

COVER SHEET

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S.E.C. Registration Number

NATIONAL REINSURANCE
CORPORATION
OF THE PHILIPPINES

(Company's Full Name)

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

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

JOHN E. HUANG

Contact Person

759-58-01

Company Telephone Number

1 2 3 1
Month Day

Fiscal Year

1 7 Q

FORM TYPE

1st Quarter Ending 31 March 2010

0 6 2 9 10
Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

COVER SHEET

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
("PhilNaRe")

(Company's Full Name)

18th Floor, Philippine AXA Life Centre Sen. Gil J. Puyat Avenue
corner Tindalo St., Makati City, Philippines 1200

(Company's Address)

(632) 759-5801 to 06

(Telephone Number)

December 31
(Fiscal Year Ending)

June 29, 2010
(Annual Meeting)

SEC FORM 17-Q
Quarterly Report
1st Quarter Ending 31 March 2010
(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 2010
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 9 to 23 of this report are filed as part of this Form 17-Q:

- a. Statements of Financial Position as of 31 March 2010 and 31 December 2009.
- b. Statements of Income for the Quarters Ended 31 March 2010 and 31 March 2009.
- c. Statements of Comprehensive Income for the Quarters ended 31 March 2010 and 31 March 2009.
- d. Statements of Changes in Stockholders Equity as of 31 March 2010 and 2009
- e. Statements of Cash Flows as of 31 March 2010 and 31 March 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, 1st Quarter**Results of Operations****Reinsurance Premium Income**

Reinsurance premiums for the three months ended 31 March 2010 decreased by P139.6 million or 16.9% to P684.6 million from P824.2 million for the three months ended 31 March 2009. The decline was due mainly to a drop in premiums from the Company's marine business. The Company had limited acceptances for this line due to past underwriting losses.

Reinsurance premiums retained for the three months ended 31 March 2010 decreased by P41 million or 12.2% to P 296 million from P336.1 million for the three months ended 31 March 2009. The decline was not as large as the drop in gross premiums due to a higher level of business retained. Retention ratio for the first quarter of 2010 was 43% as against 41% for the first quarter of 2009.

The decrease in unearned premium reserve for the first three months of 2010 was P31.9 million as against a P21.3 million decrease in unearned premium reserve for the first three months of 2009. This was because the rate of decrease in net premiums during the first quarter was higher in 2010 than in 2009, signifying a higher level of premiums being earned as against premiums being deferred under the 24th method of recognizing premium revenues.

Because of the higher retention and the decrease in reserve for unearned premiums, earned premiums for the three months ended 31 March 2010 declined by only 8.5% (as against a 16.9% decline in gross premiums) to P326.9 million from P357.4 million for the three months ended 31 March 2009.

Underwriting Deductions

Share in claims and losses decreased by P249.8 million or 54.1% from P461.6 million in 1st Qtr. 2009 to P211.8 million in 1st Qtr. 2010 essentially due to a lower level of claims for the three months ended 31 March 2010 as compared to three months ended 31 March 2009. 1st Qtr. 2009 claims included residual typhoon losses from 2008 as well as losses from the Company's marine business, which has since been reduced.

Net commission expense in 1st Qtr. 2010 increased by 15.2% to P101.3 million from P87.9 million in 1st Qtr. 2009, resulting in a commission ratio of 34% in 1st Qtr. 2010 as against a commission ratio of 26% in 1st Qtr. 2009. The increase can be traced to the decline in deferred reinsurance commissions amounting to P24.8 million.

Investment and Other Income (Charges)

Investment and other income were at P84.7 million in 1st Qtr. 2009, lower by P39.4 million or 31.8% from P124 million in 1st Qtr. 2009. While interest income and trading gains were only slightly lower, the bulk of the decrease was the result of a P33.4 million turnaround in the Company's foreign currency investments, from a gain of P15.5 million in 1st Qtr. 2009 to a loss of P17.9 million in the current quarter. The foreign exchange loss was a translation loss, which was the effect of the appreciation of the Philippine Peso against the U.S. Dollar during the first three months of 2010.

In addition to investment and other income, the Company also booked P79.5 million in fair value gains (net of taxes) on its investment portfolio in 1st Qtr. 2010 as against P9.4 million in 1st Qtr. 2009. This was the result of the increase in value of the Company's bond and equity portfolios.

