

# 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 2008**

0 6    2 3 08  
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)

**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)

**June 23, 2008**

(Annual Meeting)

**SEC FORM 17-Q**

**Quarterly Report**

**3rd Quarter Ending 30 September 2008**

(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

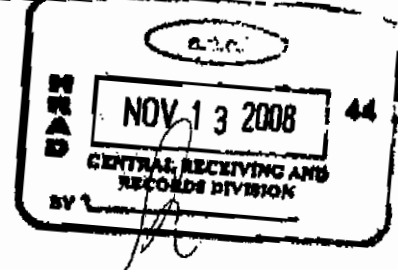
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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

**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 2008
- 2. Commission identification Number 80118
- 3. BIR Tax Identification Number 000-450-859
- 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	2,181,954,600

- 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 28 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 found on pages 10 to 23 of this report are filed as part of this Form 17-Q:

- a. Balance Sheet as of 30 September 2008 and December 31, 2007.
- b. Income Statements:  
     For the Quarters ended 30 September 2008 and 2007  
     For the Nine Months ended 30 September 2008 and 2007
- c. Statement of Changes in Stockholders Equity as of 30 September 2008 and 2007
- d. Statement of Cash Flows:  
     For the Quarters ended 30 September 2008 and 2007  
     For the Nine months ended 30 September 2008 and 2007

### **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, 2008 and 2007*

#### **Reinsurance Premium Income**

Reinsurance premiums for the nine months ended September 30, 2008 totaled P2.74 billion, 1.5% lower than the P2.78 billion in reinsurance premiums for the nine months ended September 30, 2007. However, net premiums retained registered an increase of P232.8 million or 30% from P769.5 million in the first nine months of 2007 to P1.0 billion in the first nine months of 2008. The increase in net premiums retained was primarily due to a higher retention ratio, which increased to 37% from 28%. The higher retention ratio is in line with the Company's thrust towards retaining more risk (and therefore more premiums) for its own account.

After adjustments in the reserve for unexpired risks, premiums earned increased by 25.6%, to P952.4 million from P758.1 million in the prior year, consistent with the increase in net premiums retained.

#### **Underwriting Deductions**

Share in claims and losses increased by P182.1 million or 41.7% to P619 million in the first nine months of 2008 from P436.9 million for the same period last year. This resulted in an increase in the Company's loss ratio to 65% for the first nine months of 2008 versus 58% for the corresponding period last year. The higher loss ratio was attributable to certain large catastrophe-related claims in the Company's marine and fire businesses.

Net commissions increased by 62% to P218.9 million in the first nine months of 2008 as against P135.4 million in the corresponding period last year. Commission ratio thus increased to 21.9% from 17.6% last year. The increase was attributable to the Company's higher retention level, which resulted in lower commission income, and to higher commission expense on certain new business booked by the Company's Life Division.

**Investment and Other Income (Charges)**

Investment and other income declined by 6.6% to P350.4 million in the first nine months of 2008 from P375.1 million in the first nine months of 2007. The decline was largely due to the absence of trading opportunities during the period owing to the steep drop in the Philippine stock market. Higher interest rates also negatively affected the valuation of the Company's investment portfolio, which is concentrated largely in fixed-income investments.

Interest income increased by P41.4 million or 17.1%, to P283.3 million in the first nine months of 2008 from P241.9 million in corresponding period last year due to a higher level of investible funds. For the first nine months of 2008, the Company's foreign exchange gains amounted to P95.3 million compared to a foreign exchange loss of P102.7 million for the corresponding period last year. This cushioned the impact of a significant decline in trading income during the period.

**General and Administrative Expenses**

General and administrative expenses increased by 37.5% from P89.9 million during the first three quarters of 2007 to P123.6 million for the same period of the current year mainly due to an increase in salaries and employee benefits by P25 million, taxes and licenses by P2.5 million, professional fees by P2.7 million, retirement contributions by P4.2 million and depreciation by P.547 million. Notwithstanding these increases, the Company's overall expense ratio was flat at 12% for the first three quarter of 2008 and 2007.

**Provision for Income Tax**

Tax expense for the first nine months of 2008 amounted to P103.4 million or 93% more than the P53.5 million of the prior year. The bulk of the increase was due to the Company's foreign exchange translation gains. While taxes are provided for these gains, payment is deferred until such time that these gains are actually realized.

**Net Income**

Net income for the first three quarter was P238 million, P179 million or 43% lower than last year's performance. This was due to declines in both underwriting and investment income.

