,662.

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 (loss) Per Share

The earnings per share amounts are as follows:

	September 2009	September 2009
Net income (loss) available to common shareholders	(P 433,378,245)	P 237,841,889
Divided by the average number of outstanding common shares	2,159,677,600	2,181,954,600
	(P .20)	P .11

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 cyclicity 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"> The Board of Directors approved the declaration of P0.04/share cash dividend payable to stockholders of record as of July 03, 2009 (record date). Payment of said cash dividend shall be on July 24, 2009.

<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 September 30, 2009

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	1,332	801	531
Reinsurance recoverable on paid losses	397	34	363
Reinsurance recoverable un unpaid losses	2,166	2,166	-
Funds Held by Ceding companies	120	120	-
	<u>4,015</u>	<u>3,121</u>	<u>894</u>
Allowance for impairment*	<u>(177)</u>		
	<u><u>3,838</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.