General and Administrative Expenses

General and administrative expenses decreased by P1.1 million or 2.8% from P39.4 million in 1st Qtr. 2009 to P38.3 million in 1st Qtr. 2010. A decline in contract labor for the period more than offset an increase in salaries and employee benefits.

Tax expense

The Company's tax expense was P17 million for the 1st Qtr. 2010 as compared to P16.8 million in 1st Qtr. 2009. These provisions relate primarily to final tax on the Company's interest income on bank deposits, governments securities and corporate bonds.

Net Income (loss)

The Company's net income for the 1st Qtr. 2010 was P42.3 million compared to a net loss P124 million in 1st Qtr. 2009.

Financial Condition

Total resources as of 31 March 2010 and 31 December 2009 were flat at P11 billion. Material changes in the company's resources are described below:

- **Cash and cash equivalents (P690M vs.P684M)**

Cash and cash equivalents slightly increased by .93% or P6.3 million as collections improved due to stricter implementation of premium payment warranty (PPW) policy of the Company on premium receivables.

- **Reinsurance Balances Receivable-net (P3,023M vs.P 2,874M)**

Reinsurance balances receivable rose by 5.2% or P148.9 million largely due to increase in reinsurance recoverable on losses from P2.1 billion as of 31 December 2009 to P2.6 billion as of 31 March 2010.

- **Available-for Sale Financial Assets (P6,153M vs. 6,049M)**

Available for sale financial assets moved up to P6.1 billion from last year's balance of P6 billion fair value gains.

- **Loans and Receivables (P199M vs. P253M)**

Loans and receivables declined by P54.8 million or 21.6% mainly due to collection of accrued interest income (P46 million).

- **Property and Equipment, net (P155M vs. P130M)**

Property and equipment, net of accumulated depreciation, amounted to P155 million, as of 31 March 2010, an increase of P25 million or 19%, mainly due to acquisition of computers and peripherals for the computerization project of the company which started in 4th Qtr. 2009.

- **Deferred Acquisition Cost (P136 vs.P166M)**

Deferred acquisition cost decreased by P29.2 million, in line with the decrease in reinsurance premiums.

- **Deferred Reinsurance Premium (P523M vs. P772M)**

Deferred reinsurance premium decreased by P248.5 million or 32% as of 31 March 2010 due to recognition of a portion of reinsurance premiums as of December 31, 2009 as earned under the 24th method of revenue recognition.

- **Deferred Input Value Added Tax (P51M vs.P55M)**

Deferred input value added tax decreased by P4.4 million or 8% to P51 million due to decline in commissions subject to VAT as of 31 March 2010.

- **Other Assets (P116M vs.P113M)**

Other assets increased by 2.5% or P2.8 million from P113 million as of 31 December 2009 to P116 million as of 1st Qtr. 2010 primarily due to an increase in prepayments.

Liabilities (P4,770M vs.P4,941M)

Total liabilities decreased by P171 million or 3.5% from P4.9 billion as of 31 December 2009 to P4.8 billion as at 1st Qtr. 2010. The decline in total liabilities is explained below:

- **Reinsurance Balances Payable (P3,739M vs. P3,588M)**

Reinsurance balances payable increased by P151 million or 4.2% as at 1st Qtr. 2010 primarily due to increase in loss reserve from P3 billion as of 31 December 2009 to P3.5 billion as of 1st Qtr. 2010 or 14.6%.

- **Accounts Payable and Accrued Expenses (P32M vs. P34M)**

Payment of withholding taxes and expenses brought down the balance of accounts payable and accrued expenses by P2.4 million or 6.9% as of 1st Qtr. 2010.

- **Reserve for Unearned Reinsurance Premiums (P899M vs. P1,179M)**

The decrease in reserve for unearned premiums of P280.3 million or 23.8% was the resultant effect of premium subject to reserve at the end of 2009 being higher than premium subject to reserve as of 31 March 2010.

- **Deferred Reinsurance Commissions (P73M vs P98M)**

Deferred reinsurance commissions decreased by P24.8 million or 25.4%, consistent with the decrease in reinsurance premiums as of 1st Qtr. 2010.