**For the Quarters ended September 30, 2008 and 2007****Reinsurance Premium Income**

Reinsurance premiums generated in 3rd Qtr. 2008 amounted to P1.1 billion, 49.6% higher than the P747.5 million of reinsurance premiums booked in 3<sup>rd</sup> Qtr. 2007. The increase largely came from an increased volume of facultative acceptances during the period compared to the previous year.

Premiums earned in 3<sup>rd</sup> Qtr. 2008 increased by 33.8% to P332.9 million from P248.8 million in 3<sup>rd</sup> Qtr. 2007. This is consistent with the increase in both gross and net premiums during the period.

**Underwriting Deductions**

Share in claims and losses were at P236.2 million and P136.2 million, respectively, for the 3rd Qtr. 2008 and 2007, an increase of P99.9 million or 73.4%. Claims incurred in the current quarter include large marine losses including, among others, Princess of the Stars, Sea Bass Carriers, and Oceanic Container Line.

Net commissions went up by P92.2 million in 3rd Qtr. 2008 from P46.7 million in 3rd Qtr. 2007. Higher volume of business for the quarter contributed to this increase along with higher commission expense on certain new business booked by the Life Division.

**Investment and Other Income (Charges)**

Investment and other income totaled P119.4 million in 3<sup>rd</sup> Qtr. 2008 as against P82.1 million in 3<sup>rd</sup> Qtr. 2007, largely on higher foreign currency translation gains which more than offset a decline in trading income for the period.

**General and Administrative Expenses**

General and administrative expenses increased by 45.67% to P43 million in 3<sup>rd</sup> Qtr. 2008 from P30 million in 3<sup>rd</sup> Qtr. 2007 mainly due to an increase in salaries and employee benefits by P6.5 million (or 37.9%) taxes and licenses by P1.2 million (or 124.6%) and professional fees by P1.2 million (or 29.2%)

**Provision for Income Tax**

Provision for income tax was up by P12 million or 53.5% from P22.6 million in 3rd Qtr. 2007 to P34.7 million in 3rd Qtr. 2008 due to deferred income tax on the foreign currency translation gain of P37.2 million.

**Net Income**

Net income for the 3<sup>rd</sup> Qtr. 2008 went down by P49.8 million or 52% from P95.6 million in 3rd Qtr. 2007 to P45.8 million in 3<sup>rd</sup> Qtr. 2008 due to lower underwriting profit during the quarter.

**Financial Condition**

Total resources as of end of September 2008 totaled P11.2 billion, P293 million lower than the level of P11.5 billion as of December 31, 2007. Material changes in the company's resources are described below:

- **Cash and cash equivalents (1,050M vs. 1,347M)**

Cash and cash equivalents declined from P1.3 billion as of December 31, 2007 to P1,050 million as of September 30, 2008 (a decrease of P296.5 million or 22%) mainly due to payment of P.20 cash dividend per share to stockholders on May 6, 2008 totaling P436 million.

- **Reinsurance Balances Receivable-net (3,272M vs. 2,909M)**

Reinsurance balances receivable increased by P363 million or 12.5%. Balances due from ceding companies declined by 9% from P1.6 billion to P1.5 billion but were not sufficient to offset the increase in reinsurance recoverable on losses of P493 million (or 38%) and funds held by ceding companies of P18.4 million (or 21%). Reinsurance recoverable on losses represents the amount recoverable from the Company's retrocessionaires as their share in unpaid losses and loss adjustment expense recognized in our books, while funds held by ceding companies represent the portion of the reinsurance premiums withheld by ceding companies under treaty agreements. These amounts tend to increase with business volume.

- **Available-for Sale Financial Assets (5,291M vs. 5,218M)**

Total available-for-sale (AFS) financial assets stood at P5,291 million, higher than last year's P5,218 million, an increase of P73.5 million or 1.4%, reflecting additional investments in fixed income securities issued by the National Government.

- **Loans and Receivables (156M vs. 194M)**

Loans and receivables decreased by P38.3 million or 19.7% mainly due to collection of term loans held as investments (P10 million) and accrued interest income on the Company's investment portfolio.

- **Property and Equipment, net (87M vs. 91M)**

Property and equipment, net of accumulated depreciation amounted to P87 million, a decrease of P4.4 million or 4.8%, mainly due to recorded depreciation (P8.1 million) being higher than capital expenditures of P1.9 million.

- **Deferred Acquisition Cost (237M vs. 207M) and  
Deferred Reinsurance Premiums (935M vs. 1,348M)**

Deferred acquisition cost increased by P30.7 million or 14.9%, as costs related to certain new business booked were deferred in compliance with the 24<sup>th</sup> method of revenue recognition.

Deferred reinsurance premiums decreased by P413.6 million or 30.7%, reflecting portions of reinsurance premiums written as of December 31, 2007 that were earned as of September 30, 2008.

- **Deferred Input Value Added Tax (65M vs. 82M)**

Deferred input value added tax decreased by P16.6 million or 20.4% to P65 million, reflecting the continued runoff of this account because of discontinuance of VAT on reinsurance premiums effective April 6, 2007 (BIR Rev. Regulations 4-2007).

- **Other Assets (131M vs. 123M)**

Other assets increased by P8.7 million or 7.1% from P123 million in 2007 to P131 million as of 3rd Qtr. 2008. The increase was mainly due to prepayments of P15.7 million on manpower related expenses (employee benefits and performance bonus).

**Liabilities (5,030M vs. 4,841M)**

Total liabilities increased by P189.7 million or 3.92% from P4.8 billion in 2007 to P5.0 billion as of 3rd Qtr. 2008. The increase in total liabilities was explained below:

• **Reinsurance Balances Payable (3,216M vs. 2,671M)**

Reinsurance balances payable increased by 20.4% from P2,671 million at year end 2007 to P3,216 million as of end 3rd Qtr. 2008 mainly due to additional provision for claims in respect of large losses that occurred during the period.

• **Accounts Payable and Accrued Expenses (39M vs. 43M)**

Payment of taxes and expenses brought down the balances of accounts payable and accrued expenses by P3.7 million or 8.6% as of 3<sup>rd</sup> Qtr. 2008.

• **Reserve for Unexpired Risks (1,481M vs. 1,846M)**

Reserve for unexpired risk (on gross premiums) decreased by P364.7 million or 19.8%, current year's gross premium income being lower by 1.5% or P40.6 million.

• **Deferred Reinsurance Commissions (132M vs. 123M)**

Deferred reinsurance commissions increased by P8.7 million or 7.04%, consistent with the increase in net commissions of P83.5 million.

• **Deferred Output Value Added Tax (109M vs. 156M)**

Deferred output value added tax decreased by P47.3 million or 30.3% to P109 million in 3<sup>rd</sup> Qtr. 2008 from P156 million at year end 2007, reflecting the continued run-off (VAT for unpaid premium income) of this account because reinsurance premiums are no longer subject to VAT. (Rev. Reg. 4-2007).

• **Deferred Tax Liabilities (53.6M vs. 1.6M)**

The increase in deferred tax liabilities of P52 million pertains to deferred taxes for unrealized foreign currency exchange gain of P76.8 million.

• **Equity (6,194M vs. 6,677M)**

Stockholders equity declined by P483 million mainly due to payment of P.20 cash dividend to stockholders (record date April 10, 2008) on May 6, 2008 amounting to P436 million and lower revaluation reserve due to the impact of mark-to-market adjustments in the Company's investment portfolio.

**Key Performance Indicators:**

	As of 3 <sup>rd</sup> Quarter 2008	As of 3 <sup>rd</sup> Quarter 2007	% Incr.( Dec).
1. Net Income	₱ 238 million	₱ 418 million	(43.04%)
2. Earnings per share (a)	₱ 0.11	₱ 0.22	(50.00%)
3. Retention ratio (b)	37%	28%	
4. Combined ratio (c)	99%	87%	
5. Return on average equity	5%	11%	

- (a) Net income divided by weighted average number of shares issued.
- (b) Reinsurance premiums retained divided by gross reinsurance premiums.
- (c) Sum of loss ratio (65% / 58%) commissions ratio (22% / 17%) and expense ratio (12% / 12%).

Net Income (NI)—Net income for the first three quarters of 2008 went down by P179 million or 43.04% from P418 million for the corresponding period in 2007.

Earnings per share (EPS)—The Company's EPS was at P.11 and P.22 as of 3rd Qtr. 2008 and 2007 respectively.

Retention ratio—The retention ratio was at 37% in 3Q 2008, nine percentages point higher compared to 28% in 3Q 2007.

Combined ratio—The combined ratio of 99% is below 100% in 2008, indicating continuing profitability of insurance operations.

Return on average equity (ROE) —ROE was at 5% and 11% for the 1<sup>st</sup> three Qtr. of 2008 and 2007 respectively.