- **Deferred Output Value Added Tax (P28M vs. P42M)**

Deferred output value added tax decreased by P14 million or 33.3% to P28 million as of 31 March 2010 from P42.3 million at year end 2009 primarily due to lower commission income subject to VAT as of 31 March 2010,

- **Equity (P6,277M vs. P6,155M)**

The change in equity as of 1st Qtr. 2010 was driven by the following:

- Increase in revaluation reserve amounting to P79.5 million
- Net Income of P42.3 million as of 1st Qtr. 2010.

Key Performance Indicators:

	1 st Quarter 2010	1 st Quarter 2009	% Inc.(Dec).
1. Net Income (loss)	P 42 million	(P 124 million)	134%
2. Earnings per share (a)	P 0.02	(P 0.06)	134%
3. Retention ratio (b)	43%	41%	
4. Combined ratio (c)	112%	167%	
5. Return on average equity	.68%	(2%)	

(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 (65% / 129%) commissions ratio (34% / 26%) and expense ratio (13% / 12%).

Net Income (NI)—Net Income for the 1st Qtr. 2010 was P42 million compared to a Net Loss of P124 million in 1st Qtr. 2009.

Earnings per share (EPS)—The Company's EPS was at P.02 and (P.06) as of 1st. Qtr. 2010 and 2009 respectively

Retention ratio - The retention ratio was at 43% in 2009, two percentages point higher than 41% in 1st Qtr. 2009.

Combined ratio - The combined ratio was at 112% and 167% for the 1st Qtr. 2010 and 1st Qtr. 2009 respectively.

Return on average equity (ROE) - ROE for the 1st Qtr. 2010 was at .68% compared to ROE the 1st Qtr. 2009 of (2%)

Discussion and Analysis of Material Events and Uncertainties:

NRCP has nothing to report on the following:

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

Financial Risk Disclosure

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

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

Beyond the provisions of the Insurance Code, the Company, through its Investment Committee, has established additional guidelines to control the risk inherent in equity investments. The Company's own investment policy requires that the Company invest only in shares of common stock of companies that are listed on the Philippine Stock Exchange. Furthermore, these listed companies

must have profitable business operations and market capitalization which are on a scale that would qualify them as blue chips.

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

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

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

PART 11. – OTHER INFORMATION

B. No other material information.

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES

(Registrant)



JOHN E. HUANG

Senior Vice President and Chief Finance Officer



ARMANDO S. MALABANAN

Executive Vice President and Chief Operating Officer

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF FINANCIAL POSITION
March 31, 2010 and December 31, 2009

	<u>Notes</u>	<u>Mar. 2010</u> <u>(Unaudited)</u>	<u>Dec. 2009</u> <u>(Audited)</u>	<u>Changes</u>
ASSETS				
CASH AND CASH EQUIVALENTS	2	689,996,328	683,659,159	6,337,169
REINSURANCE BALANCES RECEIVABLE-net	3	3,023,294,988	2,874,413,754	148,881,234
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	6,153,434,068	6,048,736,164	104,697,904
LOANS AND RECEIVABLES	5	198,679,611	253,464,887	(54,785,276)
PROPERTY AND EQUIPMENT-NET	6	155,272,685	130,034,934	25,237,751
DEFERRED ACQUISITION COST		136,441,181	165,674,472	(29,233,291)
DEFERRED REINSURANCE PREMIUMS	7	523,229,616	771,688,546	(248,458,930)
DEFERRED INPUT VALUE ADDED TAX		50,508,424	54,956,162	(4,447,738)
OTHER ASSETS	8	116,006,626	113,234,480	2,772,146
TOTAL ASSETS		11,046,863,527	11,095,862,558	(48,999,031)
LIABILITIES AND EQUITY				
REINSURANCE BALANCES PAYABLE	3	3,738,553,308	3,587,881,996	150,671,312
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	32,053,787	34,425,812	(2,372,025)
RESERVE FOR UNEARNED RI PREMIUMS	7	898,742,900	1,179,075,555	(280,332,655)
DEFERRED REINSURANCE COMMISSIONS		72,773,809	97,541,765	(24,767,956)
DEFERRED OUTPUT VALUE ADDED TAX		28,224,420	42,315,325	(14,090,905)
TOTAL LIABILITIES		4,770,348,224	4,941,240,453	(170,892,229)
EQUITY				
Capital Stock	14	2,181,954,600	2,181,954,600	-
Treasury Stock		(40,081,811)	(40,081,811)	-
Additional Paid in Capital		3,019,218,457	3,019,218,457	-
Revaluation reserve		97,990,283	18,443,858	79,546,425
Retained Earnings		1,017,433,774	975,087,001	42,346,773
Total Equity		6,276,515,303	6,154,622,105	121,893,198
TOTAL LIABILITIES & EQUITY		11,046,863,527	11,095,862,558	(48,999,031)