**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**

On June 23, 2008, the Board of Directors of the Company approved the implementation of a share buyback program for a total amount of P300 million subject to availability of free surplus/unrestricted retained earnings and subject further to the regulatory requirements of the Insurance Commission, the Securities and Exchange Commission and the Philippine Stock Exchange.

**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, 2008 and December 31, 2007

	<u>Notes</u>	Sept. 2008 <u>(Unaudited)</u>	Dec. 2007 <u>(Audited)</u>	<u>Changes</u>
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	2	1,050,429,319	1,346,912,651	(296,483,332)
REINSURANCE BALANCES RECEIVABLE-net	3	3,271,801,069	2,908,836,020	362,965,049
AVAILABLE-FOR-SALE FINANCIAL ASSETS	4	5,291,065,229	5,217,539,378	73,525,851
LOANS AND RECEIVABLES	5	155,692,682	193,990,002	(38,297,320)
PROPERTY AND EQUIPMENT-NET	6	86,928,710	91,328,046	(4,399,336)
DEFERRED ACQUISITION COST		237,440,757	206,688,943	30,751,814
DEFERRED REINSURANCE PREMIUMS	7	934,616,267	1,348,262,605	(413,646,338)
DEFERRED INPUT VALUE ADDED TAX		64,911,592	81,554,300	(16,642,708)
OTHER ASSETS	8	131,318,361	122,623,373	8,694,988
<b>TOTAL ASSETS</b>		<b>11,224,203,986</b>	<b>11,517,735,318</b>	<b>(293,531,332)</b>
<b>LIABILITIES AND EQUITY</b>				
REINSURANCE BALANCES PAYABLE	3	3,215,908,135	2,671,190,453	544,717,682
ACCOUNTS PAYABLE & ACCRUED EXPENSES	9	39,211,902	42,890,121	(3,678,219)
RESERVE FOR UNEXPIRED RISKS	7	1,480,789,787	1,845,503,599	(364,713,812)
DEFERRED REINSURANCE COMMISSIONS		131,819,692	123,145,081	8,674,611
DEFERRED OUTPUT VALUE ADDED TAX		108,980,712	156,326,449	(47,345,737)
DEFERRED TAX LIABILITIES		53,643,140	1,610,803	52,032,337
<b>TOTAL LIABILITIES</b>		<b>5,030,353,368</b>	<b>4,840,666,506</b>	<b>189,686,862</b>
<b>EQUITY</b>				
Capital Stock	14	2,181,954,600	2,181,954,600	-
Additional Paid in Capital		3,019,218,458	3,019,218,458	-
Revaluation reserve		(109,155,657)	175,513,508	(284,669,165)
Retained Earnings		1,101,833,217	1,300,382,246	(198,549,029)
<b>Total Equity</b>		<b>6,193,850,618</b>	<b>6,677,068,812</b>	<b>(483,218,194)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>11,224,203,986</b>	<b>11,517,735,318</b>	<b>(293,531,332)</b>

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

For the Quarters ended September 30, 2008 and 2007)

	<u>2008</u>	<u>2007</u>	<u>Inc(Dec)</u>	<u>%</u>
<b>Reinsurance Premium Income</b>				
Reinsurance premiums	1,118,280,720	747,509,609	370,771,111	49.60%
Retroceded premiums	764,471,511	515,005,582	249,465,929	48.44%
Net Premiums retained	<u>353,809,209</u>	<u>232,504,027</u>	<u>121,305,182</u>	52.17%
Inc. in reserve for unexpired risk	(20,915,460)	16,262,574	(37,178,034)	-228.61%
Premiums Earned	<u>332,893,749</u>	<u>248,766,601</u>	<u>84,127,148</u>	33.82%
<b>Underwriting deductions</b>				
Share in claims & losses	236,204,209	136,225,015	99,979,194	73.39%
Commissions, net	92,206,806	46,704,035	45,502,771	97.43%
	<u>328,411,015</u>	<u>182,929,050</u>	<u>145,481,965</u>	79.53%
<b>Net Underwriting Income</b>	<u>4,482,734</u>	<u>65,837,551</u>	<u>(61,354,817)</u>	-93.19%
<b>Investments and Other Income (Charges)</b>				
Interest	88,632,072	96,096,656	(7,464,584)	-7.77%
Foreign currency gain (losses)	37,160,721	(32,512,062)	69,672,783	-214.30%
Others	(6,422,326)	18,533,661	(24,955,987)	-134.65%
<b>Investment and Other Income</b>	<u>119,370,467</u>	<u>82,118,255</u>	<u>37,252,212</u>	45.36%
<b>Income after Investment Income</b>	123,853,201	147,955,806	(24,102,605)	-16.29%
<b>General and Administrative Expenses</b>	<u>43,360,361</u>	<u>29,767,157</u>	<u>13,593,204</u>	45.67%
<b>Income Before Tax</b>	80,492,840	118,188,649	(37,695,809)	-31.89%
<b>Tax Expense</b>	<u>34,663,875</u>	<u>22,575,296</u>	<u>12,088,579</u>	53.55%
<b>Net Income</b>	<u>45,828,965</u>	<u>95,613,353</u>	<u>(49,784,388)</u>	-52.07%

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

For the Nine Months ended September 30, 2008 and 2007)

	<u>Notes</u>	<u>2008</u>	<u>2007</u>	<u>Inc(Dec)</u>	<u>%</u>
<b>Reinsurance Premium Income</b>					
Reinsurance premiums		2,738,944,705	2,779,526,056	(40,581,351)	-1.46%
Retroceded premiums		1,737,641,200	2,010,022,020	(272,380,820)	-13.55%
Net Premiums retained		1,001,303,505	769,504,036	231,799,469	30.12%
Inc. in reserve for unexpired risk	7	(48,932,527)	(11,382,729)	(37,549,798)	329.88%
Premiums Earned		<u>952,370,978</u>	<u>758,121,307</u>	<u>194,249,671</u>	25.62%
<b>Underwriting deductions</b>					
Share in claims & losses		619,041,136	436,902,430	182,138,706	41.69%
Commissions, net		218,889,596	135,439,328	83,450,268	61.61%
	11	<u>837,930,732</u>	<u>572,341,758</u>	<u>265,588,974</u>	46.40%
<b>Net Underwriting Income</b>		<u>114,440,246</u>	<u>185,779,549</u>	<u>(71,339,303)</u>	-38.40%
<b>Investments and Other Income (Charges)</b>					
Interest		283,312,883	241,892,737	41,420,146	17.12%
Foreign currency gain (losses)		95,348,336	(102,729,276)	198,077,612	-192.82%
Others		(28,243,873)	235,952,204	(264,196,077)	-111.97%
Investment and Other Income	10	<u>350,417,346</u>	<u>375,115,665</u>	<u>(24,698,319)</u>	-6.58%
<b>Income after Investment Income</b>		464,857,592	560,895,214	(96,037,622)	-17.12%
<b>General and Administrative Expenses</b>	12, 13	<u>123,613,061</u>	<u>89,880,115</u>	<u>33,732,946</u>	37.53%
<b>Income Before Tax</b>		341,244,531	471,015,099	(129,770,568)	-27.55%
<b>Tax Expense</b>		<u>103,402,642</u>	<u>53,475,634</u>	<u>49,927,008</u>	93.36%
<b>Net Income</b>		<u>237,841,889</u>	<u>417,539,465</u>	<u>(179,697,576)</u>	-43.04%
<b>Earnings per Share</b>	16	0.11	0.22		

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**STATEMENT OF CHANGES IN EQUITY (unaudited)**  
**As of September 30, 2008 and 2007**