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

For the Quarters ended March 31, 2010 and 2009)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>	<u>Inc(Dec)</u>	<u>%</u>
Reinsurance Premium Income					
<i>Reinsurance premiums-net of returns</i>		684,609,742	824,218,017	(139,608,275)	-16.94%
Retroceded premiums		389,583,477	488,102,785	(98,519,308)	-20.18%
Reinsurance premiums retained		295,026,265	336,115,232	(41,088,967)	-12.22%
Decrease in reserve for unearned reinsurance premiums	7	31,873,725	21,251,375	10,622,350	49.98%
		<u>326,899,990</u>	<u>357,366,607</u>	<u>(30,466,617)</u>	-8.53%
Underwriting deductions					
Share in claims & losses		211,810,157	461,632,449	(249,822,292)	-54.12%
Commissions, net		101,263,285	87,900,398	13,362,887	15.20%
	11	<u>313,073,442</u>	<u>549,532,847</u>	<u>(236,459,405)</u>	-43.03%
Net Underwriting Income (Loss)		<u>13,826,547</u>	<u>(192,166,240)</u>	<u>205,992,787</u>	-107.20%
Investments and Other Income (Charges)					
Interest		91,991,794	97,278,736	(5,286,942)	-5.43%
Foreign currency gain (losses)		(17,829,906)	15,518,773	(33,348,679)	-214.89%
Others		10,526,507	11,292,830	(766,323)	-6.79%
Investment and Other Income	10	<u>84,688,396</u>	<u>124,090,339</u>	<u>(39,401,943)</u>	-31.75%
Profit after Investment and Other Income		98,514,943	(68,075,901)	166,590,844	-244.71%
General and Administrative Expenses	12,13	<u>38,318,411</u>	<u>39,400,088</u>	<u>(1,081,677)</u>	-2.75%
Profit Before Tax		60,196,532	(107,475,989)	167,672,521	-156.01%
Tax Expense		17,849,759	16,827,692	1,022,067	6.07%
Net Profit		<u>42,346,773</u>	<u>(124,303,681)</u>	<u>166,650,454</u>	-134.07%
Earnings (loss) per Share		0.02	(0.06)		

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

For the Quarters ended March 31, 2010 and 2009)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>	<u>Inc(Dec)</u>	<u>%</u>
NET PROFIT		42,489,161	(124,303,681)	166,792,842	134.18%
OTHER COMPREHENSIVE INCOME (LOSS)					
Fair value gains (losses)-net of taxes	4	<u>79,546,424</u>	<u>9,380,160</u>	70,166,264	-748.03%
TOTAL COMPREHENSIVE INCOME (LOSS)		<u><u>122,035,585</u></u>	<u><u>(114,923,521)</u></u>	236,959,106	206.19%

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY (unaudited)
As of March 31, 2010 and 2009

	<u>Notes</u>	<u>March. 2010</u>	<u>March. 2009</u>
CAPITAL STOCK - P1 par value			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2010 and 2009	14	<u>2,181,954,600</u>	<u>2,181,954,600</u>
ADDITIONAL PAID IN CAPITAL		<u>3,019,218,457</u>	<u>3,019,218,458</u>
TREASURY SHARES (at cost)		<u>(40,081,811)</u>	<u>(40,081,811)</u>
REVALUATION RESERVE			
Balance at beginning of the year		18,443,858	(169,811,574)
Changes during the period		<u>79,546,424</u>	<u>9,380,160</u>
		<u>97,990,282</u>	<u>(160,431,414)</u>
RETAINED EARNINGS			
Appropriated for contingencies			
Balance at beginning of the year		231,638,712	221,334,777
Additional appropriations		<u>4,234,677</u>	
	14	<u>235,873,389</u>	<u>221,334,777</u>
Unappropriated			
Balance at beginning of the year		743,448,290	737,099,971
Net Income		42,346,773	(124,303,681)
Cash Dividend			
Appropriated for contingencies		<u>(4,234,677)</u>	
		<u>781,560,386</u>	<u>612,796,290</u>
		<u>6,276,515,303</u>	<u>5,834,790,900</u>

NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES
CASH FLOW STATEMENTS (unaudited)
For the three months period ended March 31, 2010 and March 31, 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	P 60,196,532	(P 107,475,989)
Adjustments for:		
Increase in reserve for unearned RI Premiums	(31,873,725)	(21,251,376)
Unrealized foreign currency loss (gain)	17,901,767	(18,604,371)
Depreciation	2,448,411	2,615,594
Interest income	(91,991,794)	(97,278,736)
Dividend income	(3,886,391)	(3,117,428)
Operating income before working capital changes	(47,205,200)	(245,112,306)
(Increase)Dec. in reinsurance balances receivable	(155,891,834)	488,161,255
(Increase) Dec. in deferred input value added tax	4,447,738	7,131,103
Decrease (increase) in deferred acquisition costs	4,465,334	4,559,429
(Increase) in other assets	(3,196,367)	915,078
(Increase) Decrease in loans and receivables	8,744,870	9,923,623
Increase (decrease) in reinsurance balances payable	154,606,818	(243,613,581)
Increase (Dec.) in deferred output value added tax	(14,090,905)	(36,974,667)
Increase (decrease) in accounts payable and accrued exp.	(2,372,024)	(11,487,213)
Cash generated from (used in) operations	(50,491,570)	(26,497,279)
Cash paid for income taxes	(17,849,759)	(17,185,355)
Net Cash From (Used in) Operating Activities	<u>(68,341,329)</u>	<u>(43,682,634)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(30,967,534)	(133,501,098)
Property and equipment	(27,261,942)	(521,919)
Other investments	-	-
Interest received	138,032,200	143,763,270
Dividends received	3,886,391	3,117,428
Net Cash From (Used in) Investing Activities	<u>83,689,115</u>	<u>12,857,681</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	-	-
Proceeds from Initial Public Offering (IPO)	-	-
Net Cash From (Used in) Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,347,786	(30,824,953)
EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS	(9,010,617)	6,704,632
CASH AND CASH EQUIVALENTS -January 1	683,659,159	1,149,558,287
CASH AND CASH EQUIVALENTS -March 31	P 689,996,328	P 1,125,437,966

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). 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 on the historical cost basis, except for the revaluation of certain financial assets.

2. Cash and Cash Equivalents

This account consists of:

	March 2010	December 2009
Time Deposits/Short-Term Investment	P 590,165,306	P 619,827,323
Cash on hand and in banks	99,831,022	63,831,836
	P 689,996,328	P 683,659,159

Time deposits were made for varying periods of between one day and one month depending on the liquidity requirements of the Company. Peso time deposits earn annual interest rates ranging from 2.75% to 4.06% in 2010 and 1.5% to 4.5% in 2009 while dollar time deposits earn interest rates with rates ranging from 1.0% to 1.5% in 2010 and 0.05% to 1.5% in 2009. Cash in banks generally earn interest at rates based on daily bank deposit rates. The Cash and Cash Equivalents account includes foreign currency denominated cash of US\$1,033,398 (P46,730,236) as of March 31, 2010 and US\$6,300,936 (P292,086,185) as of December 31, 2009.

3. Reinsurance (RI) Balances

The details of reinsurance balances are as follows:

	March 2010	December 2009
Reinsurance balances receivable:		
RI recoverable on unpaid losses	P 2,179,761,262	P 1,760,229,554
RI recoverable on paid losses	435,764,482	349,601,459
Due from ceding companies	553,371,904	P 912,656,154
Funds held by ceding companies	122,317,373	119,846,620
	3,291,215,021	3,142,333,787
Allowance for impairment	(267,920,033)	(267,920,033)
	P 3,023,294,988	P 2,874,413,754
Reinsurance balances payable:		
Due to retrocessionaires	P 177,979,420	P 468,815,645
Claims payable	3,492,749,289	3,048,097,371
Funds held for retrocessionaires	67,824,599	70,968,980
	P 3,738,553,308	P 3,587,881,996

4. Available-for-Sale Financial Assets

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

	March 2010	December 2009
Bonds	P 5,174,199,335	P 5,187,509,694
Equity securities	735,544,637	699,052,711
Investment in Asian Re shares	75,075,944	76,961,974
Various funds	168,614,152	85,211,785
	P 6,153,434,068	P 6,048,736,164

Bonds include investments in corporate bonds, long-term negotiable instruments and government securities. This also includes government securities amounting P196,200,000 and P159,000,000 in 2010 and 2009, 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.