	<u>Notes</u>	<u>Sept. 2008</u>	<u>Sept. 2007</u>
<b>CAPITAL STOCK - P1 par value</b>			
Authorized - 3,000,000,000 shares			
Issued -2,181,954,600 shares in 2008 and 2007	14	<u>2,181,954,600</u>	<u>2,181,954,600</u>
<b>ADDITIONAL PAID IN CAPITAL</b>		<u>3,019,218,458</u>	<u>3,019,218,458</u>
<b>REVALUATION RESERVE</b>			
Balance at beginning of the year		175,513,508	378,444,968
Changes during the period		<u>(284,669,165)</u>	<u>(211,711,377)</u>
		<u>(109,155,657)</u>	<u>166,733,591</u>
<b>RETAINED EARNINGS</b>			
Appropriated for contingencies			
Balance at beginning of the year		211,890,435	150,949,100
Additional appropriations		<u>23,784,189</u>	<u>41,753,946</u>
	14	<u>235,674,624</u>	<u>192,703,046</u>
Unappropriated			
Balance at beginning of the year		1,088,491,813	692,756,614
Net Income		237,841,889	417,539,465
Cash Dividend		<u>(436,390,920)</u>	<u>(152,736,822)</u>
Appropriated for contingencies		<u>(23,784,189)</u>	<u>(41,753,946)</u>
		<u>866,158,593</u>	<u>915,805,311</u>
		<u><b>6,193,850,618</b></u>	<u><b>6,476,415,006</b></u>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**CASH FLOW STATEMENTS (unaudited)**  
**For the nine months period ended Sept. 30, 2008 and Sept. 30, 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	P 341,244,531	P 471,015,099
Adjustments for:		
Increase in reserve for unexpired risks	48,932,526	11,382,729
Unrealized foreign currency loss (gain)	(76,823,423)	53,818,473
Depreciation	8,056,837	7,510,031
Interest income	(283,312,883)	(241,892,737)
Dividend income	(22,869,867)	(14,057,895)
Operating income before working capital changes	<u>15,227,721</u>	<u>287,775,700</u>
(Increase)Dec. in reinsurance balances receivable	(324,664,450)	524,068,399
(ncrease) Dec. in deferred input value added tax	16,642,708	90,146,982
Decrease (increase) in deferred acquisition costs	(22,077,202)	(12,883,584)
(Increase) in other assets	(10,442,522)	2,270,744
(Increase) Decrease in loans and receivables	1,196,928	(12,432,966)
Increase (decrease) in reinsurance balances payable	513,965,561	(571,020,536)
Increase (Dec.) in deferred output value added tax	(47,345,736)	(117,132,143)
Increase (decrease) in accounts payable and accrued exp.	(3,678,219)	(11,176,190)
Cash generated from (used in) operations	<u>138,824,789</u>	<u>179,616,406</u>
Cash paid for income taxes	<u>(55,282,438)</u>	<u>(40,549,876)</u>
<b>Net Cash From (Used in) Operating Activities</b>	<b><u>83,542,351</u></b>	<b><u>139,066,530</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(291,503,398)	(669,541,877)
Property and equipment	(1,909,965)	(9,314,315)
Other investments	-	12,181,038
Interest received	320,413,275	223,912,715
Dividends received	<u>22,869,867</u>	<u>14,057,895</u>
<b>Net Cash From (Used in) Investing Activities</b>	<b><u>49,869,779</u></b>	<b><u>(428,704,544)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividends	(436,390,920)	(152,736,822)
Proceeds from Initial Public Offering (IPO)	<u>-</u>	<u>2,592,317,852</u>
<b>Net Cash From (Used in) Financing Activities</b>	<b><u>(436,390,920)</u></b>	<b><u>2,439,581,030</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(302,978,790)</b>	<b>2,149,943,016</b>
<b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	<b>6,495,458</b>	<b>(4,053,693)</b>
<b>CASH AND CASH EQUIVALENTS -January 1</b>	<b><u>1,346,912,651</u></b>	<b><u>446,834,344</u></b>
<b>CASH AND CASH EQUIVALENTS -September 30</b>	<b><u>P 1,050,429,319</u></b>	<b><u>P 2,592,723,667</u></b>