Bonds earn interest at annual rates ranging from 3.5% to 15% and 5% to 15% in March 2010 and December 2009 respectively. Interest income recognized are presented as part of Investment and Other Income in the statements of income (see Notes 10).

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

	March 2010	December 2009
Due within one year	P 32,807,094	P 167,282,197
Due after 1 year through 5 years	3,007,270,051	2,855,765,781
Due after 5 years through 10 years	2,096,421,956	2,126,627,642
Due after ten years	37,700,234	37,834,074
	P 5,174,199,335	P 5,187,509,694

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

Cost:	March 2010	December 2009
Quoted in the stock exchange	P 541,431,408	P 530,478,088
Not quoted in the stock exchange	194,295,157	194,543,557
	735,726,565	725,021,645
	17,375,034	(8,420,047)
Fair value gains (losses):	(17,556,962)	(17,548,887)
Quoted in the stock exchange	P 735,544,637	P 699,052,711
Not quoted in the stock exchange		

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 are recognized under Other Comprehensive Income(Loss) in the statement of comprehensive income. The fair value of investments in Asian Re shares amounted to P75,075,944 and P76,961,974, as of March 2010 and December 2009, respectively.

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

	March 2010	December 2009
Balance at beginning of year	P 6,048,736,164	P 5,284,585,889
Additions	297,858,780	4,327,663,119
Disposals	(266,891,246)	(3,747,134,327)
Fair value gains (losses)	79,546,425	188,255,431
Foreign currency gains (losses)	(5,816,055)	(4,633,948)
Balance at end of quarter/year	P 6,153,434,068	P 6,048,736,164

Changes in fair value of available-for-sale financial assets, net of taxes, recognized as Fair Value Gains account under Other Comprehensive Income (Loss) in the statements of comprehensive income amounted to P79,546,425 and P9,380,160 in 1st Qtr. 2010 and 1st Qtr. 2009 respectively.

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in active market. For the equity securities without market values, book value per share, based on the audited financial statements of the investee company, were used as an alternative. For some investments where fair value is not reliably determinable either through reference of similar instruments or valuation techniques, these are carried at cost.

5. Loans and Receivables

This account includes the following:

	March 2010	December 2009
Current:		
Accrued interest receivable	P 56,583,500	P 102,623,905
Term Loans		
Others	2,353,441	11,508,018
Non-current		
Term Loans	130,000,000	130,000,000
Loans receivable	9,742,670	9,332,964
	P 198,679,611	P 253,464,887

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 37,789,923	P 66,437,811
Office improvement	14,284,102	12,119,599	2,164,503
Office furniture/equipt.	9,634,480	9,149,525	484,955
Transportation equipt.	13,987,450	7,765,533	6,221,917
EDP equipment	93,826,725	13,863,226	79,963,499
	P 235,960,491	P 80,687,806	P 155,272,685

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, 2010	P 771,688,546	P 1,179,075,555
Increase (decrease) during the period	(248,458,930)	(280,332,655)
Balance at end of quarter-March 31, 2010	P 523,229,616	P 898,742,900

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:

	March 2010	December 2009
Investment property	P 35,925,235	P 36,349,456
Deferred withholding VAT	4,783,959	4,783,959
Input VAT	24,974,343	26,287,002
Creditable expanded withholding tax	43,178,849	40,668,400
Prepayments	3,710,199	2,023,359
Deposit	578,395	577,695
Security fund	192,888	192,888
Others	2,662,758	2,351,721
	P 116,006,626	P 113,234,480

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

Input VAT pertains to input valued-added taxes on commissions paid to ceding companies.