**NATIONAL REINSURANCE CORPORATION OF THE PHILIPPINES**  
**CASH FLOW STATEMENTS (unaudited)**  
**For the Quarters ended Sept. 30, 2008 and Sept. 30, 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	P 80,492,841	P 118,188,648
Adjustments for:		
Increase in reserve for unexpired risks	20,915,460	(16,262,574)
Unrealized foreign currency loss (gain)	(16,591,398)	20,887,001
Depreciation	2,707,518	2,733,074
Interest income	(88,632,072)	(96,096,656)
Dividend income	(9,519,884)	(8,145,903)
Operating income before working capital changes	<u>(10,627,535)</u>	<u>21,303,590</u>
(Increase)Dec. in reinsurance balances receivable	(161,572,084)	613,511,955
(ncrease) Dec. in deferred input value added tax	4,837,729	10,916,596
Decrease (increase) in deferred acquisition costs	(5,294,364)	2,681,927
(Increase) in other assets	1,400,341	22,220,260
(Increase) Decrease in loans and receivables	(9,172,028)	1,139,935
Increase (decrease) in reinsurance balances payable	225,741,360	(568,906,027)
Increase (Dec.) in deferred output value added tax	(15,525,221)	(57,706,437)
Increase (decrease) in accounts payable and accrued exp.	<u>(5,651,231)</u>	<u>(3,052,837)</u>
Cash generated from (used in) operations	24,136,967	42,108,962
Cash paid for income taxes	<u>(13,498,874)</u>	<u>(18,360,789)</u>
 Net Cash From (Used in) Operating Activities	 <u><b>10,638,093</b></u>	 <u><b>23,748,173</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposals (acquisitions) of:		
Available-for-sale financial assets	(49,825,865)	(125,160,644)
Property and equipment	-	(3,041,943)
Other investments	(576,692)	12,181,038
Interest received	120,169,108	90,666,203
Dividends received	<u>9,519,884</u>	<u>8,145,903</u>
 Net Cash From (Used in) Investing Activities	 <u><b>79,286,435</b></u>	 <u><b>(17,209,443)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of Cash Dividends		(152,736,822)
Proceeds from reissuance of Treasury shares	-	-
Adjustment on proceeds from Initial Public Offering (IPO)	-	(5,253,767)
 Net Cash From (Used in) Financing Activities	 <u>-</u>	 <u><b>(157,990,589)</b></u>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 <b>89,924,528</b>	 <b>(151,451,859)</b>
 <b>EFFECTS OF FOREIGN CURRENCY REVALUATION ON CASH AND CASH EQUIVALENTS</b>	 <b>(4,108,059)</b>	 <b>3,107,932</b>
 <b>CASH AND CASH EQUIVALENTS -June 30</b>	 <u><b>964,612,850</b></u>	 <u><b>2,741,067,594</b></u>
 <b>CASH AND CASH EQUIVALENTS -September 30</b>	 <u><b>P 1,050,429,319</b></u>	 <u><b>P 2,592,723,667</b></u>

**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 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 2008	December 2007
Time Deposits/Short-Term Investment	P 918,565,237	P 1,283,627,639
Cash on hand and in banks	131,864,082	63,285,012
	<b>P 1,050,429,319</b>	<b>P 1,346,912,651</b>

**3. Reinsurance Balances**

The details of reinsurance balances are as follows:

Reinsurance balances receivable:	September 2008	December 2007
Due from ceding companies	P 1,481,624,495	P 1,630,803,800
Reinsurance recoverable on losses	1,791,498,395	1,297,757,239
Funds held by ceding companies	105,477,650	87,074,452
	3,378,600,540	3,015,635,491
Allowance for impairment	( 106,799,471)	( 106,799,471)
	<b>P 3,271,801,069</b>	<b>P 2,908,836,020</b>

Reinsurance balances payable:

Due to retrocessionaires	P 824,459,995	P 981,270,895
Claims payable	2,324,829,498	1,628,313,780
Funds held for retrocessionaires	66,618,642	61,605,778
	<b>P 3,215,908,135</b>	<b>P 2,671,190,453</b>

**4. Available-for-Sale Financial Assets**

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

	September 2008	December 2007
Bonds	P 4,636,401,897	P 4,479,540,250
Equity securities	512,169,030	581,920,970
Investment in Asian Re shares	83,345,977	69,410,454
Various funds	59,148,325	86,667,704
	<b>P 5,291,065,229</b>	<b>P 5,217,539,378</b>

## 5. Loans and Receivables

This account includes the following:

	September 2008	December 2007
Current:		
Accrued interest receivable	P 53,261,630	P 90,362,021
Term Loans		
Others	10,461,159	715,769
Non-current		
Term Loans	80,000,000	90,000,000
Loans receivable	11,969,893	12,912,212
	<b>P 155,692,682</b>	<b>P 193,990,002</b>

## 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 33,248,192	P 70,979,542
Office improvement	14,284,102	10,735,096	3,549,006
Office furniture/equipt.	9,524,897	8,761,242	763,655
Transportation equipt.	12,772,362	5,471,345	7,301,017
EDP equipment	16,079,032	11,743,542	4,335,490
	<b>P 156,888,127</b>	<b>P 69,959,417</b>	<b>P 86,928,710</b>

## 7. Deferred Reinsurance Premiums and Reserve for Unexpired Risks

The movements in these accounts are as follows:

	Deferred Reinsurance Premiums	Reserve for Unexpired risk
Balance at beg. Of year-January 1, 2008	P 1,348,262,605	P 1,845,503,599
Increase (decrease) during the period	( 413,646,338)	( 364,713,812)
Balance at end of quarter-Sept. 30, 2008	<b>P 934,616,267</b>	<b>P 1,480,789,787</b>

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 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 2008	December 2007
Investment property	P 39,157,521	P 40,905,056
Deferred withholding VAT	38,996,789	39,308,468
Input VAT	23,545,237	29,638,591
Creditable expanded withholding tax	11,870,668	5,297,029
Prepayments	10,361,029	1,515,877
Deposit	580,307	690,392
Security fund	192,888	192,888
Others	6,613,922	5,075,072
	<b>P 131,318,361</b>	<b>P 122,623,373</b>

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 2008	December 2007
Defined benefit liability	P 32,790,478	P 34,507,695
Withholding taxes payable	1,754,349	3,496,719
Accrued expenses payable	2,970,973	3,169,042
Accounts payable and other liabilities	1,696,102	1,716,665
	<b>P 39,211,902</b>	<b>P 42,890,121</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 2008	September 2007
Interest	P 283,312,883	P 241,892,737
Trading gain	2,121,968	101,256,465
Dividend income	22,869,867	14,057,895
Gain (loss) on sale of stocks	( 52,521,530)	91,443,180
Foreign exchange gain (loss)	95,348,336	( 102,729,275)
Miscellaneous	( 714,178)	29,194,663
	<b>P 350,417,346</b>	<b>P 375,115,665</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 2008	September 2007
Commission expense	P 515,994,849	P 303,953,672
Reinsurance revenue	297,105,253	168,514,344
	<b>P 218,889,596</b>	<b>P 135,439,328</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 2008	September 2007
Salaries and employee benefits	P 78,647,924	P 53,588,667
Retirement	4,776,821	611,044
Depreciation	8,056,838	7,510,031
Representation and entertainment	2,248,860	3,082,465
Professional fees	9,070,341	6,346,108
Transportation & traveling	2,494,073	2,595,281
Repairs and maintenance	572,676	595,523
Taxes, licenses and fees	5,161,770	2,588,795
Light and water	1,771,263	2,093,576
Printing and office supplies	1,216,133	1,348,072
Communication and postages	1,431,054	1,379,290
Insurance	735,660	531,695
Donations and contributions	58,247	159,902
Bank charges	120,365	170,131
Professional and technical development	386,484	559,063
Miscellaneous	6,864,552	6,740,472
	<b>P 123,613,061</b>	<b>P 89,880,115</b>

## 13. Employee Benefits

### Short-term Benefits

Expenses recognized for employee benefits are presented below:

	September 2008	September 2007
Salaries and wages	P 51,452,096	P 40,484,120
Allowances and bonus	21,422,576	5,716,019
Compensated absences	2,241,309	1,932,298
Separation benefits	-	1,809,073
Social security costs	1,299,025	1,209,367
Others	2,232,918	2,087,790
	<b>P 78,647,924</b>	<b>P 53,588,667</b>

## 14. Equity

### 14.1 Capital Stock

Capital Stock consists of:

Common shares-P1 par value

Issued:

	September 2008	September 2007
Number of shares	<b>2,181,954,600</b>	<b>2,181,954,600</b>
Amount	<b>P 2,181,954,600</b>	<b>P 2,181,954,600</b>

### 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 P235,674,624 and P192,703,046 as of September 30, 2008 and 2007, 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 2008	December 2007
Due from ceding companies	P458,347,052	P286,602,592
Reinsurance recoverable on losses	31,894,605	44,021,458
Funds held by ceding companies	42,697,519	41,624,688
Due to retrocessionaires	(34,746,319)	33,711,667
Funds held for retrocessionaires	5,131	494,191

#### 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 2008	December 2007
Time Deposits	P 179,498,815	P 44,801,350
Savings and current accounts	104,310	2,643,745
	<b>P 179,603,125</b>	<b>P 47,445,095</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 2008 amounted to P 1,949,869

#### 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 2008	September 2007
Net income available to common shareholders	P 237,841,889	P 417,539,465
Divided by the average number of outstanding common shares	2,181,954,600	1,862,521,044
	P .11	P .22

#### 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 cyclicity 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 P0.20/share cash dividend payable to stockholders of record as of April 10, 2008 (record date). Payment of said cash dividend shall be on May 6, 2008.</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, 2008

(In million pesos)

	<u>Total</u>	<u>Below 360 days</u>	<u>Over 360 days</u>
Due from Ceding Companies	1,482	917	565
Reinsurance recoverable on paid losses	281	11	270
Reinsurance recoverable un unpaid losses	1,511	1,511	-
Funds Held by Ceding companies	105	105	-
	<u>3,379</u>	<u>2,544</u>	<u>835</u>
Allowance for impairment*	<u>(107)</u>		
	<u>3,272</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.