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

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

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

9. Accounts Payable and Accrued Expenses

This account includes the following:

	March 2010	December 2009
Defined benefit liability	P 22,016,459	P 22,016,459
Withholding taxes payable	2,207,229	3,210,598
Accrued expenses payable	5,049,306	6,028,049
Accounts payable and other liabilities	2,780,793	3,170,706
	P 32,053,787	P 34,425,812

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

10. Investment and Other Income

The details of this account follow:

	March 2010	March 2009
Interest	P 91,991,794	P 97,278,736
Trading gain	-	7,515,286
Gain (loss) on sale of stocks	7,033,382	762,938
Foreign exchange gain (loss)	(17,829,906)	15,518,773
Dividend and other income-net	3,493,126	3,014,606
	P 84,688,396	P 124,090,339

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:

	March 2010	March 2009
Commission expense	P 155,500,400	P 156,142,396
Reinsurance revenue	54,237,115	68,241,998
	P 101,263,285	P 87,900,398

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:

	March 2010	March 2009
Salaries and employee benefits	P 26,794,124	P 25,767,655
Professional fees	1,965,876	2,347,575
Depreciation	2,448,411	2,615,594
Taxes, licenses and fees	1,307,777	1,081,105
Representation and entertainment	722,086	1,043,689
Transportation & traveling	725,927	1,026,385
Association & pool	761,031	695,162
Advertising and publicity	122,230	210,017
Light and water	618,202	443,496
Communication and postages	334,991	376,959
Contract labor	398,397	2,271,255
Printing and office supplies	429,008	268,097
Repairs and maintenance	330,288	237,926
Insurance	262,575	285,811
Miscellaneous	1,097,488	729,362
	P 38,318,411	39,400,088

13. Salary and Employee Benefits

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

	March 2010	March 2009
Salaries and wages	P 23,276,542	P 20,694,012
Allowances and bonus	1,218,037	1,295,480
Retirement	1,470,991	1,832,030
Social security costs	450,554	443,143
Others	378,000	1,502,990
	P 26,794,124	P 25,767,655

14. Equity

14.1 Capital Stock

Capital Stock consists of:

Common shares-P1 par value

Issued:

	March 2010	March 2009
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 P235,873,389 and P221,334,777 as of March 31, 2010 and 2009, 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:

	March 2010	December 2009
Due from ceding companies	P 99,340,206	P 304,657,139
Reinsurance recoverable on losses	40,825,634	40,967,517
Funds held by ceding companies	41,411,517	41,293,832
Due to retrocessionaires	(112,856,585)	(35,594,833)
Funds held for retrocessionaires	(894,399)	(894,399)

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:

	March 2010	December 2009
Time Deposits	P -	P 23,500,000
Savings and current accounts	1,888,526	2,332,565
	P 1,888,526	P 25,832,565

15.3 Investment Management and Custodianship

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

	March 2010	December 2009
Cash and cash equivalents	P 404	22,611,956
Available-for-sale financial assets	1,283,847,970	1,201,491,263
Loans and receivables	80,000,000	80,000,000
	P 1,363,848,374	P1,304,103,219

In consideration for the services rendered, the Company pays BPI service fees equivalent to a certain percentage of the market value of the investments. Total service fees paid for amounted to P691,344 and P2,451,664 in March 2010 and December 2009, respectively, and is charged against Dividend and Other Income-net under Investment and Other Income account (see Note 10) in the statements of income.

15.3 Retirement Fund Investment Management

In 2006, the Company entered into a "Retirement Fund Investment Management Agreement" with BPI for the management of the investments of the Company's retirement funds subject to the terms and conditions in the said agreement.

In 2007, the Company also entered into a Trust Agreement whereby it designated Rizal Commercial Banking Corporation, another related party, as additional trustee of its employee's retirement plan,

16. Earnings (loss) Per Share

The earnings per share amounts are as follows:

	March 2010	March 2009
Net income (loss) available to common shareholders	P 42,346,773	(P 124,303,681)
Divided by the average number of outstanding common shares	2,159,677,600	2,159,677,600
	P .02	(P .06)

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

AGING OF REINSURANCE BALANCES RECEIVABLE

As of March 31, 2010

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	554	585	(31)
Reinsurance recoverable on paid losses	435	146	289
Reinsurance recoverable un unpaid losses	2,180	2,180	-
Funds Held by Ceding companies	122	122	-
	<u>3,291</u>	<u>3,033</u>	<u>258</u>
Allowance for impairment*	<u>(268)</u>		
	<u><u>3,023</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.